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IIPRC-L-06-I

INDIVIDUAL FLEXIBLE PREMIUM VARIABLE ADJUSTABLE LIFE INSURANCE POLICY STANDARDS

1. Date Adopted: August 25, 2016
2. Purpose and Scope: The purpose of this rule is to establish reasonable uniform standards for Individual Flexible Premium Variable Adjustable Life products filed with the Interstate Insurance Product Regulation Commission (“Commission”). A Flexible Premium Variable Adjustable Life policy allows the owner to vary the amount and/or timing of premium payments and may allow the owner to adjust the amount of insurance. The policy provides for an optionally paid “planned” premium selected by the owner, and may provide more than one death benefit option (for example, the Specified Amount, the Specified Amount plus Account Value and the Specified Amount plus Return of Premium). The policy operates with a monthly deduction (which includes the cost of insurance and other charges) being deducted from the account value of the policy. Monthly deductions continue until the value is insufficient to cover the current monthly deduction due. The policy then terminates, subject to a grace period of at least 60 days. These standards apply to policies that provide for benefits and values to vary in relation to the performance of an underlying separate account. These policies usually also allow for a general account or general account option, where money is deposited in the general account of the company and guaranteed to accumulate at specified interest rates.
3. Rules Repealed, Amended or Suspended by the Rule: This rule amends the Individual Flexible Premium Variable Adjustable Life Insurance Policy Standards originally adopted by the IIPRC on December 8, 2006 and amended on August 27, 2008 and August 15, 2014.

The rule was amended for the purpose of clarifying the war exclusion provision of Section 3 Policy Provisions by deleting Subsection (1)(a)(ii) of the war exclusion provision. The purpose of the amendment is to eliminate confusion and further clarify that the Uniform Standards do not permit life insurance policies to contain a death benefit exclusion for known members of the military that die as a result of any act related to military service. Additionally, the term “United States” is added to Subsection (1)(a)(i) to clarify that this prohibition on war exclusions applies to members of the United States military, military reserves or the National Guard and not members of the military of another nation.

4. Statutory Authority: Among the IIPRC’s primary purposes and powers is to establish reasonable uniform standards for insurance products covered under the Interstate Insurance Product Regulation Compact (“Compact”), specifically pursuant to Article I §2, Article IV § 2 and Article VII § 1 of the Compact, as enacted into law by each IIPRC member state.
5. Required Findings: None
6. Effective Date: December 5, 2016

**INDIVIDUAL FLEXIBLE PREMIUM VARIABLE ADJUSTABLE LIFE INSURANCE
POLICY STANDARDS**

Table of Contents

<u>Provision/Section</u>	<u>Page</u>
SCOPE	1
§ 1 ADDITIONAL SUBMISSION REQUIREMENTS	2
A. General	2
B. Actuarial Submission Requirements	3
C. Variability of Information	4
D. Readability Requirements	6
§ 2 GENERAL FORM REQUIREMENTS	6
A. Cover Page	6
B. Specifications Page	7
C. Fairness	8
§ 3 POLICY PROVISIONS	8
A. Amendments	8
B. Arbitration	8
C. Assignment	9
D. Beneficiary	9
E. Conformity with Interstate Insurance Product Regulation Commission Standards	9
F. Conversion	10
G. Death Benefit Proceeds	10
H. Deferral and Valuation of Payments	11
I. Dependent and Family Member Coverage	12
J. Entire Contract	12
K. Exclusions	12
L. Grace Period	14
M. Incontestability	14
N. Juvenile Insureds-Smoker/Nonsmoker Mortality Tables	15
O. Legal Action	16
P. Loans	16
Q. Maturity Date Extension	18
R. Misstatement of Age or Sex	18
S. Misstatement of Smoking Status	19
T. Nonforfeiture Values-Policy Provisions	19
U. Ownership	21
V. Partial Withdrawals	21
W. Participating Policy	22
X. Payment of Premium	22
Y. Policy Adjustments	23
Z. Reinstatement	24
AA. Report to Owner	25
BB. Right to Examine Policy	26

CC.	Separate Accounts	26
DD.	Settlement Options	27
EE.	Suicide	27
FF.	Values Defined	28
§4	ADDITIONAL STANDARDS FOR FRATERNAL BENEFIT SOCIETIES	28
A.	Membership	28
B.	Maintenance of Solvency	28
§5	SPECIALIZED PRODUCTS/MARKETING	28
A.	No Lapse Provisions	28
B.	Policy Providing for Payment of Proceeds in Installments	31
§6	JOINT FIRST TO DIE STANDARDS	31
	SCOPE	31
A.	Actuarial Memorandum Requirements	31
B.	Cover Page	33
C.	Specifications Page	33
D.	Death Benefit Proceeds	33
E.	Incontestability	33
F.	Maturity Date Extension	33
G.	Misstatement of Smoking Status	34
	Appendix A	35
	Appendix B-1	37
	Appendix B-2	38
	Appendix C	39
	Appendix D	40

INDIVIDUAL FLEXIBLE PREMIUM VARIABLE ADJUSTABLE LIFE INSURANCE POLICY STANDARDS

Scope: These standards apply to individual Flexible Premium Adjustable Life Insurance policies that provide for benefits and values to vary in relation to the performance of an underlying separate account. These policies usually also allow for a general account or general account option, where money is deposited in the general account of the company and guaranteed to accumulate at specified interest rates. These standards include provisions applicable to No-Lapse Guarantee benefit features.

A Flexible Premium Variable Adjustable Life policy allows the owner to vary the amount and/or timing of premium payments and may allow the owner to adjust the amount of insurance. The policy provides for an optionally paid “planned” premium selected by the owner, and may provide more than one death benefit option (for example, the Specified Amount, the Specified Amount plus Account Value and the Specified Amount plus Return of Premium). The policy operates with a monthly deduction (which includes the cost of insurance and other charges) being deducted from the account value of the policy. Monthly deductions continue until the value is insufficient to cover the current monthly deduction due. The policy then terminates, subject to a grace period of at least 60 days.

