PRODUCT OUTLINES

Individual “Comprehensive Life” and
“Economatic Life” Type Products
(Last Updated 12/10/01)

Contents

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Economatic Life and Comprehensive Life are product designs rather than product types. We have seen numerous variations of these product designs over the years and the following guidelines are not intended to address every variation we have seen to date or expect to see in the future. Please note that the unfair, unjust and inequitable standards of Section 3201 would always be applicable to every submission.

I) Filing Process

A) General Information

1) Identify in the body of the submission letter any policy or rider that will be used in either a "Comprehensive Life" or "Economatic Life" type situation.
2) When an Economatic Life or Comprehensive Life type rider is being submitted, identify in the body of the submission letter by form number and approval date the policies that will be used in conjunction with the rider. Also include a brief description of the base policy, i.e., Whole Life, Life Paid Up at Age 85, etc…
3) When submitting just a paid-up additions rider or a term life rider that could be used in combination with each other or another previously approved paid-up additions rider or term rider in a "Comprehensive Life" or "Economatic Life" situation, this must be identified in the body of the submission letter.
4) If the base policy form is being submitted for approval, please refer to the applicable product outline depending on the type of . The applicable product outline will provide the general filing requirements as well as the necessary requirements for the base policy.

II) Product Design Definitions

A) "Comprehensive Life" Definition

1) A permanent plan of insurance that consists of a cash value policy, a term insurance component and a paid-up additions component or a similar variable life insurance benefit designed to provide for replacement of the term insurance component by the crediting of dividends or additional amounts which purchase paid-up life insurance or similar variable life insurance benefits. Section 42.4(d) of Regulation 149.

B) Economatic Life Definition

1) A permanent plan of insurance as described above in Section II(A)(1) for which the ratio between the term insurance component and the base cash value component is no greater than one to one and the term component will be replaced by paid-up additions no later than the mid-way point of the premium paying period of the policy based upon the dividend scale existing at the time of sale or such other point in the premium paying period approved by the Superintendent. Section 42.4(e) of Regulation 149.

III) Product Design Guidelines

A) "Economatic Life"

1) There can be no more than a one to one ratio between the amount of term coverage and the basic whole life coverage at time of issue. Section 42.4(e) of Regulation 149.

2) The term component must be replaced by the paid-up additions no later than the mid-way point of the premium paying period of the whole life policy based upon the Company's dividend scale existing at the time of issue or such other point in the premium paying period approved by the Superintendent. Section 42.4(e) of Regulation 149.

3) The age 80 limitation on the continuation of term insurance coverage component is not applicable to "Economatic Life" product designs. Section 42.4(e) of Regulation 149.

4) With the exception of the age 80 limitation, the guidelines for "Comprehensive Life" as set forth in Section III (B) below also apply to "Economatic Life".

B) "Comprehensive Life"

1) Paid-Up Additions Component

(a) It is expected under the Comprehensive Life type design that dividends will be sufficient so that paid-up additions can replace the term insurance coverage and provide permanent coverage. <u>Caution</u>: Dividends "cannot" be guaranteed. There is always the possibility of a shortfall in the dividend scale.

(b) Paid-up additions can be purchased by the dividends payable under the "Comprehensive Life" rider, a separate paid-up additions rider and/or the base policy. These are known as "inside additions". Paid-up additions can also be purchased by out-of-pocket payments from the policyholder. These are known as "outside additions".

(c) If a paid-up additions rider is used in conjunction with a term rider, any limitation on the amount of paid-up additions that can be purchased without evidence of insurability should not be applicable to the situation where the policyholder is purchasing paid-up additions in order to maintain the whole life plan of coverage for the full target amount purchased. Section 3201(c)(2).

(d) A stipulated premium Paid-Up Additions rider must have a separate reinstatement provision so that it can be placed back in force on its own to allow the policyholder to maintain the whole life plan of coverage for the full Target Amount of coverage that was purchased. Section 3201(c)(2).

