



CENCO DI DICTIONARY

A listing of many of the common terms used by insurers and others relative to most individual disability income coverages, whether they be intended for individuals or business needs.

Prepared by Cenco Insurance Marketing Corp
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- A -

Automatic Benefit Increase

A policy provision that annually increases the policy's monthly benefit by either a stated percentage or the latest Consumer Price Index measure. Evidence of medical and financial insurability is not required.

- B -

Benefit Period

A benefit period is the maximum amount of time the insured may receive proceeds for a continuous disability. The benefit period is subject to underwriting requirements. The following benefit periods are typically available: two years, five years, 10 years, age 65, age 67 or age 70.

Benefit Update Rider

The Benefit Update Rider allows the insured to increase their monthly benefit on specific dates regardless of health. No medical insurability required, but insured must still qualify *financially* for the increased benefit amount. Also known as Future Insurability, Guaranteed Insurability & Guaranteed Purchase.

Business Overhead Expense (BOE / OE)

A policy that reimburses the insured business owner during a disability for covered fixed business expenses that are incurred in the day to day operation of the business.

Buy-Out (Buy-Sell)

A policy that pays to a corporation or owner either a lump-sum or installment payments on disability of an insured owner to provide the necessary funds to buy-out the business interest of the disabled owner.

- C -

Catastrophic Benefit

The Catastrophic Benefit is paid in addition to the base benefit. In order to receive these additional benefits, the insured must be unable to perform 2 of the 6 Activities of Daily Living.

Conditionally Renewable

Under this policy provision, an insurance company agrees to renew a disability income policy providing the insured meets certain qualifications, such as full-time employment. Typically done if the insured is still working after the policy has reached the termination date.

Conversion

A policy feature common in Business Overhead Expense and Disability Buy-Out plans that provides that the insured can convert to an individual disability policy if the need to have the business disability policy changes.

Cost of Living Rider

A cost of living rider increases the disability benefit each year. Monthly benefits increase is based on a fixed percentage or based on CPI.

Cross Purchase Agreement

Associated with disability buy-sell agreements, in this arrangement each partner or shareholder is the owner and beneficiary of a policy on each of the other partners or shareholders. Generally used only where two owners are involved.

Definition of Total Disability

This important provision in a disability contract defines the parameters used to determine if an employee is eligible for benefits. There are several definitions:

- **True Own Occ** The inability to perform the material and substantial duties of one's own occupation. The occupation engaged in at the time disability begins. Insured can work in another occupation and still collect benefits regardless of income. The most liberal definition.
- **Transitional Own Occupation** Unable to perform the main duties of your own occupation income from all sources cannot exceed 100% of indexed pre-disability earnings. Insured can work in another occupation and receive full benefits (*not to exceed 100% of pre-disability earnings*)
- **Modified "Own Occ"** Inability to perform the material and substantial duties of your regular occupation, Not engaged in any other gainful occupation and under the care of a physician.
- **Multiple Definitions** Definition of disability will change over time Most often from a form of own occ. to an any occ. definition after 5 or 2 yrs. Often found in group contracts

Elimination Period (Waiting Period)

Elimination period is the time during which an individual must be disabled before the benefit period will begin.

(Examples: 60 days, 90 days) It is important to note the first benefit payment will be received 30 days after the Elimination Period has been satisfied.

Entity Purchase Agreement

Associated with disability buy-sell agreements, in this arrangement the business is the owner and beneficiary of a policy on each partner or shareholder. Generally used in situations with three or more owners.

Exclusions

A policy provision that indicates what will not be covered under the disability income policy. (Example: disability as a result of war or an act of war, declared or not).

Exclusion Rider

Attached to and made a part of the policy, this document, which the insured generally must sign, indicates a condition(s) which is specifically not going to be covered under this insured's policy. (Example: any disease or disorder of the lungs. Exclusion riders are placed on a policy as a result of an evaluation of the insured's medical history. Underwriters may agree to review some exclusion riders after a specific amount of time.

Future Purchase Option Rider (FPO, FIO, GIO)

The future purchase option rider allows the insured to increase their monthly benefit on specific dates regardless of health. No medical insurability required, but insured must still qualify *financially* for the increased benefit amount. Also known as Future Insurability, Guaranteed Insurability & Guaranteed Purchase.

- G -

Guaranteed Renewable

If premiums are paid by the end of each grace period, no changes can be made to any part of the policy's provisions. Premiums can, however, be increased. Premiums can only be changed if the change applies to all policies with the same risk class.

- K -

Key Person Policy

A Key Person insurance policy provides benefits to a business if a key employee critical to the success of the business becomes totally disabled. Benefits can be used at the discretion of the employer.

- L -

Loan Redemption Rider

A rider added to a Business Overhead Expense policy that reimburses the payment of principal and interest on a specified business-related loan obligation.