These standards do not apply to any life policy with a required scheduled premium, a 31-day grace period and reduced paid up and/or extended term nonforfeiture benefits. These types of policies are usually identified as “current assumption whole life,” “interest sensitive whole life” or “fixed premium universal life.” These standards also do not address survivorship coverage, externally indexed policy features (other than with respect to a variable loan interest rate), policies with market value adjustments, separate accounts with performance guarantees, or private placement plans.

Mix and Match: These standards are available to be used in combination with State Product Components as described in Section 111(b) of the Operating Procedure for the Filing and Approval of Product Filings.

Self-Certification: These standards are not available to be filed using the Rule for the Self-Certification of Product Components Filed with the Interstate Insurance Product Regulation Commission.

As used in these standards the following definitions apply:

“Account value” is the retrospective accumulation of premiums, reduced by specified charges (which include the cost of insurance) and expenses, at no less than any applicable guaranteed minimum interest rate.

“Cash surrender value” is the cash value reduced by indebtedness.

“Cash value” is the account value less any surrender charges.

Drafting Note:

Other terms may be used in the policy provided they are used consistently.

The references to “age” and “insured” do not preclude joint plans. It is intended that additional provisions will be added to the Specialized Products/Marketing section to address joint first to die coverage.

The references to “policy” do not preclude Fraternal Benefit Societies from substituting “certificate” in their forms.

§1 ADDITIONAL SUBMISSION REQUIREMENTS

The following additional filing submission requirements shall apply.

A. GENERAL

- (1) All forms that are filed for approval shall be included with the filing. Changes to a previously approved form shall be highlighted. The specifications page of a policy shall be completed with hypothetical data that is realistic and consistent with the other contents of the policy and any required actuarial memorandum in support of nonforfeiture values.
- (2) If a filing is being submitted on behalf of a company, include a letter or other document authorizing the firm to file on behalf of the company with the filing.
- (3) If the filing contains an insert page, an explanation of when the insert page will be used should be included in the filing.
- (4) If the specification pages of the policy contains variable items, the submission shall include the Statement of Variability. The submission shall also include a certification that any change or modification to a variable item shall be administered in accordance with the requirements in the Variability of Information section, including any requirements for prior approval of a change or modification.
- (5) Include a statement that the form is subject to federal jurisdiction and accordingly the Flesch requirements do not apply.
- (6) A description of any innovative or unique features of each policy form.
- (7) State whether the policy is sex-distinct or unisex. If sex-distinct, the company must confirm that the policy will not be issued in any employer-employee plans that are subject to the *Norris* decision and/or Title VII of the Civil Rights Act of 1964.
- (8) Appropriate policy pages completed for each type of rating used by the company; for example, percentage of standard class premium, extra premium, temporary or permanent flat charge per \$1,000, to demonstrate how the policy will disclose the rates and charges applicable to each type of rating class. This is not intended to require pages for all rating classes, but only examples of each type of rating applied by the company.
- (9) The optional certification allowed by Paragraph (11) of the Policy Adjustments section.

- (10) If the company intends to waive the right to contest the response to the question regarding juvenile smoking status as referenced in the Juvenile Insured—Smoker/Nonsmoker Mortality Table section, the submission should include a statement to that effect.
- (11) Where the separate accounts available at issue under the policy are described in the application form, a copy of the application form to be used for the policy shall be included in the submission. If the application form has already been approved, it shall be submitted informationally at the time of submission of the policy.
- (12) If the policy is for use with more than one plan, the submission shall include a separate set of uniquely numbered specifications pages for each plan being submitted for approval, along with a separate actuarial memorandum for each plan. The company may not use the same policy form to provide alternate plans by making any features and benefits described in the policy inapplicable by a zero entry or by indicating that the benefit is not applicable on the specifications page or in the policy. For example, the use of one policy with and without a surrender charge is unacceptable.

B. ACTUARIAL MEMORANDUM REQUIREMENTS

- (1) Include an actuarial memorandum prepared, dated and signed by the member of the American Academy of Actuaries who provides the following information concerning the determination of the nonforfeiture values:
 - (a) For a single life policy, a demonstration that the nonforfeiture values of the policy comply with the minimums required by the NAIC Variable Life Insurance Regulation, model #270 using Actuarial Guideline XXIV. The demonstration shall be per \$1,000 amount of insurance for the durations for which surrender charges apply and the minimum policy size and all issue ages. The demonstration shall be provided for males and females, unisex, if applicable, smokers and nonsmokers. The demonstration shall include the initial acquisition expense charge, if any, for all values tested for compliance and a sample calculation of the initial acquisition expense charge for one of the values tested. If applicable, the premium used in calculating the initial acquisition expense charge shall be provided. The demonstration shall be presented in the format prescribed in Appendix A of these standards and shall be in accordance with actuarial procedures that recognize the variable nature of the policy;
 - (b) A description of the policy provisions that affect the interest rates, cost of insurance rates, expense charges, surrender charges and/or nonforfeiture values;
 - (c) Identification and description of the source of the applicable mortality tables that are the basis of guaranteed maximum cost of the insurance rates;
 - (d) The guaranteed maximum cost of insurance rates for all ages, male and female, unisex, if applicable, smoker and nonsmoker, and all underwriting classes. Any formula consistent with generally accepted actuarial methodologies and applicable Actuarial Standards of Practice may be used to convert the guaranteed maximum annual cost of insurance rates

to their equivalent modal guaranteed maximum cost of insurance rates provided such modal rates do not exceed the lesser of:

$$\{1 - (1 - qx)^{(1/n)}\} / \{(1 - qx)^{(1/n)}\} \text{ or } 1/n$$

where n equals the number of cost of insurance deductions from the account value per year and qx is the annual mortality rate from the applicable table;

