



FUNDAMENTALS OF INSURANCE

Robert I. Mehr

Second Edition

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ROBERT I. MEHR

University of Illinois
Urbana-Champaign

Second Edition
1986

IRWIN

Homewood, Illinois 60430

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ISBN 0-256-03357-9

Library of Congress Catalog Card No. 84-81125

Printed in the United States of America

4 5 6 7 8 9 0 V 3 2 1 0 9 8 7

DEDICATION

This book is dedicated to my academic progeny—the following group of graduate students who transformed my work at the University of Illinois from a daily routine to a delightful experience, enhancing my life immeasurably. Over the past 38 years we have challenged each other with open minds as both professor and student should in a community of scholars if minds are to expand and learning is to be intellectually enriching and enjoyable. I am proud of them all. Most of these students are now teaching at other universities and building academic families of their own. I wish for them as much happiness from their students as they have given to me.

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Melvin D. Williams

Jay A. Yager

Also included in this dedication are the graduate students who exchanged intellectual experiences with me at the universities where I have served as a visiting professor, both in the United States and abroad. These students are too numerous to mention by name.

A PREFATORY LETTER

Robert L. Mehr
101 W. Windsor Road Apt. 1102
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January 1986

Dear Reader:

Edward Gibbon in *The History of the Decline and Fall of the Roman Empire* observed that one Roman had 62,000 books and 22 acknowledged concubines. Seneca philosophized that "Since you cannot read all the books which you possess, it is enough to possess only as many as you can read." One purpose of this letter is to explain why this book is one you can read and thus one you should possess. As for concubines, I have no advice to offer and I am truly sorry.

Before giving you the reasons for possessing this book, I must tell you a story about its development. Originally the publishers asked for an essentials of insurance text. They wanted a short, simplified version of my *Principles of Insurance* text originally written with Professor Cammack. That book was born in 1952 and is now in its eighth edition (1985). So what happened to the essentials text? Really nothing, because I soon found that few people agree on what is essential.

After much agonizing over the issue, I decided that no one can determine what is essential *per se*. The answer seems to depend on the interests of students, teachers, and on course objectives. Fortunately for education, these interests do not have to coincide. This text has been designed with this thought in mind. The prenatal name *essentials* was changed to the broader given name *fundamentals* while retaining the family name *insurance*. Too bad you missed the christening ceremony—it would have done justice to royalty!

Now that we are on the subject of royalty, let's digress for a moment. James Boswell in *The Life of Samuel Johnson LL.D* said, "No man but a blockhead ever wrote except for money." Do you know that until 1709 authors had no legal right to a royalty on the sale of their books? The first statute in the world that gave them this right was an Act, Statute 8 Anne, c 19. Such writers as the university wits (Christopher Marlowe, George Peele, John Lyly, Thomas Lodge, Robert Greene and Thomas Nashe), Geoffrey Chaucer, and Francis Bacon all published before 1709. Would you call them blockheads?

In contrast to Boswell's curious statement, the possibility of royalties is not a consideration in the writing of this book. My goals are multifaceted, and all of them are for your benefit. Your desire to learn and the fulfillment of this desire are the rewards—two powerful forces.

Let's get back to the objectives of the text rather than my personal goals. Despite the abandonment of the proposed title, the objectives remain unaffected. The challenge is how to achieve them. I want to help you build a foun-

dation of insurance knowledge that you will find useful regardless of whether you are an undergraduate at an institution of higher learning or studying on your own. In this case *useful* means learning sufficient basic elements of the subject so that you can deal with insurance as buyers, sellers, concerned citizens, company employees, or regulators. To reach this goal requires a second objective: An *elementary* text that encompasses all concepts and practices that could be considered essential to any one of these interest groups.

