**CHAPTER FIVE**

**LIFE AND HEALTH INSURANCE**

1. **Life insurance**

Life insurance is a method by which a group of people may cooperate for the loss resulting from the premature death of members of the group.

**Unique characteristics of life insurance**

Life insurance is a risk pooling plan, an economic device through which the risk of premature death is transferred from the individual to the group. These are:

* The event insured against is an eventual certainty
* There is no possibility of partial loss in life insurance
* Life insurance is not a contract of indemnity

**Types of life insurance**

There are four basic classes of life insurance contracts. These are:

* Term insurance
* Whole life insurance
* Endowment insurance
* Annuities
1. **Term insurance**

 It is a contract that provides life insurance protection for a limited number of years, the face value of the policy being payable only if death occurs during the stipulated term. It provides temporary protection.

 **Types of term life insurance**

Types of term life insurance policies.

1. Decreasing term policy – it provides the beneficiary with less proceeds each year the policy is in force. The amounts of death benefit decreases because the chance of death increases with age.
2. Increasing term policy – it provides that increases each year.
3. Level term policy – it pays the same amount of benefits if death occurs while the policy is enforced.
4. Renewable tem policy - it allow the insured to continue the coverage up to a specified age regardless the status of the insured’s health or other relevant factors including occupation.
5. Convertible term policy – it allow the insured the option of covering the policy to a whole life policy.

**Uses of term insurance**

* Limited income
* If the need for protection is temporary
* To guarantee future insurability

**Limitation of term insurance**

* The premium increases with age
* Inappropriate to save money
1. **Whole life insurance**

It provides for the payment of the face value up on the death of the insured, regardless of when it may occur. This policy promises to pay the beneficiary when death occurs.

**Types of whole life insurance**

The principal type whole life insurance policies are:

1. Ordinary whole life insurance, straight life and continuous premium whole life - it provides life time protection to age 100, and the death claim is a certainty.

**Uses of ordinary whole life insurance**

* When life time protection is needed an ordinary life policy is appropriate
* Ordinary life insurance can also be used to save money.
1. Limited payment life insurance policy – the insurance is permanent and the insured has life time protection but premiums are paid only for a specified period of time. The premiums are level but they are paid only for certain period.

Single premium whole life insurance provides life time protection with a single premium.

1. **Endowment insurance**

An endowment policy pays the face amount of insurance if the insured dies within the specified period, if the insured survives to the end of the endowment period; the face amount is paid to the policy owner at that time. Endowment contracts provide death benefits for a specified period of time.

1. **Annuities**

An annuity can be defined as a periodic payment to an individual that continues for a fixed period or for the duration of a designated life or lives. The person who receives the periodic payments or whole life insurance governs the duration of payment is known as the annuitants. The fundamental purpose of life annuity is to provide a life time income that cannot be out lived to an individual.

**Types of annuities**

Insurers classify annuities using the following five criteria.

1. Method of premium payment

If the annuity is purchased with a single premium payment it is called a single premium annuity. An annuity purchased by a series of annual payment is known as an annual premium annuity.

1. Time when benefits begin
* An immediate annuity - is one where the first payment is due one payment interval from the date of purchase.
* Deferred annuity – it provides an income at some future date.
1. Promise purchase

An annuity can also be classified in terms of the insurer’s promises or obligations under the contract.

* Straight life annuity – is an annuity that pays benefits only during the life time of the annuitant. Life annuity with guaranteed payments – it is one that pays a life income to the annuitant with a certain number of guaranteed payments. If the annuitant dies the remaining will be paid to the beneficiary.
1. Number of annuitants

A single life annuity covers one life. A joint life annuity covers two lives. A joint and survivor annuity provides payment to two annuitants with the payments continuing for as long as either annuitant is alive.

1. Types of benefits

It is two types.

* Fixed annuity –periodic payment is guaranteed a fixed amount.
* Variable annuity – is an annuity that provides a life time income, but the periodic income payments will vary depending on the level of common stock price.
1. **Health insurance**

It is a type of insurance that provides indemnification for expenditures and loss of income resulting from loss of health. The most important individual coverage’s including the following;

1. Medical expenses insurance – it provides for the payment of the costs medical are that result from sickness and injury. Its benefits help to meet the expenses of physicians, hospital, nursing, and related services as well as medician’s supplies.
* Hospital insurance – it provides indemnification for necessary hospitalization expenses such as room while hospitalized, laboratory fees, nursing care, etc.
* Surgical insurance – it covers physicians’ fee associate with covered surgery. The surgical contract provides set allowances for different surgical procedures performed by dully licensed physicians.
* Physician’s expense insurance – it provides benefits to cover a physician’s fees for non surgical care in hospital, home, or doctor’s office.
* Major medical insurance – it is he contract that is most appropriate for the large medical expenses that would be financially disastrous for the individual.
1. Disability income insurance – it provides periodic income payments to be the insured while he/she is unable to work as a result of sickness or injury. Coverage may be provided for disabilities resulting from accidents only for disabilities resulting from accidents or sickness. Disability insurance policies designated as either short or long term, depending on the period coverage is provided.