- (e) All guaranteed maximum expense charges by age and duration for males and females, unisex, if applicable, smokers and nonsmokers, and all underwriting classes, including per policy charges, per \$1000 amount of insurance charges, percentage of premium charges and surrender charges;
- (f) The formulae, assumptions and methodology used;
- (g) Identification of the mortality table used in demonstrating compliance with the minimums required by the NAIC Variable Life Insurance Regulation, model #270 using Actuarial Guideline XXIV. The smoker/nonsmoker mortality tables in the NAIC Model Rule (Regulation) Permitting Smoker/Nonsmoker Mortality Tables For Use In Determining Minimum Reserve Liabilities And Nonforfeiture Benefits, or the mortality rates which are a blend of the male and female rates in the NAIC Procedure For Permitting Same Minimum Nonforfeiture Standards For Men and Women Insured Under 1980 CSO And 1980 CET Mortality Tables, or any other mortality tables approved for use by the NAIC in determining minimum nonforfeiture values, may be used in determining minimum nonforfeiture values. If applicable for the policy form submitted, for issue ages less than that for which rates are nonsmoker/smoker distinct, the composite version of the mortality table shall be used for demonstrating compliance;
- (h) Certification as to compliance with the minimums required by the NAIC Variable Life Insurance Regulation, model #270 using Actuarial Guideline XXIV. The Certification shall describe in general terms the nature of the testing performed by the actuary in support of the Certification. Appendix C contains a sample format for the Certification; and
- (i) The range of issue ages and the minimum specified amount for which the policy will be issued.

C. VARIABILITY OF INFORMATION

- (1) The company may identify items that will be considered variable only in the specifications page. Such item shall be bracketed or otherwise marked to denote variability. The submission shall include a Statement of Variability that will discuss the conditions under which each variable item may change.
- (2) Any change or modification shall be limited to only new issues of the policy and shall not apply to in force policies.

- (3) The following items shall only be changed upon prior approval:
- (a) Guaranteed maximum cost of insurance rates and the mortality tables on which they are based;
 - (b) Guaranteed interest rate for the account value of any general account option and any nonforfeiture benefits;
 - (c) Guaranteed maximum surrender charges;
 - (d) Guaranteed maximum expense charges;
 - (e) Valuation periods; and
 - (f) Settlement option tables.
- (4) In addition to the items listed in Paragraph (3) above, a change or modification to any other item not specifically listed that may affect the derivation and compliance of policy nonforfeiture values with any required minimum nonforfeiture values shall also be subject to prior approval. All submissions for approval of a change shall be accompanied by a demonstration, if applicable, signed by a member of the American Academy of Actuaries, that the policy continues to comply with the NAIC Variable Life Insurance Regulation, model #270 using Actuarial Guideline XXIV.
- (5) The company may also identify product specifications that may be changed without prior notice or approval, as long as the Statement of Variability presents reasonable and realistic ranges for the item. These items include charges for illustrative reports, minimum specified amounts following a decrease, minimum increase and decrease amounts, number of partial withdrawals, conversion periods, conversion credits, minimum partial withdrawal and minimum loan amounts, charges for supplemental benefits and options, any ages assumed in the calculation of benefits and options, and policy loan interest rates. A zero entry for a range of values on the specifications page for any benefit or credit provided for in the language of the policy is unacceptable. Any change to a range requires a re-filing for prior approval and shall be accompanied by a demonstration, if applicable, signed by a member of the American Academy of Actuaries, that the policy continues to comply with the NAIC Variable Life Insurance Regulation, model #270 using Actuarial Guideline XXIV.
- (6) Items such as the Separate Account and funds available under the policy may be identified as a variable item and may be changed without notice or prior approval, as long as the new Account or funds do not significantly alter the underlying structure of the policy. The Statement on Variability shall include a statement to that effect. An example of an unacceptable change would be the introduction of a Separate Account or fund with investment performance guarantees.
- (7) Notwithstanding Paragraph (1) above, items such as the insurance department address and telephone number, company address and telephone number, officer titles, and signatures of officers located in other areas of the policy may be denoted as variable and changed without notice or prior approval.

Drafting Note: The working group believes the above provisions address the issue. Industry may provide examples with specific detail to demonstrate the kinds of variability that they would seek in policies that is not contemplated by this section.

D. READABILITY REQUIREMENTS

- (1) The policy shall be presented, except for specification~~s~~ pages, schedules and tables, in not less than ten point type, one point leaded.
- (2) The style, arrangement and overall appearance of the policy shall give no undue prominence to any portion of the text of the policy or to any endorsements or riders.
- (3) The policy shall contain a table of contents or an index of the principal sections of the policy, if the policy has more than 3,000 words printed on three or fewer pages of text or if the policy has more than three pages regardless of the number of words.

§2 GENERAL FORM REQUIREMENTS

A. COVER PAGE

- (1) The full corporate name, including city and state, of the company shall appear in prominent print on the cover page of the policy. “Prominent print” means, for example, all capital letters, contrasting color, underlined or otherwise differentiated from the other type on the form.
- (2) A marketing name or logo may also be used on the cover page of the policy provided that the marketing name or logo does not mislead as to the identity of the company.
- (3) The company’s complete mailing address for the home office or the office that will administer the policy shall appear on the cover page of the policy. The cover page of the policy shall include a telephone number of the company and, if available, some method of Internet communication. The telephone number of the insurance department of the state where the policy is delivered or issued for delivery is also required on either the cover page or the first specifications page.
- (4) Two signatures of company officers shall appear on the cover page of the policy.
- (5) A Right to Examine Policy provision that shall appear on the cover page of the policy or is visible without opening the policy.
- (6) A form identification number shall appear at the bottom of the form in the lower left hand corner of the form. The form number shall be adequate to distinguish the form from all others used by the company. The form number shall include a prefix of ICCxx (where xx represents the appropriate year the form was submitted for filing) to indicate it has been approved by the Interstate Insurance Product Regulation Commission.
- (7) A brief description that shall appear in prominent print on the cover page of the policy or be visible without opening the policy. The brief description shall contain at least the following information:

- (a) A caption of the type of coverage provided containing at least the following: Flexible Premium Variable Adjustable Life Insurance;
 - (b) An indication of “convertible” if the policy is convertible; and an indication as to whether the policy is participating or nonparticipating;
 - (c) An indication of any war risk exclusion in the policy; and
 - (d) A statement that the amount of the death benefit, the duration of the coverage and policy values that are based on the separate account assets are not guaranteed and will decrease or increase with investment experience.
- (8) For any policy that is convertible, the cover page shall include the conversion period unless it is shown on the specifications page.