So what is the challenge I face? Several insurance scholars reviewed the text as it developed, and they all wanted additional concepts discussed; rarely did they suggest deletions. When a deletion was suggested, it was usually a discussion that another reader wanted expanded. Yet, all wanted the size of the book reduced! Such is the life of an author. If I didn't enjoy writing so much, I would look upon it as George Orwell did in *England Your England*: "Writing a book is a horrible, exhausting struggle, like a long bout of some painful illness." Now if experts can't agree on what is essential, how can a beginning student make this determination? I have lived with this discipline so long that I think everything about it is essential. I know this is wrong, but if I had to make a selection, it would not be the same as your instructor's.

When you learn more about the subject, you will develop your own ideas about what is essential. So for most readers, this text will include some "non-essential" essentials. That is why the book is called *Fundamentals*. All that is essential is fundamental, but all that is fundamental is not essential. The important quality of the book is its breadth which makes it possible for you to learn about the concepts and practices that *you* find interesting, particularly as *you expand your interest in the subject*. Forcing people to learn what they do not want to know is as foolish as feeding them what they do not want to eat. Why feed people broccoli, for example, when the only good thing you can say about it is that it has no bones.

In writing about *Paradise Lost*, Samuel Johnson said, "it is a book that the reader admires and lays down, and forgets to take up again. Its perusal is a duty rather than a pleasure." I want this book to be a pleasure to read so that you can enjoy your learning experience. That is really the overriding objective.

As I have been writing in the basic principles field over 35 years, it is impossible to write a new book without some repetition of ideas from past writings. But this text has been structured with the appeal directed toward special interests, special likes, and special dislikes. Individuality, not standardization, is the theme. The book could be viewed as *A Variation on a Theme of Mehr, Cammack, and Rose*. However, it is written with a different emphasis and new concepts that further distinguish it as a separate book without plugging the slot reserved for the *Principles of Insurance* in the scheme of insurance education.

The recognition of the inequality of individuality is the principal means used to help this text meet its objectives. It is divided into eight parts, and each part includes two or more chapters. The chapters are divided into articles, sections, stanzas, and verses with the headings plainly marked. The parts are clearly described, the chapter objectives are stated, and the titles of the chapter

components are distinctly identified. Each part, chapter, and segment stands on its own. Entire parts, whole chapters, and parts of chapters can be skipped without interfering with the continuity of the text. For example, Part Five, employee benefit plans, can be eliminated or Chapter 18, Social Insurance, included in Part Five can be omitted. If some but not all of Chapter 17 (Retirement Plans) in Part Five is of interest, segments of that chapter can be ignored: the funding issue, taxation, and/or special types of retirement plans can be disregarded. If the emphasis is to be placed on personal insurance lines to the exclusion of business insurance coverages, most of Chapters 10, 11, and 12 can be eliminated. If an analysis of insurance company functions and operations is not a course objective, chapters 19 through 23 can be omitted. The book has been written and organized to cater to many appetites. In this regard, I think of myself as a cafeteria dietitian providing a wide selection of food for thought. No one is expected to select all items on display in a cafeteria on the first visit!

The text contains a number of innerscripts judiciously interspersed throughout the book. These innerscripts, akin to postscripts except for their location, are another technique used to permit selection because they can be skipped. They provide information that falls into one of three classes: interesting but not essential (frills), amusing but can be skipped (thrills), and too difficult for an elementary text (chills). The chapter summaries and questions also can be helpful in selecting subject matter of interest.

You will find Chapter 8 to be filled with details and at times *seemingly* dull. However, if you use this chapter for the purpose for which it is designed, you will find it exciting and useful. The objective of this chapter is to provide a full outline of the provisions of the 1984 edition of the Homeowners 3 policy as a learning aid in applying the techniques of policy analysis discussed in Chapters 6 and 7. You should make no attempt to remember all the provisions discussed. (I am sure that I do not remember all of them.) In answering questions about policy coverage, you should refer to the policy itself, which in this case is reproduced as appendix 3 of this text. The policy is more appropriate than the text for this purpose once you know the procedure for policy analysis and understand the many types of provisions that can affect coverage.

At the appropriate places throughout this book, reference is made to President Reagan's (1985) tax overhaul plan which affects insurance. While no one knows at this writing what action will be taken on the various proposals included in this plan, the expectation is that the proposal will not be adopted without some significant changes.

