BENICO LIMITED

Glossary of Financial and Estate Planning Terms

A

401(k) Plan: A qualified profit sharing or stock bonus plan under which plan participants have an option to put money into the plan or receive the same amount as taxable cash compensation. Amounts contributed to the plan are not taxable to the participants until withdrawn. Generally funded entirely or in part through salary reductions elected by employees. Salary reductions are subject to an annual limit.

403(b) Plan: A tax-deferred annuity retirement plan available to employees of public schools and certain nonprofit organizations.

Absolute Assignment: A policy assignment under which the assignee receives full control over the policy and full rights to its benefits. As a general rule, when a policy is assigned to secure a debt, the owner retains all rights in the policy in excess of such debt, even though the assignment may be absolute in form. The insurance company does not guarantee the validity of the assignment.

B

Before-Tax Earnings: A taxpayer's gross income from salary, commissions, sales, fees, etc., before deductions for federal, state or other income taxes.

Beneficial Interest: A financial or other valuable interest arising from an insurance policy regardless of who formally owns the policy.

Beneficiary: An individual, institution, trustee or estate which receives, or may become eligible to receive, benefits under a will, insurance policy, retirement plan, annuity, trust, or other contract.

Binder: A temporary, binding agreement, secured by a payment to evidence good faith, used until a formal contract takes effect.

Book Value: An accounting term. The book value of a stock is determined from a company's records, by adding all assets then deducting all debts and other liabilities, plus the liquidation price of any preferred issues. The sum arrived at is divided by the number of common shares outstanding and the result is book value per common share. Book value of the assets of a company or a security may have little relationship to fair market value.

Broker: An individual or firm which acts as an intermediary between a buyer and seller, usually charging a commission. For securities and most other products, a license is required.

Buy-Sell Agreement: An agreement between the owners of a business that provides that the shares owned by any one of them who dies or withdraws from the business shall be sold to and will be pur-

chased by the surviving co-owners or by the entity itself at a value or formula previously agreed upon by the parties and stipulated in the agreement. Also applies to buyout arrangements between owners and key employees.

Bypass Trust: An estate planning device (also called a credit shelter trust, family trust, or B trust in "AB" plans where the A trust funds for the marital deduction) used to minimize the combined estate taxes payable by spouses whereby, at the death of the first spouse, the estate is divided into two parts and one part is placed in trust usually to benefit the surviving spouse without being taxed at the surviving spouse's death, while the other part passes outright to the surviving spouse or is placed in a marital deduction trust. A by-pass trust permits a maximum of $1.350,000 transfer to heirs of the spouses on an estate tax free basis under the unified gift and estate tax credits as they exist in 2001.

C

Capital Gain or Capital Loss: The profit or loss from the sale of a capital asset.

Capitalization: The total amount of the various securities issued by a corporation. Capitalization may include bonds, debentures, preferred and common stock, long term debt and surplus. Bonds and debentures are usually carried on the books of the issuing company in terms of their par or face value. Preferred and common shares may be carried in terms of par or stated value. Stated value may be an arbitrary figure decided upon by the board of directors or may represent the amount received by the company from the sale of the securities at the time of issuance.

Cash Basis Method: A method of determining when income must be reported and when expenses can be deducted. It is used by most individual taxpayers. Certain partnerships, corporations, and other taxpayers may not use the cash method. Under the cash method, income is generally reported in the tax year money is received, and expenses are usually deducted in the tax year they are paid.

Cash Surrender Value: The equity amount available to the owner of a life insurance policy should he or she decide it is no longer wanted. Calculated separately from the legal reserve.

Cash Value: The equity amount available to the policy owner when a life insurance policy is surrendered to the company, or the amount upon which the total available for a policy loan is determined. During the early policy years in a traditional whole life policy, the cash value is the reserve less a surrender charge; in the later policy years, the cash surrender value usually equals or closely approximates the reserve value.

Certified Financial Planner (CFP): Professional designation granted to someone who has attained a high degree of technical competency in financial planning and has passed a series of professional examinations by the College for Financial Planning.

Charitable Gift Annuity: An arrangement whereby the donor makes a gift to charity and receives back a guaranteed lifetime (or joint lifetime) income based on the age(s) of the annuitant(s).

Charitable Lead Trust: An arrangement whereby the charity receives an income from a trust for a period of years, then the remainder is paid to non-charitable beneficiaries (generally either the donor or his or her heirs).

Charitable Remainder Annuity Trust: A charitable trust arrangement whereby the donor or other beneficiary is paid annually an income of a fixed amount of at least 5% but not more than 50% of the initial

fair market value of property placed in the trust, for life or for a period of up to 20 years; one or more qualified charitable organizations must be named to receive the remainder interest upon the death of the donor or other income beneficiaries, and the value of the charitable remainder interest must be at least 10% of the net fair market value of all property transferred to the trust, as determined at the time of the transfer.

Charitable Remainder Trust: An arrangement wherein the remainder interest goes to a legal charity upon the termination or failure of a prior interest.

Charitable Remainder Unitrust: A charitable trust arrangement whereby the donor or other beneficiary is paid annually an income of a fixed percentage of at least 5% but not more than 50% of the annually revalued trust assets, for life or for a period of up to 20 years; one or more qualified charitable organizations must be named to receive the remainder interest upon the death of the donor or other income beneficiaries, and the value of the charitable remainder interest must be at least 10% of the net fair market value of all property transferred to the trust, as determined at the time of the transfer.