B. SPECIFICATIONS PAGE

- (1) The specifications page shall include the benefits, amounts, durations, premium information, and any other benefit data applicable to the insured.
- (2) The guaranteed expense charges and loads that may be deducted from the premiums paid or the account value and guaranteed maximum mortality charges for all attained ages of the insured based on the mortality basis of the insured’s risk class at issue shall be set forth on the specifications page. The minimum guaranteed interest rate applied to any general account option shall also be shown. No figures based on nonguarantees shall be included in the policy.
- (3) If the policy is a participating policy, the specifications page shall indicate that the dividends are not guaranteed. In addition, if the company does not intend to credit dividends, then the specifications page shall state that dividends are not expected or anticipated to be paid.
- (4) For any policy that is convertible, the specifications page shall include the conversion period unless it is shown on the cover page.
- (5) Any limitations on the crediting of additional interest on a portion of the account value shall be described.
- (6) Any surrender charges and partial withdrawal fees shall be listed.
- (7) The planned premium amount and interval shall be disclosed and planned premium defined in the policy, if the planned premium is used by the company to determine the extent to which future premium payments may be flexible in either timing or amount.
- (8) Any maturity date shall be defined or listed along with disclosure to the effect that the policy might not mature even if planned premiums are paid due to the fact that current cost of insurance and interest rates are not guaranteed, the investment performance of the funds in the Separate Account may be negative, policy loans and partial withdrawals may be taken, there may be changes in the choice of death benefit options and there may be requested changes to the

specified face amount. Additionally, if the policy states that the cash surrender value will be paid on the maturity date, the policy shall disclose in close proximity to the maturity date that even if coverage continues to the maturity date, there may in fact be little or no cash surrender value to be paid, if such is the case.

C. FAIRNESS

- (1) The policy shall not contain inconsistent, ambiguous, unfair, inequitable or misleading clauses, provisions that are against public policy as determined by the Interstate Insurance Product Regulation Commission, or contain exceptions and conditions that unreasonably affect the risk purported to be assumed in the general coverage of the policy.

§3 POLICY PROVISIONS

A. AMENDMENTS

- (1) The policy shall not provide for unilateral amendments that reduce or eliminate benefits or coverage, or impair or invalidate any right granted to the owner under the policy except for amendments to conform to changes in any applicable provisions or requirements of the IRC.
- (2) Amendments to approved forms are subject to prior approval.
- (3) Subject to the prohibition against unfair discrimination, any amendment may apply prospectively to new owners and, if applicable, to new contributions of existing owners.

Drafting Note: These standards are modified, as required or permitted by law, to enable fraternal to implement their respective articles and bylaws. See Appendix D.

B. ARBITRATION

- (1) Only arbitration provisions that permit voluntary post-dispute binding arbitration shall be allowed in policy forms. With respect to such a provision, the following guidelines apply:
 - (a) Arbitration shall be conducted in accordance with the rules of the American Arbitration Association (“AAA”), before a panel of three neutral arbitrators who are knowledgeable in the field of life insurance and appointed from a panel list provided by the AAA.
 - (b) Arbitration shall be held in the city or county where the claimant lives.
 - (c) The cost of arbitration will be paid by the company, to include any deposits or administrative fee required to commence a dispute in arbitration, as well as any other fee including the arbitrator’s fee.
 - (d) Where there is any inconsistency between these guidelines and AAA rules, these guidelines control.

Drafting Note: These standards are modified, as required or permitted by law, to enable fraternal to implement their respective articles and bylaws. See Appendix D.

C. ASSIGNMENT

- (1) The policy shall contain an assignment provision. The policy shall not include any restrictions on the availability of policy assignments, except in situations where restrictions are required for purposes of satisfying applicable laws or regulations.
- (2) The policy shall describe procedures for assignments and shall state that assignments, unless otherwise specified by the owner, shall take effect on the date the notice of assignment is signed by the owner, subject to any payments made or actions taken by the company prior to receipt of this notice.
- (3) The policy may state that the company shall not be liable for the validity of the assignment.

Drafting Note: Restrictions on assignment in policy forms such as right of first refusal or first offer provisions are prohibited by Item (1).

D. BENEFICIARY

- (1) The policy shall contain a beneficiary provision. The provision shall describe the procedures for designating or changing the beneficiaries, or for selecting default beneficiaries as may be necessary, and indicating when such designation is effective. The policy shall not include any restriction on change of beneficiary other than for the purposes of satisfying applicable laws or regulations.
- (2) The policy shall state that changes in beneficiary, unless otherwise specified by the owner, shall take effect on the date the notice of change is signed by the owner, subject to any payments made or actions taken by the company prior to receipt of this notice.
- (3) If irrevocable beneficiaries are referenced in the policy, the policy shall explain that such a beneficiary cannot be changed without the consent of the irrevocable beneficiary.

E. CONFORMITY WITH INTERSTATE INSURANCE PRODUCT REGULATION COMMISSION STANDARDS

- (1) The policy shall state that it was approved under the authority of the Interstate Insurance Product Regulation Commission and issued under the Commission standards. The policy shall also state that any provision of the policy that on the provision's effective date is in conflict with the applicable Interstate Insurance Product Regulation Commission standards for this product type in effect as of the provision's effective date of Commission policy approval is hereby amended to conform to the applicable Interstate Insurance Product Regulation Commission standards in effect as of the provision's effective date of Commission policy approval.

F. CONVERSION

- (1) A policy that is convertible shall contain a provision describing the conditions of the conversion privilege. The conversion period shall be shown on the cover page or specifications page.
- (2) The conversion provision shall describe the following information, if applicable:
 - (a) When the first premium is due;
 - (b) What supplemental benefits included in the policy may be converted;
 - (c) The type or types of policies to which a conversion may be made;
 - (d) The minimum and maximum amount of coverage available for conversion;
 - (e) The criteria used to determine the premiums at the point of conversion; and
 - (f) Any evidence of insurability requirements. Such evidence would be limited to amounts in excess of the amount of life insurance in effect at the time of conversion and any supplemental benefits unrelated to the life risk.
- (3) The policy may provide that a discount is applied to the total premium of the converted policy in the year of conversion. The discount or the method by which the discount is calculated shall be described in the policy.
- (4) The policy shall provide that the incontestability and suicide provisions attributable to the coverage converted will run from the date of the original policy. If the new policy includes additional coverage for which evidence of insurability was given, new incontestability and suicide provisions may apply to that coverage.