In this revised edition, I have made an effort to up-date the book thoroughly and to simplify the discussion where necessary. Thus, I believe this edition is a major improvement over the first edition as it should be. As Thomas Carlyle so aptly put it: "Today is not yesterday. We ourselves change. How then, can our works and thoughts, if they are always to be the fittest, continue always the same." Change will continue after this book is in press. "I do wish I could tell you my age," said the vain person "but it is impossible. It keeps changing all the time."

The extensive glossary at the end of the book was prepared by Irving Finston and should be helpful. Words included in the glossary are printed in bold-faced type. The use of the index with the glossary is helpful in locating the pages in the text where these concepts are discussed more fully, and thus could be of additional aid in selecting material for study.

Professor Sanford Halperin has prepared a student's manual for this text to help you learn, understand, and retain as much as you can from your assignment. The manual could be especially valuable at some later time if you need help in studying segments of the text that have not been assigned.

Let's chat a moment about the publisher. Sometimes authors regard publishers as scheming, deceitful tightwads. Thomas Campbell, a poet who clamored for the founding of London University, in toasting Napoleon at an authors' dinner said, "to Napoleon! I agree with you that Napoleon is a tyrant, a monster, the sworn foe of our nation. But, gentlemen—he once shot a publisher!" In *Summaries of Thought: "Authors,"* Christian Bovee wrote: "There is probably no hell for authors in the next world—they suffer so much from critics and publishers in this." We'll get back to critics, but as for publishers, the first edition of this book was among the first to be published by Richard D. Irwin, Inc., in 1983, its golden anniversary year. I am especially proud to have a book published by Dick Irwin during that important year for him. I suspect writers who criticize publishers have never had the pleasure of working with Richard D. Irwin. My relationship with Dick goes back nearly 35 years. "It is with publishers as with wives: one always wants somebody else's." Not me, I have the best of both!

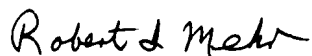
As for critics, some of the more complimentary remarks made about them are that they are legless people who teach running; they know the way but can't drive; they are people who seek to grow important at small expense; and they are hot, envious, noisy, proud and, furthermore, they waste paper. Some of the less complimentary remarks are unprintable, at least in this prefatory letter. But I like critics and welcome their comments when they are helpful. Everyone's work can be improved by the suggestions of competent critics. You are not only invited but urged to write me about any aspects of this text that you believe can make it more palatable.

I thank Mike Smith and a reviewer unknown to me for their valuable comments on the first edition of this book. Most of the comments were helpful. I am grateful to Irving Finston for preparing the glossary and to two students (Susan Wagner and John Sulga) who helped with the first edition. I also thank Sister Marie Golla for her help in typing the manuscript and for handling other technical matters relating to the manuscript. Finally, I thank my wife, Margaret, for her help in offering suggestions on many (it seems like all) aspects of this book and her tireless effort in proofreading. (She reads proofs like she reads the hundreds of catalogs that come our way, except in the catalogs she overlooks price! All that I owe, I owe *because* of my wife.) Seriously, we all owe this special person a great deal, for I could not have made it through this project without her dedication.

In closing, I believe you will agree that this book is handsome and beauti-

fully designed. It should be one you will want to keep not only for its practical value but for its beauty. No furniture is so charming as books, even if you never open them or read a single word." Perhaps you will want to redecorate your living room, with this book as the focal point on your coffee table. So take care of it.