(e) If the paid-up additions dividend option must be elected under the base policy and/or if the "Comprehensive Life" rider will terminate if the dividend option is changed to another option this must be disclosed in the Comprehensive Life policy or rider. Section 3203(a)(4).

(f) If adjustments to the Target Amount, i.e., reductions in the target amount by the face amount of any paid-up insurance which was surrendered during the prior year for any reason other than to pay for term insurance under the rider or to pay premiums for the policy are permitted, then this must be disclosed in the Comprehensive Life policy or rider. If increases to the Target Amount based on the policyholder's request and subject to evidence of insurability are permitted, then this must be disclosed in the Comprehensive Life policy or rider. Section 3201(c)(2) and Section 3203(a)(4)..

2) Term Insurance Component

(a) The term insurance component may be continued after age 80 only on a level premium decreasing death benefit basis. (Section 42.4(d) of Regulation 149).

(b) The age 80 limitation shall not apply to a joint life last to die policy if the term insurance component will be paid up at age 100 based on a dividend scale interest rate two percent lower than the rate at the time of the sale of the policy or such other rate approved by the Superintendent. (Section 42.4(c) of Regulation 149).

(c) Term insurance may be paid for by out of pocket premiums, dividends, dividends standing to the credit of the base policy, the cash value of paid-up additions or the cash value of the policy.

(d) Maximum guaranteed term rates must be shown in the policy whether term premiums are paid out of pocket or not. Sections 4231(g)(1)(D) and 3203(a)(4).

(e) The term component is subject to the Individual Term Insurance Outline.

3) Other Requirements

(a) The methodology (including the sequence) of the purchase of paid-up and term components must be described in the rider or policy. Section 3203(a)(4).

(b) The description of the methodology must include a description of the procedures that will be followed (e.g., surrender of paid-up additions and/or reduction in term component) when the dividends and any scheduled out of pocket premiums are not sufficient to cover the term costs for a given year. Section 3203(a)(4).

IV) Specification Page

1) Separately identify the benefit and premium amounts for each of the three components, i.e., the base policy, the paid-up additions component and the term component. Section 3201(c)(2).
2) Identify the “Target Amount” (or other applicable terminology) of total coverage that is being purchased. Section 3201(c)(2).
3) Disclose any expense charges (e.g., percent of premium front load) for paid-up additions or term components. Section 3201(c)(2) No such charges are permitted for amounts purchased using dividends. Section 4221(d).

V) Sales Illustrations

1) All sales illustrations for Comprehensive Life situations and Economatic Life situations must be in compliance with the requirements of Regulation 74 (11 NYCRR 53). In particular please note that the New York regulation differs from the NAIC model act with respect to Section 53-3.3(g) which requires that the numeric summary for these situations, in addition to the policy durations required by Section 53-3.3(c), must show the durations at ages 85 and 90 of the insured.
2) No scheduled decrease in expense charges (e.g., front loads for out of pocket paid-up additions) may be illustrated unless it is guaranteed. Section 53-3.2(d) of Regulation 74.
3) For products which provide for dividend recognition, the sales illustrations should indicate that loans will affect the amount of dividends since dividends are a key factor in how the product will operate to stay on target.
4) Specimen illustrations with numerically correct values must be available upon request.

VI) Annual Report

1) The annual report for Comprehensive Life and Economatic Life situations must be in compliance with the requirements of Section 53-3.6 of Regulation 74.

VII) Waiver of Premium Benefit

1) If a waiver of premium benefit rider is offered, the rider must waive for any stipulated premium paid-up additions rider not only the premium necessary to keep the base policy in force but any out of pocket premiums that are being paid to maintain the target amount of coverage. If the paid-up additions rider provides for flexible payments where the policyholder can choose to increase coverage, then the out of pocket premiums need not be waived. Section 3201(c)(2).