Chartered Financial Consultant (ChFC): Professional designation granted to an individual who has attained a high degree of technical competency in the fields of financial planning, investments, and life and health insurance and has passed ten professional examinations administered by The American College.

Chartered Life Underwriter (CLU): Professional designation granted to an individual who has attained a high degree of technical competency in the fields of life and health insurance and who is expected to abide by a code of ethics. Must have minimum of three years of experience in life or health insurance sales and have passed ten professional examinations administered by The American College.

Codicil: A legal document, which supplements and changes an existing will. Generally utilized to make minor changes to the original will.

Collateral Assignment: When a life insurance contract is transferred to an individual or other party as security for a debt. This usually temporary assignment does not transfer all policy rights.

Collateral Assignment Method (Split Dollar): A policy ownership arrangement under a split-dollar arrangement using life insurance where the employee (or a third party) owns the policy and names a personal beneficiary but assigns part of the policy or death benefit to the employer as collateral for the employer's premium advances under the policy.

Community Property: Ten states (Alaska, Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington, and Wisconsin) use some form of the community property system to determine the interest of a husband and wife in property acquired during marriage.

Concealment: Deliberate failure of an applicant for insurance to reveal a material fact to the insurer.

Conditions: Provisions inserted in an insurance contract that qualify or place limitations on the insurer's promise to perform.

Consideration: One of the elements of a binding contract; the exchange of values by the parties to the contract. Such values may be money, promises, property, etc. In insurance, the policy owner's consideration is the first premium payment and the application; the insurance company's consideration is the contract itself.

Constructive Receipt Doctrine: A federal tax rule, which provides that when a taxpayer has an unre-

stricted right to receive a pecuniary benefit, that is when it is made available without a substantial risk of forfeiture, the benefit is considered to have been received for income tax purposes whether or not it was actually received.

Contingent Beneficiary: Beneficiary of a life insurance policy who is entitled to receive the policy proceeds on the insured's death if the primary beneficiary dies before the insured; or the beneficiary who receives the remaining payments if the primary beneficiary dies before receiving the guaranteed number of payments.

Convertible: Term life insurance that can be exchanged for a cash value life insurance policy without evidence of insurability.

Corporate Owned Life Insurance (COLI): Life insurance owed by a corporation, insuring the lives of its employees.

Corpus of a Trust: The term used to designate the body of assets placed in a trust. The trust holds title to all property included in the corpus.

Cost of Insurance (COI): The cost of insurance rate charged on the difference between the death benefit and account value, also known as the net amount at risk. The cost of insurance rate is set to cover more than the cost of providing the death benefit. The cost of insurance rate helps cover administrative costs, taxes, and other expenses. The cost is deducted from the account value monthly.

Credit Shelter Trust: An estate planning device (also called a bypass trust, family trust, or B trust in "AB" plans where the A trust funds for the marital deduction) used to minimize the combined estate taxes payable by spouses whereby, at the death of the first spouse, the estate is divided into two parts and one part is placed in trust usually to benefit the surviving spouse without being taxed at the surviving spouse's death, while the other part passes outright to the surviving spouse or is placed in a marital deduction trust. A credit shelter trust permits a maximum of $1.350,000 transfer to heirs of the spouses on an estate tax free basis under the unified gift and estate tax credits as they exist in 2001.

Cross Purchase Buy Sell Plan: In a cross purchase plan, the surviving owners (rather than the business itself) agreed to buy the deceased or departing owner's business interests. That purchase is made for an agreed-on price or according to an agreed-on formula.

Crummy Trust: A trust established granting a beneficiary a limited power to withdraw income or principal or both. This power is exercisable during a limited period of time each year and is non-cumulative. The power of withdrawal is generally limited to the amount excludable from gift tax liability under the annual gift tax exclusion or to the greater of $5,000 or 5 percent of the trust property.

Cumulative Planned Premium: The total of the planned premiums scheduled to be paid to date by the policy owner.

Cumulative Loan: The total of the annual loans and loan interest, if accrued, to date.

Cumulative Retirement Income: The total of the annual retirement income distributions projected to be taken to date from an insurance policy whether by way of loans or withdrawals.

Custodianship: An ownership arrangement in which property management rights are given to a custodian for the benefit of a child beneficiary under the Uniform Gifts to Minors Act or the Uniform Transfers to Minors Act; a custodian's duties resemble those of a trustee, although the custodian does not take legal title to the trust property and custodianship ends when the minor reaches the age of majority as

specified by state law. May also apply to property management rights of individuals who are determined to be incompetent to handle their own affairs.

D

Death Benefit Only Arrangement (DBO): A type of deferred compensation arrangement in which an employer agrees to pay only a death benefit to a deceased employee's heirs rather than the customary retirement benefit (and perhaps ancillary benefits) associated with conventional deferred compensation.

Decedent: The person who has died.

Declarations: Statements in an insurance contract that provide information about the property or life to be insured and used for underwriting and rating purposes and identification of the property or life to be insured.

Deferred Compensation Plan: A plan in which the executive elects to defer compensation into an account in the expectation of receiving the deferrals plus earnings at retirement; may involve company contributions.