Cordially,

A handwritten signature in black ink, reading "Robert I. Mehr". The script is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

Robert I. Mehr

CONTENTS

PART ONE

THE NATURE OF RISK AND INSURANCE AN INTRODUCTION

A Method of the Study
of Insurance

How to Proceed	4
The Burden of Financial Loss	5
Shifting the Burden by Law	5
Insurance and the Burden of Loss	6
The Insurance Business	6
The Insurer	7
Marketing (Distribution) Systems	7
The Insured	7
Innerscript: An Important Exception to Industry Usage	7
The Contract	8
Underwriting and Rating	9
Finance	9
Public Control	9
Fields of Insurance	10
Private Insurance	10
Government Insurance	11
Insurance and Society	12
Innerscript: Origins of Insurance	12
Social Values of Insurance	15
Innerscript: I-CAP	16
Social Costs of Insurance	17
Social Responsibility	18

2 Risk and Insurance	22
Basic Definitions	23
Chance of Loss	23
Definition of Risk	24
Innerscript: Loss Predictability	25
Innerscript: Risk and Uncertainty	27
Peril	27
Hazard	28
Loss	28
Risk and Risk Bearing	29
Social Cost of Risk	29

Methods of Handling Risk	30
Innerscript: Sinking Funds	33
Insurance as a Device for Handling Risk	37
Definition of Insurance	37
Indemnity	38
The Law of Large Numbers	38
Criteria of an Insurable Exposure	40
Appendix: The Law of Large Numbers and Insurance	44

PART TWO

RISK MANAGEMENT AND RISK ANALYSIS

3 Risk Management and Risk Analysis: Life and Property Exposures	52
Managing Risk	53
Types of Risks	53
Objectives of Risk Management	54
The Risk Management Process	54
Achieving the Risk Management Goal	55
The Risk Manager's Functions in Buying and Administering Insurance	57
Risk Analysis: Life and Property Exposures	58
Life and Health Exposures for the Family	58
Final Expenses	58
Adjustment Income	58
Mortgage or Rent Fund	59
Family Period Income	59
Life Income for the Surviving Spouse	59
Education Fund	60
Emergency Fund	60
Medical Expenses	60
Retirement Income	60
Life and Health Exposures for the Business Firm	61

Loss of Key Employees	61	Declarations	97
Loss of Owner	61	The Binder	97
The Employee Benefit Plan Exposure	64	Essential Elements of an Insurance Contract	98
Property Exposures for the Family	64	Agreement—Offer and Acceptance	98
Loss of the Property Itself	64	Competent Parties	100
Loss of Use and Extra Expense	65	Legal Purpose	101
Property Exposures for the Business		Consideration	101
Firm	65	Characteristics of the Insurance Contract	101
Loss of Property	65	Aleatory Contract	102
Loss of Use and Extra Expense	65	Contract of Adhesion	102
4. Risk Analysis: Liability Exposures	68	Innerscript: Having It Both Ways through Ambiguity	103
The Nature of Law	69	Unilateral Contract	104
Sources of the Law	70	Conditional Contract	104
Innerscript: Locating the Applicable Law	70	Utmost Good Faith	104
Classifications of the Law	71	Innerscript: Doctrines of Informal Warranties and Beneficial Interpretation	106
Legal Liability	71	Innerscript: Application of the Law	109
Torts	73	Personal Contract	109
Innerscript: The Reasonable Man	76	Principle of Indemnity	109
Liability Arising from Negligence	78	Innerscript: Borderline Cases	112
Essential Elements of a Negligent Act	78	Innerscript: Subrogation Clauses	113
Innerscript: Standard of Care Owed by Owners and Tenants	79	Agents and Brokers	114
Innerscript: <i>Sine Qua Non</i> and Proximate Cause	82	Creation of an Agency Relationship	114
Defenses in a Negligence Action	83	The Power and Authority of the Agent	115
Statutory Modifications of the Common Law of Negligence	85	Responsibility of Principles	115
Liability Imposed by Contract	86	Brokers as Agents	116
Liability Assumed under Contract	87	Remedies	116
Breach of an Implied Warranty	87	Waiver and Estoppel	117
Dual Liability Exposures: Torts and Contracts	87	Innerscript: Between a Rock and a Hard Place	119
Products Liability	87	Rescission	120
Professional Liability	88	Reformation	120
Examples of Tort Liability Hazards	88	6. How to Read a Policy—Some Directions	124
Personal Liability Exposures	89	Innerscript: Sympathy Clause	126
Business Liability Exposures	89	The Insurance Policy	126
		The Policy Form	126
PART THREE		A Procedure for Analyzing Insurance Coverage	127
THE INSURANCE CONTRACT AND ITS INTERPRETATION	93	Defining the Perils Covered	128
5. The Insurance Contract	94	Specified Perils and All-Risk (or Open Perils) Contracts	129
The Insurance Contract Defined	95	Interpreting the Peril	129
The Formation of the Contract	96	Limitations on the Peril	130
The Application	96		