G. DEATH BENEFIT PROCEEDS

- (1) The policy shall describe how the death benefit proceeds are determined, and shall describe all death benefit options available under the policy. The policy shall contain sufficient information for the death benefit amount to be determined at any time, including the applicable table of factors demonstrating compliance at the time of issue with the federal qualification for life insurance based on the Cash Value Accumulation Test or the Guideline Premium Test. The death benefit amount shall be determined as of the date of death.
- (2) The policy shall contain a provision for the payment of interest on the death benefit, as follows:
 - (a) Interest shall accrue and be payable from the date of death.
 - (b) Interest shall accrue at the rate or rates applicable to the policy for funds left on deposit or, if the company has not established a rate for funds left on deposit, at the Two Year Treasury Constant Maturity Rate as published by the Federal Reserve. In determining

these effective annual rate or rates, the company shall use the rate in effect on the date of death.

(c) Interest shall accrue at the effective annual rate determined in Item (b) above, plus additional interest at a rate of 10% annually beginning with the date that is 31 calendar days from the latest of Items (i), (ii) and (iii) to the date the claim is paid, where it is:

(i) The date that due proof of death is received by the company;

(ii) The date the company receives sufficient information to determine its liability, the extent of the liability, and the appropriate payee legally entitled to the proceeds; and

(iii) The date that legal impediments to payment of proceeds that depend on the action of parties other than the company are resolved and sufficient evidence of the same is provided to the company. Legal impediments to payment include, but are not limited to (a) the establishment of guardianships and conservatorships; (b) the appointment and qualification of trustees, executors and administrators; and (c) the submission of information required to satisfy state and federal reporting requirements.

(3) The death benefit proceeds paid shall be at least equal to the death benefit of the policy and any riders that are payable, plus any dividend values in the policy at the time of death, less any indebtedness and overdue monthly deductions.

(4) The policy may require that due proof of the death of the insured will consist of a certified copy of the death certificate of the insured, or other lawful evidence providing equivalent information, and proof of the claimant's interest in the proceeds.

H. DEFERRAL AND VALUATION OF PAYMENTS

The policy shall describe any conditions and/or limitations on the deferral and valuation of any amount payable upon surrender, withdrawal, election of a loan, transfer of funds, or death, subject to the following:

(1) For values in a general account, the company shall reserve the right to defer surrenders for a period of six months. The policy shall also contain a statement that the company reserves the right to defer the payment of any loan for six months after application for the loan is received by the company except for any loan made to pay premiums due to the company. The company may also defer a withdrawal from the general account for a period of six months. There shall be no deferral of payment to any portion of the death benefit derived from the general account.

(2) For variable benefits or contractual payments in excess of any minimum death benefit, the policy shall provide that the company reserves the right to defer the determination and payment of all benefits for any period during which the New York Stock Exchange is closed for trading (except for normal holiday closing) or when the Securities and Exchange Commission has determined that a state of emergency exists that may make determination and payment impractical.

- (3) The company may also defer a transfer from the general account for a period of up to six months. The company shall disclose to the owner the specific date on which the transfer will be effective, the reason for the delay, and the value of the transfer as of the date the request is received by the company.

I. DEPENDENT AND FAMILY MEMBER COVERAGE

- (1) The policy may provide coverage for dependents and family members. If the policy provides such coverage:
 - (a) The policy shall comply with the applicable state law where the policy is delivered or issued for delivery, with respect to the coverage and benefits available to a person who is in a legally-sanctioned domestic partnership or civil union and to their families, or available to a person who is in a legally-sanctioned marriage with the insured and to their families; and
 - (b) Nothing in this provision shall be construed as requiring any company to provide coverage or benefits to any person who is in a domestic partnership, civil union or marriage or to their families in a state where such relationships are not legally recognized.

J. ENTIRE CONTRACT

- (1) The policy shall contain a provision regarding what constitutes the entire contract between the company and the owner. No document may be included by reference.
- (2) All statements made by the applicant for the issuance or reinstatement of a policy shall, in the absence of fraud, be deemed representations and not warranties.
- (3) If the application is to be a part of the policy, the entire contract provision shall state that the application is a part of the contract.
- (4) The provision shall include any statements required by Paragraph (2) the Juvenile Insureds—Smoker/Nonsmoker Mortality Table section.
- (5) If the company intends to contest any supplemental applications used to apply for policy adjustments subsequent to issue, then the entire contract provision shall refer to these applications. The provision shall indicate that the applications will be attached to or endorsed upon the policy, in accordance with Paragraph (4) of the Incontestability section.

Drafting Note: These standards are modified, as required or permitted by law, to enable fraternal to implement their respective articles and bylaws. See Appendix D.

K. EXCLUSIONS

- (1) Any exclusion applied to the death benefit of the policy, except for accidental death benefits, shall be limited to the following:

(a) War

- (i) If in the application the proposed insured represents that he or she a member of the United States military, military reserves, or the National Guard, whether active or inactive, risk of death as a result of war or any act related to military service shall not be excluded from the death benefit of the policy.
- (ii) Regarding non-combatant civilian exclusions, risk of death may be excluded under the following conditions:
 - (A) As a result of war or an act of war while the insured is serving in any civilian non-combatant unit serving with such forces, provided such death occurs while serving in such units or within six months after termination of service in such units, whichever is earlier.
 - (B) As a result of the special hazards incident to service in any civilian non-combatant unit serving with such forces, if the cause of death occurs while the insured is serving in such units and is outside the home area, provided such death occurs outside the home area or within six months after the insured's return to the home area while serving in such units or within six months after the termination of service in such units, whichever is earlier.
- (iii) Regarding civilian exclusions, risk of death may be excluded under the following conditions:
 - (A) As a result of war or an act of war, within two years from the date of issue of the policy, while the insured is not serving in such forces or units, if the cause of death occurs while the insured is outside the home area, provided such death occurs outside the home area or within six months after the insured's return to the home area.
- (iv) "Home area" is defined to include at least the 50 states of the United States and its territories, the District of Columbia and Canada. "War" includes, but is not limited to, declared war, and armed aggression by one or more countries resisted on orders of any other country, combination of countries or international organization. "Act of war" means any act peculiar to military, naval or air operations in time of war.

