NEW YORK STATE
DEPARTMENT of
FINANCIAL SERVICES

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Individual Economatic Life Product Outline
(Formerly referred to as "Comprehensive Life" and "Economatic Life" Type Products)
(Last Updated September 27, 2012)

Table of Contents

I) Scope 1
II) Filing Process and General Information 1
III) Definitions 2
IV) Economatic Life Components 2
V) Specification Page 3
VI) Sales Illustrations 3
VII) Waiver of Premium Benefit 4

Product Outline: Individual Economatic Life (formerly "Comprehensive Life" and "Economatic Life") Type Products (Last Updated September 27, 2012)

This outline is current as of September 27, 2012. Subsequent changes to statutes, regulations, circular letters, etc., may not be reflected in this outline. In case of any doubt, please contact the Life Bureau.

All citations herein are to the New York State Insurance Law unless otherwise stated.

I) Scope

This outline replaces the Individual "Comprehensive Life" and "Economatic Life" Type Products outline last updated 12/10/01.

Economatic Life is a product design rather than a product type. A typical design consists of a participating whole life policy, a term insurance benefit and a paid-up additions benefit provided in the base policy or by rider. This type of product design generally uses the phrase "target death benefit" or a similar phrase which is the total amount of coverage provided pursuant to the operation of the above mentioned three components. The face amount of the participating whole life policy is less than the target death benefit, with the difference made up by the purchase of paid-up additions and term insurance in such proportions that the total amount of coverage is intended to remain equal to or greater than the target death benefit, as defined in Section III.B below. As the amount of term insurance decreases, the paid-up additions amount will increase to provide the extra amount of protection. Under this approach, it is anticipated that the paid-up additions will be sufficient to require no further purchase of term insurance at some future point in time. The product design places an emphasis on the lowest possible premium outlay by the consumer based on the expectation that dividends will be sufficient to purchase permanent coverage to replace the term component. Since dividends cannot be guaranteed there is always the possibility of a shortfall in meeting the target death benefit due to the current dividend scale.

A product using this design may be referred to as economatic life, comprehensive life, blended whole life and term life, or enhanced ordinary life. Please note that the unfair, unjust and inequitable standards of Section 3201 apply to every submission.

II) Filing Process and General Information

II.A) The submission letter must identify the design as economatic life and must identify each policy or rider that will be used in this product design. If any form to be used in this design has been previously approved, please provide the form number, Department file number, and approval date.

II.B) Please refer to the whole life and term life product outlines for guidance. The applicable product outline will provide the general filing and submission requirements as well as the substantive requirements.

Note: If the policy form does not comply with a specific product outline provision or the company has an alternate interpretation of an outline provision, the submission letter must identify the provision and provide a complete explanation of the insurer's position on the issue.

Such submissions may not be submitted through the Circular Letter 6 (2004) certified process unless the Department has given permission.

III) Definitions

III.A) Paid-Up Additions: Additional insurance purchased by the policyholder. Paid-up additions can be one of two types:

1) Inside Additions: Paid-up additions purchased by the dividends payable under a separate paid-up additions rider and/or the base policy; or

2) Outside Additions: Paid-up additions purchased by the policyholder using funds other than dividends.

III.B) Target Death Benefit: The total amount of insurance coverage elected by the owner consisting of a combination of a participating whole life policy, term insurance, and paid-up additions.

IV) Economatic Life Components

IV.A) Whole Life Component

Dividends must be labeled as non-guaranteed.

IV.B) Term Insurance Component

B.1) Term insurance may be purchased by premiums, dividends, the cash value of paid-up additions, or the cash value of the policy.

B.2) Maximum guaranteed premium rates must be shown in the policy. Sections 4231(g)(1)(D) and 3203(a)(4).

IV.C) Paid-Up Additions Component

C.1) Evidence of insurability shall not be required when the policyholder is purchasing paid-up additions in order to maintain the target death benefit. Section 3201(c)(2).

C.2) A stipulated premium paid-up additions rider must have its own reinstatement provision so that it can be placed back in force to allow the policyholder to maintain coverage for the target death benefit purchased. Section 3201(c)(2). Evidence of insurability may be required.

C.3) If the paid-up additions dividend option must be elected under the whole life policy and/or if the paid-up additions rider will terminate if the dividend option is changed to another option this must be disclosed in the whole life policy or rider. Section 3203(a)(4).

C.4) If adjustments to the target death benefit are permitted, this must be disclosed in the policy or rider. Sections 3201(c)(2) and 3203(a)(4).

C.5) Maximum guaranteed premium rates must be shown in the policy or rider. There must be statements and tables for the paid-up additions which satisfy the requirements of Section 4221(a)(5).

IV.D) Procedure

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

V) Specification Page

V.A) 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).

V.B) Identify the target death benefit, or other applicable terminology of total coverage, that is being purchased. Section 3201(c)(2).

V.C) Disclose any expense charges (e.g., percent of premium front load) for paid-up additions or term components. Section 3201(c)(2). No expense charges are permitted for amounts purchased using dividends. Section 4221(d).

VI) Sales Illustrations

All sales illustrations for Economatic Life products must comply with the requirements of Regulation 74 (11 NYCRR 53).

Note: The requirements of Regulation 74 differ from the NAIC model for the numeric summary in that policy durations at age 85 and 90 of the insured must be shown.

VI.A) A basic illustration shall include a numeric summary of the death benefits and values and the premium outlay and contract premium, as applicable. For a policy that provides for a contract premium, the guaranteed death benefits and values shall be based on the contract premium. This summary shall be shown for at least policy years 5, 10, and 20 as well as ages 70, 85 and 90 if applicable, on the three bases shown below. For multiple life policies the summary shall show policy years 5, 10, 20, and 30 as well as ages 85 and 90. The three bases are as follows:

(i) policy guarantees;

(ii) insurer's illustrated scale;

(iii) insurer's illustrated scale used but with the non-guaranteed elements reduced as follows:

(a) dividends at 50 percent of the dividends contained in the illustrated scale used;

(b) non-guaranteed credited interest at rates that are the average of the guaranteed rates and the rates contained in the illustrated scale used; and

(c) all non-guaranteed charges, including but not limited to, term insurance charges, mortality and expense charges, at rates that are the average of the guaranteed rates and the rates contained in the illustrated scale used; and

(d) if coverage would cease prior to policy maturity or age 100, the year in which coverage ceases shall be identified for each of the three bases.

Sections 53-3.3(c) and 53-3.3(g) of Regulation 74.

VI.B) 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.

VI.C) For products which take into consideration outstanding policy loans in the calculation of dividends, the sales illustrations must indicate that loans will affect the amount of dividends.

VI.D) Specimen illustrations with numerically correct values must be available upon request.

VI.E) The annual report must be in compliance with Section 53-3.6 of Regulation 74.

VII) <u>Waiver of Premium Benefit</u>

VII.A) For any waiver of premium benefit rider, the rider must waive any premium necessary to maintain the target death benefit.

VII.B) If the paid-up additions rider provides for flexible premium payments then the waiver of premium benefit rider need not waive premiums paid at the discretion of the policyholder to increase coverage. Section 3201(c)(2).