The Doctrine of Proximate Cause	130	Limitation	156
Defining the Property Covered	131	Innerscript: Replacement Cost Insurance	157
Defining the Losses Covered	132	Policy Face or Limits	159
Defining the Persons Covered	132	Types of Policy Limits	159
Innerscript: Assignment	133	Restoration and Nonreduction of Amounts of Insurance	160
Defining the Locations Covered	133	Other Insurance	161
Defining the Time of Coverage	134	Types of Other-Insurance Clauses	161
Term of the Policy	134	Coinurance	164
Hour of Inception	134	Innerscript: Theory behind Coinurance	165
Effect of Policy Period	135	Deductible Clauses	167
Cancellation	135	Types of Deductibles	167
Defining the Hazards That Suspend or Exclude Coverage	136	Innerscript: Some Special Types of Deductible Clauses	169
The Policyowner's Duties after a Loss	137		
Notice of Loss	137	8. An Analysis of the Homeowners Policy	172
Protection of Property	138	The Homeowners Series	173
Inventory	139	Innerscript: The Pristine HO Forms "Readable Forms"	174
Evidence	139	1982 and 1984 Revisions	175
Proof of Loss	140	Innerscript: A Brief Introduction to the HO 76 Series	176
Innerscript: Some Variations among Proof-of-Loss Clauses	141	Summary Table of HO 76 Series	178
Assistance and Cooperation	142	Homeowners Series Endorsements	178
Appraisal	143	Innerscript: Insurance for Mobile Homes	180
Settlement Options	143	Policies for Analyses	181
Replacement Option	143	Analysis of the HO-3 Policy	181
Abandonment and Salvage	144	Defining the Perils Covered by the HO-3	182
Pair or Set	144	Perils Excluded under Coverages A and B	182
Settlement Options in Life Insurance	144	Coverage C Perils	184
Settlement Options in Health Insurance	145	Innerscript: The HO-15 Endorsement	186
Relations with Third Parties	145	Coverage E and F Perils	188
Time Limit for Bringing Suits	145		
Innerscript: Physical Damage and Liability Policies	145	9. An Analysis of the Personal Auto Policy	214
Time Limit for Paying Claims	146	Defining the Perils Covered	215
Innerscript: Some Other Loss Settlement and Protection	146	Interpreting the Perils	216
		Defining the Property Covered	218
7. Further Directions for Reading a Policy	152	Defining the Types of Losses Covered	220
Amount of Insurable Interest	153	Defining the Person Covered	220
Actual Cash Value	153		
Innerscript: Replacement Cost Refined	154		
Actual Cash Value and Liability Insurance	155		
Actual Cash Value in Life and Health Insurance	156		
Exceptions to the Actual Cash Value			