Defined Benefit Plan: A plan in which the company specifies the benefit the plan will deliver. Typically involves only company contributions; company bears the investment risk. (Examples: pension or cash balance plan).

Defined Contribution Plan: A plan in which the company defines the contribution it will make to the employee's account in the plan rather than a fixed benefit the employee will receive. Typically involves both company and employee contributions; employee bears the investment risk.

Direct Skip: An outright generation-skipping transfer, either by gift or at death, to a recipient, known as a "skip person," who is two or more generation levels below the transferor. This type of property transfer prompts the generation-skipping transfer tax.

Direct Transfer: The movement of a tax-deferred retirement asset from one plan or custodian directly to another. A direct transfer is not a withdrawal and does not incur any taxes or penalties.

Donor: A person who makes a gift. The person setting up a trust can be called donor, trustor, grantor, or settlor.

Dower: The life estate of a widow in the property of her husband. At common law a wife had a life estate in one-third (in value) of the property of her husband who died without leaving a valid will or from whose will she dissented. In many states common law dower has been abolished by statute or never has been recognized.

Durable Power of Attorney: A written legal document which allows one person (the principal) to authorize another person (the attorney-in-fact or agent) to act on his or her behalf with respect to specified types of property, and which may remain in effect during a subsequent disability or incompetency of the principal.

Durable Power of Attorney for Health Care: A written legal document which grants decision-making powers related to health care to an agent; generally provides for removal of a physician, the right to

have the incompetent patient discharged against medical advice, the right to medical records, and the right to have the patient moved or to engage other treatment.

E

Economic Benefit: The value of the death benefit protection provided to employee under a split dollar plan, as defined by IRS revenue rulings and notices. The economic benefit amount is equal to the employee death benefit multiplied by the economic benefit rate, plus the cost of "other benefits" that are owned, controlled by or otherwise provided to the employee under the policy. The economic benefit rate is an age specific rate per thousand, which may be determined from government tables (i.e., IRS Table 2001 for individual policies, or the rate calculated by applying the Greenberg to Greenberg formula to IRS Table 2001 rates for joint survivor policies) or by using rates found in ING Security Life's alternative term products (single life alternative term or joint survivor alternative term).

Economic Benefit Doctrine: A federal tax rule, which provides that when an employer provides an economic benefit to an employee, that benefit is includable in the employee's gross income even if not received in cash or property.

Employee Benefit Plan: A plan established or maintained by an employer or employee organization, or both, for the purpose of providing employees a certain benefit, such as pension, profit-sharing, stock bonus, thrift medical, sickness accident, or disability benefits.

Employee Benefit Trust: A trust established to hold the assets of an employee benefit plan.

Employee Stock Ownership Plan: An Employee Stock Ownership Plan (ESOP) is essentially a stock bonus plan in which employer stock is used for contributions. A "KSOP" plan also includes §401(k) Plan features. Employer contributions are tax deductible and are not currently taxed to the employee. Earnings accumulate income tax deferred and distributions are generally taxed as ordinary income.

Endorsement: Written provision that adds to, deletes, or modifies the provisions in the original contract.

Endorsement Method (Split Dollar): A life insurance policy ownership arrangement under a split-dollar arrangement in which the employer owns the policy and an endorsement to the policy spells out the employee's rights.

Equity Split-Dollar: An arrangement in which the employer's share of the cash value and death benefit of life insurance on an employee's life is confined to its aggregate net premium payments; any cash value in excess of the employer's premiums inures to the benefit of the other party (employee or third party). The taxation of this arrangement is addressed in IRS Notice 2001-10.

ERISA: The acronym for the Employee Retirement Income Security Act of 1974, a federal law that established minimum standards for certain employee benefit plans, especially qualified employer retirement plans.

Errors and Omissions Insurance: Liability insurance policy that provides protection against loss incurred by a client because of some negligent act, error, or omission by the insured.

Escheat: Assignment of property to the state because there is no verifiable legal owner - typically, where there is no heir to property.

Estate: Everything of value (all property) that a person owns while living or at the time of death.

Estate Planning: Process designed to conserve estate assets before and after death, distribute property according to the individual's wishes, minimize federal estate and state inheritance taxes, provide estate liquidity to meet costs of estate settlement, and provide for the family's financial needs.

Estate Tax: A tax imposed on the transfer of property from a decedent to his or her heirs, legatees or devisees.

Executor or Executrix: An individual or institution nominated in a will and appointed by a court to settle the estate of a deceased.

F

Fair Market Value: The price at which an item can be sold at the present time between two unrelated people, neither under compulsion to buy or sell.

Family Attribution Rules: A federal tax rule that may cause the ownership of stock by one family member to be attributed to another for purposes of determining the income tax consequences of a distribution by the corporation in redemption of the stock.

Fee Simple Ownership: Outright ownership of property with absolute rights to dispose of or gift it to anyone.

Fiduciary: A person in the position of great trust and responsibility, such as the executor of a will or the trustee of a trust.

Five and Five Power: A provision that allows a trust beneficiary to withdraw the greater of $5,000 or five percent of the principal from a trust without causing the entire trust property to be included in his or her estate for federal estate taxation.

Fixed-Period Option: Life insurance settlement option in which the policy proceeds are paid out over a fixed period of time.