(b) Avocation, Aviation, Occupation, Foreign Travel and Foreign Residency:

The policy may exclude from coverage death due to a specific avocation, aviation, occupation, foreign travel or foreign residency. The exclusion may be included in the policy, or may be added by rider, endorsement or amendment attached to the policy on or after the policy's date of issue. The exclusion shall be based on information disclosed by the proposed insured in the application for the policy, or identified for the proposed insured during the underwriting process of such application. The standards applicable to

such exclusions are included in the Standards for Forms Used to Exclude Policy Coverage Based on the Underwriting Process, and are subject to the applicable law in the state where the policy is delivered or issued for delivery.

- (2) Any amount payable as a result of death from an excluded act shall be at least equal to the greater of the gross premiums paid for the policy or the cash value, each adjusted for dividend values, loans, partial withdrawals and surrenders.
- (3) The policy may not exclude from coverage death due to any specific medical condition.

L. GRACE PERIOD

- (1) The policy shall contain a grace period provision and include the conditions of the provision.
- (2) The policy shall provide a grace period of at least 60 days following the first monthly deduction date for which the account value reduced by indebtedness is insufficient to provide an entire additional month of insurance. The policy may provide that this amount may be further reduced by any applicable surrender charge.
- (3) The coverage shall continue in force during the grace period.
- (4) The monthly deductions for the grace period plus sufficient premium to maintain the policy in force for up to three months may be required to be paid. The company may not require that the premium be received within the grace period. The owner shall have the entire grace period within which to remit payment. Any payment sent by U.S. mail must be postmarked within the grace period.
- (5) The policy shall not allow the grace period to be preempted by a termination of the policy due to excessive loans.
- (6) The policy shall provide that a written notice will be sent to the last known address of the owner and any assignee of record at least 30 days prior to termination of coverage.

M. INCONTESTABILITY

- (1) The policy shall contain an incontestability provision and include the conditions of the provision.
- (2) The contestable period shall be no greater than two years from the date of issue during the lifetime of the insured.
- (3) The policy may allow a separate contestable period, no greater than two years from the date of increase, for any increase in the amount of the death benefit that was subject to evidence of insurability. The contest for the increase shall be limited to the amount of the increase and the evidence provided for such increase.
- (4) Coverage may only be contested based on a statement contained in an application made a part of the contract. If the company expects to rely on an application to contest the policy, the company

shall attach to or endorse the application as part of the policy. The statement on which the contest is based must be material to the risk accepted or hazard assumed by the company.

- (5) The policy may only include the following exceptions to the incontestability provision:
 - (a) Non-payment of premium;
 - (b) At the option of the company, provisions related to benefits in the event of total and permanent disability and provisions related to accidental death benefit coverage; and
 - (c) Fraud in the procurement of the policy, when permitted by applicable law in the state where the policy is delivered or issued for delivery.
- (6) A preliminary term coverage to precede another plan of insurance may contain incontestability provisions and the successor plan shall compute the time period from the date of issue of the preliminary term coverage.
- (7) Policy forms shall not contain an incontestability provision that excludes the riders that may be attached to the form unless those riders contain their own incontestability provisions.
- (8) A policy that is reinstated may be contested in accordance with Paragraph (8) of the Reinstatement section.
- (9) The provision shall include any statements required by Paragraph (2) of the Juvenile Insureds—Smoker/Nonsmoker Mortality Table section.

N. JUVENILE INSUREDS—SMOKER/NONSMOKER MORTALITY TABLES

- (1) Because the smoker and nonsmoker mortality tables do not extend below age 15, the company may elect the following uses of the composite and smoker and nonsmoker mortality tables for juvenile insureds, as hereafter provided:
 - (a) The company may use the composite mortality table for juvenile issues and continue to use such table for all future attained ages; or
 - (b) The company may use the composite mortality table for juvenile issues and change to use of a smoker and nonsmoker mortality table when the insured's attained age is a specified age between 15 and 23.
 - (i) When the insured reaches the attained age, the company shall notify the insured in writing at least 60 days prior to the effective date of the change in mortality tables of his or her option to elect smoker or nonsmoker status.
 - (ii) The company shall adopt a uniform default classification of either smoker or nonsmoker to which the company shall assign an insured who fails to respond to the notice described in Item (i) above.

- (iii) A company may only apply a default classification of smoker pursuant to Item (ii) above to an insured whose attained age is at least 18.
- (iv) The company shall identify such adopted uniform default classification in the notice described in Item (i) above and advise the insured therein that the insured shall be assigned the uniform default classification if the insured fails to respond to the notice.
- (v) Alternatively, at the company's option, the company may reclassify the insured as a nonsmoker upon reaching the attained age.

Drafting Note: This is not meant to require a separate notice, but a clear notice shall be provided.

- (2) Companies may initially classify a juvenile as a smoker only if, at the initial time of the application for the policy, the juvenile responds to a smoking question in the affirmative. The company may contest the response to the question concerning smoking status in response to the notice in Paragraph (1)(b)(i) above for a period of two years during the lifetime of the insured only if the policy specifically reserves that right, there is an entire contract provision in the policy that states that the application for the change in smoking status is attached to and made a part of the policy and the policy describes the settlement payable upon a successful contest. A contest shall be limited to the amount of coverage that is purchased by the difference between the smoker and nonsmoker rates.
- (3) The policy must accurately describe all mortality tables used as composite or smoker and nonsmoker for all ages.
- (4) The policy shall accurately describe the process set forth at Paragraph (1)(b) above relating to company notification, insured election of smoker or nonsmoker status, the default classification resulting from failure to elect, and any automatic reclassification to nonsmoker.