Innerscript: No-Benefit-to-Bailee Clause	222	Consequential Loss to Coverage C Property	192
Determining the Locations Covered	222	Losses Covered under Coverage D	192
Defining the Period of Coverage	223	Losses Covered by Section I Additional Coverages	193
Defining the Hazards That Exclude or Suspend Coverage	224	Losses Covered under Section II	194
Innerscript: Some Borderline Claims Questions	224	Defining the Persons Covered	195
Limitations on the Amount of Recovery	226	The Interest Rate Risk	196
The Policyowner's Duties after a Loss	227	Innerscript: How the Mortgage Clause Works	196
Settlement Options	227	Other Excluded and Covered Persons	197
Innerscript: An Emerging Development for Total Losses	227	Special Provisions Applicable to Persons Covered under Section II	197
Time Limits: Suits and Claims Payment	228	Innerscript: Assignments	198
Variations Among the PAP, FAP, and SAP	229	Defining the Locations Covered	198
Innerscript: Some PAP Endorsements	229	Defining the Period of Coverage	199
		Defining the Hazards That Exclude or Suspend Coverage	200
		Moral Hazard Exclusions	201
		Section II Hazard Exclusions	201
		Limitations on the Amount of Recovery	203
		The Policyowner's Duties after a Loss	205
		Settlement Options	207
		Time Limits: Suits and Claims Payment	208
Fire Insurance Coverage	237	Appraisal Clause	209
Innerscript: Background on Fire Insurers	238	Other HO-3 Policy Conditions	209
The Standard Fire Insurance Policy	238	Forms Covering Additional Losses	249
Analysis of the Standard Fire Policy	239	Innerscript: Demolition Insurance	250
Forms Used with the Standard Fire Policy	240	Allied Lines	253
Forms Providing Personal Coverages	240	Differences in Conditions Insurance	254
Forms Providing Commercial Coverages	244	Tailored Forms	255
Forms Increasing Perils Covered	247	Innerscript: Availability of Insurance at Affordable Prices	255
Defining the Property Covered	189	Marine Insurance Coverage	258
Property Covered under Coverage B	189	Ocean Marine Insurance	259
Property Covered under Coverage C	190	Classification of Policies	259
Property Covered under Section 1, Additional Coverages	190	The Ocean Marine Policy	261
Property Covered under Section II Coverages E and F	191	Inland Marine Insurance	263
Property Covered under Section II, Additional Coverages	191	Domestic Shipments	263
Defining the Types of Losses Covered	192	Instrumentalities of Transportation and Communication	265
		Property Floater Policies	265
		Bailee Forms	267
		Yacht and Motorboat Insurance	267

11. Liability Coverages	273	Insurance	318
Liability Insurance Policies	273	Title Insurance	318
General Liability Program	273	Innerscript: Municipal Bond Insurance Association (MBIA) and Mutual Fund Insurance	319
Personal Liability Forms	274	Aviation Insurance	320
Professional Liability Forms	274	Multiple-Line Insurance	320
Basic Business Liability Forms	275	Multiple-Line Programs	320
Innerscript: ISO's New Commercial General Liability Program	277	Special Multiperil Program	320
Endorsements and Separate Policies	278	Businessowners Program	322
Innerscript: Coverages in Broad Form CGL Endorsement	281		
Automobile Liability	283		
Personal Auto Insurance	283		
Innerscript: Auto Rating	284		
Business Auto Insurance	285		
Compensating Victims of Automobile Accidents	287		
Workers' Compensation and Employers' Liability	290	Broad Classifications of Life Insurance Policies	330
Historical Development	290	Policy Dividends	330
Organization of the U.S. Workers' Compensation Program	292	Life Insurance Cash Values	330
Workers' Compensation Insurance Policies	293	Innerscript: The Divided Contract Explanation of Cash Value Life Insurance	333
Second Injury Funds	294	Types of Life Insurance	334
Direction of Workers' Compensation Laws	294	Term Insurance	334
		Endowment Insurance	336
		Whole Life Insurance	336
		Universal Life Insurance	339
		Special Purpose Policies	344
12. Crime, Surety, Miscellaneous, and Multiple-Line Coverages	300	The Family Income Policy	345
Crime Coverages	301	The Family Maintenance Policy	345
Crime Coverages for Individuals	301	Multiple-Protection Policies	345
Crime Coverages for Business	302	Mortgage Protection Policies	345
Federal Crime Program	306	The Family Policy	346
Bonding	307	Joint Life Policy	347
The Nature of Bonding	307	Preferred Risk	347
Fidelity Bond Coverages	307	Variable Life Insurance	347
Innerscript: Computer Crimes	310	The Adjustable Life Policy	348
Innerscript: Additional 3D Coverages and the Advantages of the 3D	312	Indeterminate Premium Policies	349
Surety Bond Coverages	313	Index Linked Policies	349
Miscellaneous Coverages	315	Deposit Term	349
Comprehensive Glass Insurance	315	Other Special Policies	350
Boiler and Machinery Insurance	315	Classes of Life Insurance	350
Credit Insurance	317	Ordinary Life Insurance	350
Accounts Receivable Insurance	318	Industrial Life Insurance	350
Valuable Papers and Records		Group Life Insurance	351
		Life Insurance Riders	351
		Guaranteed Insurability Agreements	351