Funding Instrument: An insurance contract or trust agreement that states the terms under which the funding agency will accumulate, administer, and disburse the pension funds.

Future Interest: An ownership interest in property in which unlimited possession or enjoyment of property is delayed until some future time.

G

General Partner: A general partner is a partner of a partnership who is personally liable for all partnership debts and is permitted to participate in the management of the partnership.

General Partnership: A partnership that has only general partners and no limited partners. Each partner is liable for all partnership debts and there is no limited liability.

General Power of Appointment: A power of the donee (the one who is given the power) to pass on an

interest in property to whomever he pleases, including himself or his estate.

Generation Skipping Transfer (GST): A transfer of property, usually in trust, that is designed to provide benefits for beneficiaries who are two or more generations younger than the generation of the grantor.

Generation Skipping Transfer Tax (GST): A transfer tax generally assessed on transfers to grandchildren, great grandchildren and others who are at least two generations younger than the donor.

Generation Skipping Transfer Tax Exemption: An exemption from generation-skipping tax for transfers by an individual either during life or at death.

Generation Skipping Trust: Any trust having beneficiaries who belong to two or more generations younger than the grantor.

Gift: A voluntary transfer of property for which nothing of value is received in return. If the Internal Revenue Service is to recognize a transfer as a gift, the donor(s) must unconditionally transfer all title and control of the property to the recipient(s) at the time the gift is given.

Gifting: A means of implementation of an estate plan through gifts to intended successors in the ownership of assets owned by the person(s) making the gifts.

Grace Period: Period of time during which a policyowner may pay an overdue premium without causing the policy to lapse.

Grantee: A person to whom property is transferred by deed or to whom property rights are granted by means of a trust instrument or some other document.

Grantor: The person who establishes the trust. Also called the creator, settlor, donor or trustor.

Grantor Retained Annuity Trust: A trust in which the grantor retains the right to a set annual dollar amount (the annuity) for a fixed term and gives the principal to others, such as the grantor's children, at the end of that term. If the grantor survives until the end of the annuity term, all of the trust principal will be excluded from the grantor's estate for estate tax purposes. A grantor retained annuity trust is sometimes referred to as a "GRAT."

Grantor Trust: For purposes of the income taxation of trusts, a trust in which the grantor or a third party, because of certain rights to income or principal or certain powers over the disposition of income and principal, is treated as the owner of the trust and taxed on the income thereof. Consequently, a grantor trust is not treated as a separate entity for income tax purposes.

Gross Estate: The total value of all property in which a deceased had an interest. This must be included in his or her estate for federal tax purposes.

Group "Carve Out" Life Insurance Plan: This plan is an alternative to group term insurance. It provides life insurance coverage to selected employees by "carving out" all or a portion of their coverage under an employer sponsored group term plan and then provides them with individual policies. The plan can be designed as either a Bonus §162 Plan or a split dollar plan.

Group Life Insurance: Life insurance provided on a number of persons in a single master contract. Physical examinations are not required, and certificates of insurance are issued to members of the group as evidence of insurance.

Group-Term Life Insurance Program: An employer may provide employees with life insurance coverage through an IRC §79 group-term policy, the first $50,000 of which generally produces no taxable cost to the employee.

Guaranteed Investment Contract (GIC): A debt instrument issued by an insurance company, usually in a large denomination, and often bought for retirement plans. The interest rate paid is guaranteed, but the principal is not.

Guaranteed Insurability: An insurance policy in which the insurer is required to renew the policy for a specified amount of time regardless of changes to the health of the insured. The agreement requires that premiums are paid on time and that the insurer makes no changes except if a premium change is made for an entire class of policyholders. Also called guaranteed renewable or conversion privilege or convertible term insurance.

Guaranteed Net Surrender Value: The guaranteed surrender value which equals the guaranteed net policy value minus the surrender charge, if any.

Guardian: A person legally entrusted with the care of, and managing the property and rights of, another person, usually a minor child.

H

Heir: A person entitled by law to inherit part or all of the estate of an ancestor who died without leaving a valid will.

Holographic Will: A will written entirely in the testator's own handwriting

Human Life Value: For purposes of life insurance, the present value of the family's share of the deceased breadwinner's future earnings.

I

Incapacity: The lack of ability to act on your own behalf.

Incidents of Ownership: Includes a variety of rights and powers that an insured decedent may have held over a life insurance policy; the possession of one or more of these incidents of ownership within three years of death will bring the policy proceeds into the insured's gross estate.

Income Beneficiary: The beneficiary of a trust who is entitled to receive the income from it.

Income in Respect of a Decedent (IRD): Income earned by a decedent or income to which the decedent had a right prior to death, but which was not properly includible in his or her gross income prior to death

Incontestable Clause: A provision in a life insurance policy that prevents the insurer from revoking coverage because of alleged misstatements by the insured after a specified period, usually about two years.

Individual Retirement Account (IRA): A tax-deferred retirement account for an individual that can be established by a person with earned income. Earnings accumulate tax-deferred until the funds are withdrawn beginning at age 59 ½ or later (or earlier, with a 10% penalty).

Initial Reserve: In life insurance, the reserve at the beginning of any policy year.

Installment Sale: A sale in which taxable gain is recognized over a number of years as the payment for the property sold is received.