O. LEGAL ACTION

- (1) A policy may include a legal action provision. If included, the provision shall state that a legal cause of action related to the policy shall comply with the laws of the state where the policy was delivered or issued for delivery.

P. LOANS

- (1) A policy that develops cash value shall provide for a loan provision.
- (2) The policy shall contain the conditions of a loan, including:
 - (a) A statement shall be included that the policy shall be the sole security of the loan .
 - (b) The loan value shall be at least equal to 75% of the cash value, plus the cash value of any dividend additions. The loan value or loan proceeds may be adjusted by:

- (i) either (1) reducing the loan value at the end of the policy year by no more than three months current expense and current cost of insurance charges; or (2) projecting the loan value at the guaranteed crediting rate from the date of the loan to the following policy anniversary assuming no premiums and no withdrawals and then discounting back at the loan interest rate; and
 - (ii) deducting the amount of any existing indebtedness including any due and accrued interest; and
 - (iii) deducting interest in advance to the end of the current policy year.
 - (c) The owner has the option to take less than the loan value, subject to a reasonable company minimum loan requirement.
 - (d) The policy shall describe the loan interest rate. The loan interest rate, including any added administrative fees associated with the loan, shall be at a maximum fixed annual rate of 8% in arrears or a variable rate determined in accordance with the NAIC Model Policy Loan Interest Rate Bill, model #590. The company may not charge any additional fees or expenses for the loan.
 - (e) The policy may provide that if interest on any indebtedness is not paid when due it shall be added to the existing indebtedness and shall bear interest at a rate no greater than the loan rate.
 - (f) The policy shall permit repayment of the loan and describe any conditions related thereto.
 - (g) The policy shall describe the effect of outstanding loans on the death benefit and cash value.
 - (h) The policy may provide that if and when the total indebtedness including interest due and accrued equals or exceeds the cash value of the policy plus the cash value of any dividend additions then the policy shall terminate, but not until at least 30 days' advance notice of termination shall have been mailed to the owner and any assignee of record. Upon termination any dividend accumulations shall be paid to the owner.
- (3) The policy must state how a deposit not designated as a premium or loan repayment will be treated if a loan is outstanding. Payments may be automatically applied as loan payments unless specified as premium payments.
- (4) The policy shall state how loaned amounts are allocated to the separate account and any general account. Loaned amounts shall be transferred from the separate account and general account to the general account on the basis of the allocations and shall earn interest at a rate no less than the guaranteed rate applied to any general account. Repayments shall be returned to the separate account and general account on the basis of allocations specified in the policy. That provision shall not preclude a repayment allocation that is the same as the loan amount allocation.
- (5) A loan shall be available after the policy has a cash value.

Q. MATURITY DATE EXTENSION

- (1) A maturity date may be extended beyond the terminal age of the applicable valuation mortality table based on the following conditions:
 - (a) There must be a policy provision indicating that there will be no cost of insurance charges beyond the terminal age of the valuation table. The provision must also indicate that no further premium payments will be accepted after such age, except amounts required to keep the policy in force under the grace period.
 - (b) A prominent disclosure statement must be provided in the policy indicating that the policy may not qualify as life insurance under federal tax law after the insured reaches the terminal age of the valuation table, may be subject to adverse tax consequences, and that a tax advisor should be consulted before the owner chooses to continue the policy after the insured reaches the terminal age of the valuation table.
 - (c) The policy must clearly indicate whether partial withdrawals can continue to be made after the terminal age of the valuation table. New policy loans and loan repayments must be permitted. Interest will continue to accrue on and be added to any outstanding loan balance.
 - (d) The policy death benefit after the terminal age of the valuation table shall be at least the account value.

R. MISSTATEMENT OF AGE OR SEX

- (1) The policy shall contain a misstatement of age provision or, if the policy is written on a sex distinct basis, a misstatement of age or sex provision. The policy shall describe the method of adjusting values and benefits, which shall be by one of the following two methods:
 - (a)
 - (i) The company may recalculate all policy values since the inception of the policy to the extent that the recalculation, in and of itself, shall not result in termination of the policy prior to the date of death. If the policy terminates as a result of the recalculation, this method of recalculation may not be used.
 - (ii) The death benefit proceeds after recalculation shall not be less than the cash surrender value that would have been paid had the policy been surrendered on the date of death based upon the misstated age.
 - (iii) The company shall assume when making an adjustment at the time of surrender, maturity, or death that the death benefit in all preceding years is the actual death benefit which would have been paid under the corrected age of the insured had death occurred in any preceding year. The company may not use guaranteed assumptions in the calculations, but shall use the actual assumptions applied to the policy during the recalculated period.

- (b) The company may provide that the adjusted death benefit shall be that amount which would have been purchased at the correct age in consideration of the most recent mortality charge by adjusting the net amount at risk by the ratio of the incorrect cost of insurance rate to the correct cost of insurance rate. In this instance the company shall not make any retrospective recalculations to the account value. The company may adjust future months' deductions so as to reflect the corrected age.
- (2) If the misstatement of age or misstatement of age and sex provision uses terminology such as "proceeds" which could be interpreted to mean more than the death benefit, then the provision shall describe how each benefit or value accruing will be adjusted or indicate that no adjustment will be made.
- (3) If dependent or family member coverage is part of the policy, the provision may refer to an adjustment of the duration of the benefits.
- (4) If more than one life is insured, the misstatement provision may provide that the amount payable on death or the amount of monthly deduction payable may be adjusted due to the misstatement in the age or the age or sex, as appropriate, of any insured.
- (5) The company may not terminate coverage and refund premiums if the correct age is outside the issue age ranges of the form. A mortality charge and benefit shall be extrapolated.

S. MISSTATEMENT OF SMOKING STATUS

- (1) In lieu of the right to contest the policy based on a misstatement of smoking status, the policy may provide during the first two policy years for an adjustment due to a misstatement of smoking status. The adjusted death benefit shall be that amount which would have been purchased at the correct smoking status in consideration of the most recent mortality charge by adjusting the net amount at risk by the ratio of the incorrect cost of insurance rate to the correct cost of insurance rate. In this instance the company shall not make any retrospective recalculations to the account value. The company may adjust future months' deductions so as to reflect the corrected smoking status.