	Disability Income Rider	351	Comparing Health Insurance	
	Accidental Death Rider	352	Policies	392
	Waiver of Premium	352	Use of the Guideposts	398
	Payor Benefit Rider	352	Innerscript: Recent Trends	
	Cost-of-Living Rider	352	in Health Insurance	398
Annuities		353		
	The Annuity Principle	353		
	Classification of Annuities	353		
	Special Annuity Policies	357		
Innerscript: Recent Trends			EMPLOYEE BENEFIT PLANS:	
in Life Insurance		360	PUBLIC AND PRIVATE	403
14. The Life Insurance Contract		366		
	Decisions by the Policyowner	367	16. Employee Benefit Plans:	
	Beneficiary Designations	367	Group Life, Group Health,	
	Ownership	368	and Other Group	
	Policy Options	368	Insurance Plans	404
	Other Policy Provisions	371	Reasons for Using Employee	
	Provisions Required by State Law	371	Benefit Plans	406
	Permissible Provisions	374	Group Insurance	406
	Other General Provisions	375	Distinguishing Features of Group	
	Third Party Rights in Life		Insurance	407
	Insurance	375	Group Insurance Principles	409
	Innerscript: Creditors' Rights		Group Life Insurance	410
	in Life Insurance Examined	376	Eligible Groups	410
			Benefit Levels	411
15. Health Insurance		380	Limits on Insurance Provided	412
	Types of Health Insurance		Standard Provisions for Group Life	
	Coverages	382	Policies	412
	Nature of the Peril	383	Types of Group Life Insurance	
	Type of Losses Covered	383	Coverage	414
	Individual versus Group Health		Innerscript: Regulations	
	Insurance	384	Applicable to Group	
	Basis of Loss Payments	384	Ordinary	416
	Breadth-of-Benefit Provisions	385	Innerscript: Rationale	
	Underwriting Standards	386	and Reaction to SIBI	
	The Health Insurance Contract	387	Plans	417
	Analysis of Health Insurance		Group Health Insurance	419
	Coverage	388	Eligible Groups	420
	Perils	388	Standard Provisions for Group	
	Losses	388	Health Insurance	421
	Persons	389	Group Health and Individual	
	Where	389	Health Contracts	421
	When	389	Types of Coverages	422
	Hazards Excluded	389	Franchise (Wholesale) Health	
	Amounts	390	Insurance	422
	Guideposts for Buying Health		Blanket Health Policies	422
	Insurance	392	Group Credit Health Insurance	422
	Points to Consider When		Cost of Group Health Insurance	423
			Decisions in Establishing Employee	