Insurable Interest: The expectation of a monetary loss that can be covered by insurance.

Insurance: Pooling of fortuitous losses by transfer of risks to insurers who agree to indemnify insureds for such losses, to provide other pecuniary benefits on their occurrence, or to render services connected with the risk.

Insurance Trust: An irrevocable trust established to own an insurance policy or policies and thereby prevent them from being included in the insured's estate.

Insuring Agreement: That part of an insurance contract that states the promises of the insurer.

Intangible Property: Property that cannot be touched and that represents real value such as bonds, stock certificates, promissory notes, certificates of deposit, bank accounts, contracts, leases, and other similar items.

Inter vivos Trust: A type of trust created during the settlor's lifetime.

Interest Credit: The nonguaranteed amount credited to the policy's account value based upon a rate of interest specified by the insurance company.

Interest Option: Life insurance settlement option in which the principal is retained by the insurer and interest is paid periodically.

Intergenerational Succession: Succession in property ownership in which the property is trans ferred from one generation to another; usually from members of an older generation to members of a younger generation.

Intestate: A person who dies without having made and left a valid will.

Intestate Succession: The distribution of property to heirs according to the statutes of the state of residency upon the death of a person who owned the property but did not leave a valid will.

Investment Gain/Loss: The total increase or decrease in account value as a result of investment division performance during the policy year.

Irrevocable Beneficiary: Beneficiary designation allowing no change to be made in the beneficiary of an insurance policy without the beneficiary's consent.

Irrevocable Trust: A trust that cannot be changed or terminated after it is established.

J

Joint Tenancy: A form of ownership shared with an unlimited number of individuals. Each tenant owns an equal undivided share of the property.

Joint Tenancy with Rights of Survivorship (JTWRS): The holding of property by two or more individuals in a manner that upon the death of one tenant, the survivor(s) succeed to full ownership by operation of law.

K

Keogh Plan (HR-10 Plan): Retirement plan individually adopted by self-employed persons.

Kiddie Tax: Unearned income (dividends, rents, interest, etc) of a child under age 14 will be taxed to the child at the parent's highest income tax rate.

L

Lack of Marketability Discount: When the value of an asset is less than its initial or expected fair market value due to unusual circumstances that make it not readily saleable. For example, a limited partnership interest.

Lateral Succession: Succession in property ownership in which the property is transferred between members of the same generation.

Law of Large Numbers: Concept that the greater the number of exposures, the more closely will actual results approach the probable results expected from an infinite number of exposures.

Legal Reserve: Liability item on a life insurer's balance sheet representing the redundant or excessive premiums paid under the level-premium method during the early years. Assets must be accumulated to offset the legal reserve liability. Purpose of the legal reserve is to provide lifetime protection.

Letters of Administration: Document issued by the probate court giving the administrator authority to administer the estate.

Letters Testamentary: Document issued by the probate court giving the executor authority to administer the estate under the provisions of the decedent's will.

Liability: A financial obligation, debt, claim, or potential loss.

Life Income Option: Life insurance settlement option in which the policy proceeds are paid during the lifetime of the beneficiary. A certain number of guaranteed payments may also be payable.

Life Insurance Planning: Systematic method of determining the insured's financial goals, which are translated into specific amounts of life insurance, then periodically reviewed for possible changes.

Limited Liability Company (LLC): An entity formed under state statute that has the legal characteristic

of limited liability similar to that of a corporation, while it may qualify to be treated as a partnership for tax purposes.

Limited Partner: A partner in a partnership who can't participate in the management of the partnership's business. A limited partner's liability is limited to loss of his investment in the partnership.

Limited Partnership: Form of partnership composed of both a general partner(s) and a limited partner(s); the limited partners have no control in the management of the company and are usually financially liable only to the extent of their investment in the partnership.

Living Trust: A written legal document into which you place all of your property, with instructions for its management and distribution upon your disability or death.

Loan: Money that is lent. In life insurance a loan can be taken against the cash value of a life insurance policy. If the insured dies while there is an outstanding loan balance, the amount of the loan and any unpaid interest due will be deducted from the death proceeds.

Loan Interest Charge: The annual interest expense charged to the policy owner on the amount borrowed from a policy's cash value. If loan interest is not paid in cash, it is added to the outstanding loan balance. The unpaid loan interest will then increase the amount borrowed.

M

Marital Deduction: A deduction allowing for the unlimited transfer of any or all property from one spouse to the other generally free of estate and gift tax.

Medical Information Bureau (MIB): Bureau whose purpose is to supply underwriting information in life and health insurance to member companies, which report any health impairments of an applicant for insurance.

Minor Child: A person who has not yet reached the legal age of majority. This age can differ with each state, but generally is between 16 and 21 years. The term does not apply to an emancipated minor.

Minority Discount: A discount applied to the value of an interest in a corporation, limited liability company or limited partnership that is not publicly marketable to reflect the fact that a minority interest in the company has less value than a controlling interest, since the holder of the former cannot control business actions.

N

National Association of Insurance Commissioners (NAIC): Group founded in 1871 that meets periodically to discuss industry problems and draft model laws in various areas and recommends adoption of these proposals by state legislatures. The NAIC opposes federal regulation of insurance.