Lump Sum Benefit (Lump Sum Payment)

Disability benefits that are paid in a lump sum following the elimination period. Typically associated with buy-sell policies or coverage provided through Lloyd's.

- N -

Non-Cancelable Rider

A non-cancelable rider changes a policy and all riders from a guaranteed renewable status to a non-cancelable and guaranteed renewable status. With this rider, the insurer cannot change the policy or its premiums as long as all premiums are paid by the end of each grace period.

- O -

Occupation Class

Occupations classes are used by insurance carriers to categorize occupations based on risk. Occ classes determine the pricing and benefits of policies. These occupational classes take into account the hazards of the job and the difficulty in returning to work following a disability. Another factor is the claim experience associated with certain professions.

Own Occupation (Own Occ)

The inability to perform the material and substantial duties of one's own occupation. The occupation engaged in at the time disability begins. Insured can work in another occupation and still collect benefits regardless of income. The most liberal definition.

- P -

Partial Disability

A short-term version of residual disability benefits, this policy provision, which also could be available as a rider, pays a specified percentage of the total disability benefit (usually 50 percent) if the insured is unable to perform one or more of the duties of his own occupation.

Policy Schedule Page

Found in the early pages of a disability income policy, this sheet details all the specific individual policy data such as name, policy number, monthly benefit, and premium.

Pre-Disability Earnings

A policy provision under the Residual Disability Benefit that defines what constitutes prior income for purposes of calculating the Residual Benefit. (Example: the average monthly earnings for the 12 consecutive months immediately prior to disability).

Preexisting Condition

This policy provision is intended to define certain illnesses or injuries that occurred or manifested themselves prior to the policy effective date for which benefits are usually not payable. Generally, conditions disclosed on the application are not considered to be preexisting.

Premium Mode

The method of premium payment selected by the insured. The policy can be paid for annually, semi-annually, quarterly, or monthly. The choice elected will be indicated in the policy schedule page.

Presumptive Total Disability

A policy provision that waives the normal total disability eligibility requirements in the event of a catastrophic-type disability such as the loss of sight, hearing, speech, or use of two limbs.

- R -

Recurrent Disability

A policy provision that defines when an injury or illness will be considered continuous if there has been a recovery for a short period (usually six months) and then a recurrence of the same or related cause. A condition considered recurrent will not necessitate new satisfaction of the Elimination Period.

Residual Disability

Pays the insured a *portion* of the total disability benefit. Benefits are based on the *percentage* of income loss suffered due to the disability and usually are payable for the policy benefit period (up to age 65/67).

Return of Premium

This optional rider provides a refund of a specified percentage of policy premium at specified dates less any claims that have been paid during the specified time period. (Example: 80 percent return of premium less claims paid after the policy has been in force for 10 years).

Return to Work Benefit

A provision under the Residual Disability benefit that will continue to provide benefits to the insured if the insured returns to work on a full-time basis however continues to suffer a loss of income as a direct result of the disability.

- S -

Salary Continuation Plan (Section 105 Plan)

A program, also called a Section 105 plan, under which the employer makes deductible wage payments, in part or in full, to an individual unable to work due to illness or injury.

Short Term Disability (STD)

Usually associated with group insurance, this program pays a monthly benefit for total disability after a minimum Elimination Period for up to 13, 26,39, or 52 weeks.

Supplemental Social Insurance Rider

The supplemental social insurance rider is a monthly benefit. For those receiving a benefit for total disability, this rider pays for additional benefits, less any legislated benefits (like Social Security or workers' compensation) for the same time period. The payment is in addition to other benefits payable under the insurance policy.

Substitute Salary Expense Rider

An optional rider available through some Business Overhead Expense policies. Substitute Salary Expense rider helps pay the expense incurred to employ another person to perform the duties the insured would otherwise perform, had he or she not become disabled. Benefits are paid in addition to the maximum monthly BOE benefit.

- T -

Total Disability

Often the key policy provision in the disability income policy, this feature defines the eligibility requirements necessary for an individual to qualify for full monthly benefits. (See Definition of Disability)

Transplant Donor Benefit

A policy provision that considers an insured to be disabled under the sickness provision if donating a body organ.

- U -

Unearned Income

Money that will be available to an individual whether or not he is disabled, it affects the amount of disability coverage that may be purchased based on earned income.

- W -

Waiting Period (Elimination Period)

Elimination period is the time during which an individual must be disabled before the benefit period will begin.

(Examples: 60 days, 90 days) It is important to note the first benefit payment will be received 30 days after the Elimination Period has been satisfied.

Workers Compensation

A system administered by each individual state that provides benefits if a worker is hurt or contracts an illness on the job.

Definitions provided courtesy of Truluma, a Cenco Disability income distribution partner.