Benefit Plans: Group Life and Health	423	Fiduciary Responsibilities	468
Contributory or Noncontributory	424	Disclosure	469
Specifying Coverages for Life and Health Benefit Plans	425	Special Retirement Plans	469
Methods of Funding Benefits	431	Individual Retirement Account (IRA)	469
Innerscript: VEBA and the Tax Reform Act of 1984	433	Qualified Plans for Owners of Unincorporated Businesses	470
Other Employee Benefit Plans	434	Section 403(b) Plans	470
Group Property and Liability Insurance	435	Section 401(k) Plan	471
Prepaid Legal Insurance	437	Employee Stock Ownership Plans	473
		Innerscript: Additional Government Regulations	474
17. Employee Benefit Plans:		18. Social Insurance	482
Retirement Plans	442	The Nature of the Social Insurance System	483
Funding Issues	443	Definition of Social Insurance	483
The Concept of a Fully Funded Plan	444	Kinds of Social Insurance in the United States	484
Defined Benefit versus Defined Contribution Plans	444	Innerscript: The Need for Social Insurance	484
Target Benefit Plans	446	Old-Age, Survivors, Disability, and Health Insurance (OASDHI)	485
Innerscript: Funding Standards—Variances and Exceptions	447	Innerscript: Public Assistance Programs	485
Actuarial Cost Assumptions	448	The Insurance Coverage	486
Interest Rates	449	Analyzing OASDI Coverage	487
Termination Rates	449	Taxes on OASDI Monthly Benefits	501
Retirement Rates	449	Analyzing Medicare Benefits	502
Salary Rates	450	The Social Security Leviathan	506
Actuarial Cost Methods	450	Social Security and Politics—Siamese Twins	506
Accrued Benefit Cost Method	450	Brief History of the Social Security System	507
Projected Benefit Cost Method	451	Current Financial Status of the Social Security System	508
Advantages of Funding	453	Reasons for Problems	508
Funding Agencies and Funding Instruments	453	Unemployment Compensation	510
Trust Fund Plans	453	Coverage Provisions	511
Insured Plans	454	Benefits	511
Split-Funded Plans	456	Eligibility for Benefits	512
Basic Decisions in Establishing Retirement Plans	456	Financing	513
Eligibility for Coverage	457	Temporary Disability Income Benefit Plans	513
Eligibility for Benefits	457	Finance	514
Benefit Levels	458	Eligibility	514
Types of Benefits	462	Benefits	514
Benefit Funding	465	The Future of Temporary	
Innerscript: Income Taxation of Benefits—Qualified Pension and Profit-Sharing Plans	465		
Termination of Plans	467		
Plan Termination Insurance	467		

Disability Laws	516	Functional Departments	548
National Health Insurance (NHI)	516	Marketing Insurance Company	
Basic Principles for a NHI Plan	516	Products	549
Three Basic NHI Proposals	517	Sales Organizations	549
Solutions	518	Producers	552
Worker's Compensation	518	Claims Administration	554
		The Mechanics of Loss Adjustment	554
		Difficulties Encountered	
		by the Adjuster	556
		Examples of Loss Adjustment	
		Problems	556
		Loss Control	558
		Cooperative Efforts of Insurers	
		in Loss Control	558
		Individual Efforts of Insurers	
		in Loss Control	559
		Loss Control and the Firm	560
		Cooperative Organizations	560
		Why Cooperate?	560
		Rate-Making Organizations	561
		Other Association Functions	562
		Company Fleets	562
A Preview	525	21. Underwriting and Pricing	
Motives for Formation	525	Insurance	566
Similarities and Differences	526	Underwriting Insurance	567
Innerscript: The Future in Life		Select or Be Selected against	567
Insurance Belongs to the		Profitable Distribution of Exposures	568
Proprietary Life Insurance		Who Is the Underwriter?	568
Companies	526	The Agent as Underwriter	569
Unincorporated Proprietary		Insurer Underwriting Departments	569
Insurers	527	The Computer as Underwriter	569
Lloyd's of London	527	The Underwriting Process	570
Innerscript: Lloyd's of London:		Preselection	570
Defense Insurance against		Postselection	572
a Takeover Battle	531	Retention	573
American Lloyds	532	Line Limits in Life Insurance	573
Incorporated Proprietary Insurers	533	Life Limits in Property	
Consumer-Type Cooperative		and Liability Insurance	573
Insurers	534	Reinsurance	574
Reciprocal Insurance Exchanges	534	Types of Reinsurance	574
Mutual Companies	536	Proportional and Nonproportional	
Producers' Cooperatives	539	Reinsurance	574
Medical and Hospital Service Plans	540	Arrangements Unique to Life	
Health Maintenance Organizations	540	Insurance	575
Governmental Insurers	541	Reasons for Reinsurance	577
Federal Insurers	541	Special Problems of Underwriting	577
State Insurers	542	Moral Hazard	577
Special Contributions of		Conflict between Underwriting	
Governmental Insurers	542	and Production	578
Management Organization	547		
Departmentalization	547		