Needs Approach: Method for estimating amount of life insurance appropriate for a family by analyzing various family needs that must be met if the family head should die and converting them into specific amounts of life insurance. Financial assets are considered in determining the amount of life insurance needed.

Net Amount at Risk: In life insurance, the difference between the face value of a life insurance policy and its cash value (also known as "pure amount of protection").

Nonforfeiture Law: State law requiring insurance companies to provide at least a minimum nonforfeiture value to policyowners who surrender their cash value life insurance policies.

Nonqualified Deferred Compensation Plan: A contractual arrangement that calls for paying an individual or group of executives future benefits. It does not qualify for favorable tax treatment, but has far fewer restrictions than qualified plans. Non-qualified plans are unsecured and subject to risks; they must remain "unfunded" to avoid current taxation.

O

Ownership Clause: Provision in life insurance policies under which the policyowner possesses all contractual rights in the policy while the insured is living. These rights can generally be exercised without the beneficiary's consent.

P

Partition: The judicial separation of the respective interests in property of joint owners or tenants in common so each may take possession, enjoy, and control his or her share of the property.

Partnership: A type of unincorporated business organization in which multiple individuals, called general partners, manage the business and are equally liable for its debts.

Paul v. Virginia: Landmark legal decision of 1869 establishing the right of the states, and not the federal government, to regulate insurance. Ruled that insurance was not interstate commerce.

Per Stirpes: A way of distributing an estate so that the surviving descendants will receive only what their immediate ancestor would have received if he or she had been alive at the time of death. State law definitions can vary.

Personal Representative: An executor, administrator, or anyone else who is in charge of a decedent's property.

Phantom Stock Plan: An incentive compensation arrangement where the employee is credited with a hypothetical number of shares (phantom stock units) of the company. These units are credited to the employee's account, which is dynamic in that it includes future dividends and stock splits. Upon termination of employment, the employee is entitled to a cash amount based on the per share equivalent value of each of the phantom stock units credited to his or her account.

Planned Premium: The premium amount specified by the policy owner as the amounts intended to be paid at fixed intervals over a specified period of time. Premiums may be paid on a monthly, quarterly, semi-annual or annual basis. If policy values are adequate, the specified premium need not be paid, and can be changed at any time. Within limits, premium payments that are more or less than the specified premium amount may be permitted.

Policy Basis: The policy basis represents the policy owner's investment in the policy. Policy basis is used in determining the taxable portion of a policy distributions when a taxable event occurs. For example,

the portion of the surrender proceeds or withdrawal distribution that exceeds the policy basis is reported as taxable income (gain).

Policy Loan: A loan made by an insurance company to a policyholder on the security of the cash value of the policy.

Pooled Income Fund: A trust arrangement which accepts gifts of cash or certain properties from persons who want to provide support for the charitable organization; gifts made to the fund are commingled and invested by the trustee and units of participation are awarded to the donor for his or her gift; income is then paid to the donor proportionate to his or her share of fund earnings.

Pour Over Will: This is a Will used to transfer (pour over) into a trust any property that is left in a person's estate after death.

Power of Appointment: A right given to another in a written instrument, such as a will or trust that allows the other to decide how to distribute your property. The power of appointment is "general" if it places no restrictions on who the distributees may be. A power is "limited" or "special" if it limits the eventual distributee.

Power of Attorney: A written legal document that gives an individual the authority to act for another. If the authority is to act for the principal in all matters, it is a general power of attorney. If the authority granted is limited to certain specified things, it is a special power of attorney. If the authority granted survives the disability of the principal it is a durable power of attorney.

Primary Beneficiary: Beneficiary of a life insurance policy who is first entitled to receive the policy proceeds on the insured's death.

Probate: A court procedure for settling the personal affairs of a decedent by formally proving the validity of a will and establishing the legal transfer of property to beneficiaries, or appointing an administrator and supervising the legal transfer to property to heirs if there is no valid will.

Projected Benefit Obligation (PBO): An accounting term representing the anticipated value of retirement benefits to be earned by an employee by his/her retirement date.

Q

Qualified Domestic Trust: A trust arrangement which allows property transferred to a surviving spouse who is not a U.S. citizen to qualify for a special exclusion in lieu of the regular marital deduction; and which ensures that, at the death of the surviving spouse who is not a United States citizen, the assets placed in such a trust will incur federal estate taxation since the tax was avoided at the first spouse's death

Qualified Plan: Plans that qualify for favorable tax treatment under the Internal Revenue Code, and are subject to restrictive rules and extensive regulations. Qualified plans are secured by a trust, as opposed to a nonqualified plan.

Qualified Stock Option Plan: A tax favored plan for compensating executives by granting incentive stock options (ISOs) to buy company stock. If the plan meets the requirements of IRC §422, the executive is not taxed at the time of the grant or the time of the exercise of the option. Taxation occurs when the stock purchased under the option is sold by the executive. Corporation granting the option

does not ordinarily receive a tax deduction.

Qualified Terminable Interest Property (QTIP): Property qualifying for the marital deduction at the election of the donor or the decedent's personal representative. The spouse retains a qualified income interest in the property for life, with the income payable at least annually. The corpus ultimately passes to a specified remainderman, under a special power of appointment given to the spouse

R

Rabbi Trust: A trust, owned by the company, that holds assets to help meet non-qualified benefit payments. Rabbi trusts are taxable trusts, and trust assets must be available to corporate creditors in the event of a bankruptcy.

