

APPENDIX A

GLOSSARY OF COMMON DISABILITY INCOME TERMINOLOGY

Conditionally Renewable Policy

An insurance contract that affords the insured the right to continue the insurance coverage by timely payment of the premium and by satisfying certain conditions set forth in policy.

Cost of Living Adjustment (COLA)

A provision in a long-term disability income insurance policy that annually increases the amount of the monthly benefit by a pre-determined percentage while insured is receiving benefits in the same claim.

Elimination Period

A type of deductible; the number of days the insured is disabled before insurance policy benefits begin to be paid. The longer the elimination (or deductible) period, the lower the premium may be.

Future Purchase Option

A provision in an insurance policy that guarantees the right of the insured to purchase increased insurance benefits at pre-determined intervals of time without additional underwriting.

Group Policy

A policy sold through an employment-based group, union or association that sponsors group plans as a benefit to their employees or members. Some insurers also sell group plans directly to individuals through out-of-state “group trust” arrangements. Individuals receive certificates of coverage from the group policy. These policies are not subject to most Massachusetts state insurance requirements. Employer, union, association and group trust plans may include protections required in individual plans but they are not required to do so under Massachusetts law. Although group plans are subject to general laws and regulations governing group accident and sickness insurance, there are no specific Massachusetts laws or regulations that apply to disability income plans marketed through groups.

Guaranteed Renewable Policy

An insurance contract that guarantees the insured’s right to continue the in-force insurance policy by timely payment of the premium. However, unlike a noncancelable policy, the insurance carrier reserves the right to change the premium rate of a guaranteed renewable policy, subject to regulatory approval.

Individual Policy

A policy sold directly by a company to an individual without requiring the individual to be a member of an employment-based group, association or special group insurance trust. These policies are usually sold by insurance agents but sometimes through direct mail or phone solicitations. Beginning with regulations promulgated December 31, 1996, individual plans offered on or after that date must meet certain minimum standards set by the Division of Insurance, including the following:

- Definitions must avoid hard-to-understand expressions, *e.g.*, “inability to perform each and every duty”;

- Any definition of “total disability” must make clear the time, if any, for which an insured must be disabled, whether by being unable to engage in his or her own occupation, or in others for which he or she is qualified by education, training and experience, or otherwise;
- Any definition of “partial disability” must be defined in relation to the insured’s inability to perform some part or all of the “major,” “important” or “essential” duties of employment or occupation;
- If a policy covers both total and partial disability, partial disability benefits may not be contingent upon prior payments for total disability;
- Recurrent disabilities may not be separated by a period of greater than six months;
- The policy must clearly explain all limitations and elimination periods, including elimination periods affecting different levels of benefits;
- Once benefits are payable, no benefits may be reduced in coordination with any increased benefits that the insured may receive from the Social Security System.

Key Person Insurance

An insurance policy that covers profit loss to the insured’s business in the event that a key person (*i.e.*, essential employee) dies or becomes disabled.

Lapse

Termination of a policy when renewal premium is not paid.

Monthly Benefit

The amount of insurance benefit in dollars per month that a person chooses to buy.

Noncancelable Policy

An insurance contract that guarantees the insured’s right to continue the in-force insurance policy by timely payment of the premium. It differs from a guaranteed renewable policy in that an insurance carrier has no right to change the premium rate of a noncancelable policy. Also known as a guaranteed rate policy.

Optionally Renewable Policy

An insurance contract that is renewed on each policy anniversary date at the insurance carrier’s discretion.

Overhead Expense Insurance

A disability insurance policy that covers the overhead expenses (*e.g.*, employee salaries and benefits, taxes, rent, utilities, *etc.*) of the insured’s business while the insured is total disabled.

Partial Disability

Inability of the insured due to an injury or illness to perform on full-time basis the material and substantial duties of his or her own occupation, or an occupation for which he or she is qualified by education, training or experience.

Pre-existing Conditions

Illnesses, injuries or disabilities for which treatment or a diagnosis was received within a certain specified period before the insurance became effective.

Residual Disability

Inability of the insured due to an injury or illness to perform all of the material and substantial duties of his or her own occupation, or an occupation for which he or she is qualified by education, training or experience.

Rider

Addition to the insurance policy that changes or adds to the provisions or coverage of the insurance policy.

Temporary Level Premium

Commonly used term appearing in life insurance rating processes for term insurance, guarantees that the premium will remain the same for only a certain period of time.

Total Disability

Inability of the insured due to an injury or illness to perform the material and substantial duties of his or her own occupation, or an occupation for which he or she is qualified by education, training or experience.

Underwriting

The process of examining, accepting or rejecting insurance risks, and classifying those selected, in order to charge the proper premium for each.

Waiver of Premium

A provision in an insurance policy that relieves the insured of paying the premiums while receiving benefits.