Rate: Price per unit of insurance.

Ratio Percentage Test: A test that a qualified pension plan must meet to receive favorable income tax treatment. The pension plan must benefit a percentage of employees that is at least 70 percent of the highly compensated employees covered by the plan.

Rebating: A practice-illegal in virtually all states-of giving a premium reduction or some other financial advantage to an individual as an inducement to purchase the policy.

Representative: Someone who is authorized to act on your behalf, such as an executor or a trustee.

Revocable Beneficiary: Beneficiary designation allowing the policyowner the right to change the beneficiary without consent of the beneficiary.

Revocable Trust: A trust that can be changed after it is established. Assets can be added or removed from the corpus of the trust, the beneficiary(ies) can be changed, and other changes including termination of the trust, are allowed.

Rider: Term used in insurance contracts to describe a document that amends or changes the original policy.

Rule Against Perpetuities: A rule of common law that makes void any estate or interest in property so limited that it will not take effect or vest within a period measured by a life or lives in being at the time of the creation of the estate plus 21 years and the period of gestation. In many states the rule has been modified by statute. Sometimes it is known as the rule against remoteness of vesting.

S

S Corporation: A corporation whose income is generally taxed to its shareholders, thus avoiding a corporate level tax. An election available to a corporation to be treated as a partnership for income tax purposes. To be eligible to make the election, a corporation must meet certain requirements as to kind and number of shareholders, classes of stock, and sources of income.

Section 2503(c) Trust for Minors: A trust designed to comply with Section 2503(c) of the Internal

Revenue Code so that a gift placed in such a trust for the benefit of a minor will qualify for the gift tax annual exclusion although they are not gifts of a present interest.

Section 303 Stock Redemption: When certain requirements are met, this section of the Internal Revenue Code allows a shareholder's estate or heirs to sell to the deceased's closely held corporation enough stock to pay federal and state death taxes, costs of estate administration, and funeral expenses without the corporation's distribution being treated as a dividend for income tax purposes

Section 401(k) Plan: A qualified profit sharing or thrift plan that allows participants the option of putting money into the plan or receiving funds as cash. The employee can voluntarily elect to have his or her salary reduced up to some maximum limit, which is then invested in the employer's Section 401(k) plan.

Section 457 Plan: A plan which provides an exclusion from gross income for a certain portion of salary deferred by a participant under the plan of a state or local government, a tax-exempt organization (excluding churches), or of an independent contractor of such government or organization (e.g., a physician providing independent services to a hospital).

Section 6166: A section of the Internal Revenue Code that allows for a 14-year spreadout of the estate tax for estates that qualify (generally estates that include closely held businesses or farms).

Secular Trust: An irrevocable trust which is a separate tax-paying entity from the company. Assets contributed to a secular trust are currently taxable to the trust beneficiary. In contrast to a rabbi trust, a secular trust is beyond reach of corporate creditors in the event of bankruptcy.

Settlement Option: Ways in which life insurance policy proceeds can be paid other than in a lump sum, including interest, fixed period, fixed amount, and life income options.

Simplified Employee Pension (SEP) IRA: A retirement program for self-employed people or owners of small companies allowing them to defer taxes on investments intended for retirement

Sinking Fund Approach: A benefit funding technique wherein assets are set aside in order to accumulate the necessary funds to pay future benefit expenses.

Sound Mind: The testator possesses sound mind for the purposes of making a will if he or she: (1) understands the nature of the act of making a will or codicil thereto, (2) knows the extent and character of the property subject to the will, (3) knows and understands the proposed disposition of that property, and (4) knows the natural objects of his or her bounty (i.e. his or her heirs). Whether the testator was of sound mind is tested (determined) by the state of the testator's mind at the time the will or codicil is executed (written and signed) and varies by state.

Split Dollar Plans: A method of purchasing life insurance in which the premium payments and policy benefits are divided, usually between an employer and employee. Many types of split dollar designs are possible. It can be a valuable executive benefit that provides life insurance protection for an executive's survivors at a minimal cost (the economic benefit cost) to the employee.

State Death or Inheritance Taxes: The tax imposed by the state in which you live and/or where your property is located, if different, on the transfer of that property to another at your death.

Statute of Limitations: A statute, which bars lawsuits upon valid claims after the expiration of a specified period of time. The period varies by state law and for different kinds of claims.

Step Up In Basis: A decedent's capital gains property that passes to others escaping capital gains tax when sold by the person who inherits the property. Persons inheriting capital gains property receive the property at date-of-death fair market value. In effect, the basis in this property is deemed to be "stepped up" and does not reflect the decedent's original cost basis for determining applicable capital gains tax on the sale of the property.

Stock Appreciation Rights Plan (SAR): A right granted to an employee to receive cash and/or stock equal to the increase in value of the company's stock after the date the stock appreciation right (SAR) is granted. Generally no tax consequences to the employer or employee upon the grant of the right. It is treated as an unfunded, unsecured promise to pay money in the future. The employee is ordinarily given the right to decide when the SAR will be exercised and will recognize ordinary income upon exercise in an amount equal to the cash and/or fair market value of the other assets received.

Stock Bonus Plan: A method of compensating selected executives by issuing company stock in lieu of or in addition to cash bonus compensation. The executive is taxed on the value of the stock as ordinary income and any increase in value of the stock is owned by the executive. The bonus is deductible by the employer if it is reasonable compensation for services rendered.

Stock Company: Company owned by stockholders who share in the profits of the company.

Stock Redemption Plan: In a stock redemption or entity purchase plan, the business agrees to purchase a deceased or departing owner's interest. The purchase is made for an agreed-on price or according to an agreed-on formula.

Succession: A term used to describe transfers of asset ownership through inheritance, gifting, preferential sale, or other means that fulfill the wishes of the person(s) with present ownership of the assets.

Suicide Clause: Contractual provision in a life insurance policy stating that if the insured commits suicide within two years after the policy is issued, the face amount of insurance will not be paid; only premiums paid will be refunded.

Supplemental Executive Retirement Plan: A type of non-qualified deferred compensation plan often used to attract and retain executives. Generally, the promised benefits are paid from the employer's general assets, and no amounts are specifically earmarked for future benefit payments. Usually the employee has no option to receive the funds as current compensation.

Surrender Charge: The fee charged to a policy owner when a life insurance policy or annuity is surrendered for its cash value.

T

Tangible Property: Property that is capable of being perceived by the senses - generally refers to real estate, personal property, and moveable property that has value of its own and is not merely a representation of real value. Land, machinery, buildings, crops, and livestock are examples of tangible property.

Tax Basis: The owner's cost of an asset for income and estate tax purposes as determined under the Internal Revenue Code and IRS regulations.

Tenants In Common: A form of asset ownership in which two or more persons have an undivided interest in the asset and the ownership shares are not required to be equal.

Term Insurance: Type of life insurance that provides temporary protection for a specified number of years.

Testamentary Trust: A trust established after the death of the grantor under the provisions of the grantor's will.

Testator: One who writes or has written and signs a will.

Transfer for Value Rule: A federal income tax rule which states that if ownership of a life insurance policy was transferred for a valuable consideration, a portion of the death proceeds may be includible in gross income rather than qualifying for the usual income tax exemption of death proceeds. Five "safe harbor" exceptions to this rule exist. They include: a transfer to the insured, to a partner of the insured, to a partnership in which the insured is a partner, to a corporation in which the insured is a shareholder or officer, and to a corporation from another corporation in a tax-free reorganization.

Trust: A legal arrangement in which an individual (the trustor) gives fiduciary control of property to a person or institution (the trustee) for the benefit of beneficiaries.

Trust Declaration or Trust Instrument: A document defining the nature and duration of the trust, the powers of the trustee, and identifying the trust's beneficiary(ies).

Trustee: An individual or organization which holds or manages and invests assets for the benefit of another.

Trusteed Cross-Purchase Buy-Sell Agreement: The use of a third party ("trustee") to hold the life insurance policies that fund a cross-purchase agreement, and to see that the terms of the agreement are fulfilled at an owner's death; may be used to avoid a multiplicity of policies when several owners are involved.

Twisting: Excessive trading in a client's account by a broker seeking to maximize commissions regardless of the client's best interests, in violation of NASD rules, also called churning or overtrading.

U

Underwriting: The selection and classification of applicants for insurance through a clearly stated company policy consistent with company objectives.

Undivided Interest: The interest or right in property owned by each joint tenant or tenant in common. Each tenant has equal right to use and enjoy the entire property. Unless an agreement to the contrary exists, each tenant is entitled to an income share proportional to his or her ownership interest. If the property is sold, the sale proceeds are shared among tenants in proportion to the ownership shares held by each tenant.

Unified Tax Credit: Tax credit that can be used to reduce the amount of the federal estate or gift tax.

Uniform Gifts (Transfers) To Minors Act (UGMA or UTMA): A method to hold property for the benefit of a minor, which is similar to a trust but the rules are governed by state law.

Universal Life Insurance: Life insurance which combines the low-cost protection of term insurance with a savings component that is invested in a tax-deferred account, the cash value of which may be available for a loan to the policy holder.

Unrelated Business Taxable Income (Ubti): Income earned by an otherwise tax-exempt organization from activities unrelated to their tax-exempt purpose can be subject to taxation.

V

Vest: To confer an immediate, fixed right of immediate or future possession and enjoyment of property.

Vesting: An ERISA guideline stipulating that employees must be entitled to their entire retirement benefits within a certain period of time even if they are no longer with the employer.

Voting Right: The right of a common stockholder to vote for members of the board of directors and on matters of corporate policy - particularly the issuance of senior securities, stock splits and substantial changes in the corporation's business. A variation of this right is extended to variable annuity contract holders and mutual fund shareholders, who may vote on material policy issues.

W

Wait-and-See Buy-Sell Agreement: A special type of buy-sell agreement between the owners of a business and the business itself, in which, typically, the business entity has a first option to purchase a deceased owner's interest; the surviving owners then have a second option to purchase any portion of the interest not already acquired by the business; and finally, the business entity is required to purchase any remaining interest not already sold under the two options.

Waiver-of-Premium Provision: Benefit that can be added to a life insurance policy providing for waiver of all premiums coming due during a period of total disability of the insured.

Will: A person's written declaration of desires for disposal of his or her property after death.