T. NONFORFEITURE VALUES—POLICY PROVISIONS

- (1) The policy shall clearly describe how the account value, cash value, cash surrender value or any other value under the policy is calculated, and indicate which cost factors used in the calculations are subject to adjustment. The right to adjust the cost factor is limited by cost factor guarantees and the adjustment must be based on future anticipated or emerging experience.
- (2) The policy shall specify the experience factors upon which any indeterminate charges are adjusted. "Experience factors" means a factor experienced by the company that is variable in nature and impacts the profitability of the policy. Depending on the policy design, experience factors may include, but are not limited to, investment earnings, mortality, persistency, taxes and expenses.

- (3) The policy shall state the guaranteed factors of mortality, expense and interest. In addition to a table of mortality charges (cost of insurance rates), the policy shall indicate that a statement of the basis of the charges and the method of computation has been filed with the Interstate Insurance Product Regulation Commission. The policy shall also define the net amount at risk used to determine the cost of insurance charge.
- (4) The policy shall provide a statement of the method used by the company in calculating actual policy values.
 - (a) The procedure for the crediting of interest to the account value must be clearly described .
 - (b) The order of application of charges and credits must be described.
 - (c) All related terms must be fully defined.
- (5) In any policy under which additional amounts may be credited, the policy shall state that additional amounts are nonforfeitable after crediting except indirectly due to surrender charges made. The policy shall state that additional amounts, if any, will be credited no less frequently than annually.
- (6) Interest shall not be charged on cost of insurance, expense and partial withdrawal deductions for a period prior to the date of deduction. If interest is charged on cost of insurance, expense and partial withdrawals from the date of deduction, the policy must provide that interest shall be credited on premium payments from the date of payment.
- (7) If there is a possibility that two or more different rate classes could apply at the same time (e.g., due to a change in class prior to a specified amount increase), the policy form or submission materials (e.g. nonforfeiture statement) shall describe how the net amount at risk for cost of insurance calculation purposes is allocated.
- (8) The initial issue age at which the surrender charges differ by smoking status must be the same as the initial issue age at which the cost of insurance rates differ by smoking status.
- (9) The policy shall contain provisions at least as favorable to the defaulting or surrendering owner as the following:
 - (a) If the policy provides for the election of a paid-up nonforfeiture benefit, the paid-up nonforfeiture benefit shall be such that its present value shall be at least equal to the cash surrender value provided for by the policy on the effective date of the election. The present value shall be based on mortality and interest rates at least as favorable to the owner as the mortality and interest rates guaranteed in the policy for determining the account value. Net single premiums used to calculate a paid-up nonforfeiture benefit prior to the age that the nonsmoker class is first available shall not exceed net single premiums based on the applicable combined nonforfeiture mortality table. The present value of any paid-up nonforfeiture benefit shall be calculated on the mortality and interest basis used in determining the amount of such paid-up nonforfeiture benefit.

- (b) A provision that if the policy is continued under any paid-up nonforfeiture benefit which became effective on or after the third policy anniversary the company will pay upon policy surrender within 30 days after any policy anniversary, a cash value.
 - (c) A statement of the mortality table, interest rate and method used in calculating cash values and the paid-up nonforfeiture benefits available under the policy. The statement of the mortality table shall be complete (e.g. whether sex distinct or unisex, smoker or nonsmoker, or age nearest birthday or age last birthday).
 - (d) A statement that any cash values and paid-up nonforfeiture benefits available under the policy are not less than the minimum values and benefits required by or pursuant to the NAIC Variable Life Insurance Regulation, model #270 using Actuarial Guideline XXIV.
 - (e) An explanation of the manner in which the cash values and the paid-up nonforfeiture benefits are altered by the existence of any paid-up additions credited to the policy or any indebtedness to the company on the policy.
- (10) A provision that any cash surrender value and any paid up nonforfeiture benefit, available under the policy at any time other than on a policy anniversary, shall be calculated with allowance for lapse of time from the last preceding anniversary.

U. OWNERSHIP

- (1) The policy shall contain an ownership provision. The provision shall describe the procedures for designating or changing the owner and indicating when the designation is effective. The policy shall not include any restrictions on change of owner other than for purposes of satisfying applicable laws or regulations.
- (2) The policy shall state that changes in owner designation, unless otherwise specified by the owner, shall take effect on the date the notice of change is signed by the owner, subject to any payments made or actions taken by the company prior to receipt of this notice.
- (3) The policy shall describe how contingent owner and joint owner provision operate, if being made available.

Drafting Note: Restrictions on change of owner in policy forms such as right of first refusal or first offer provisions are prohibited by Item (1).

V. PARTIAL WITHDRAWALS

- (1) The policy may allow for partial withdrawals, which shall be described in a separate provision.
- (2) The policy shall describe all charges and limits in amount applicable to the withdrawal, and the affect if any such withdrawal will have on the account value and specified amount.
- (3) If a portion of the surrender charge is collected for a partial withdrawal, the policy shall disclose how this charge is calculated and that a corresponding reduction will be made in subsequent surrender charges.

- (4) The provision shall describe how the partial withdrawal is allocated among separate account and general account balances.

W. PARTICIPATING POLICY

A policy may be non-participating; however, if the policy is participating in the divisible surplus of the company, then the following shall apply:

- (1) The conditions of the participation shall be included in the policy.
- (2) The policy shall provide that the company shall annually ascertain and apportion any divisible surplus, beginning not later than the third year.
- (3) The policy shall provide that the owner may receive any dividend payment in cash . Other dividend options may be provided in the policy.
- (4) The policy shall provide for an automatic dividend option if more than one dividend option is provided. If the policy provides for more than one dividend option, the policy shall identify the automatic option.
- (5) Any additional supplemental benefits attached to a participating policy, whether or not considered in determining surplus earnings, may not be specially labeled or described as non-participating.
- (6) Whenever one-year term insurance is purchased by dividends in connection with a policy, the policy shall provide for the return of the unearned charge in the event of termination of the policy (other than by death) prior to the expiration of such one year term insurance.
- (7) The policy shall state that any dividend accumulations and the cash value of any paid up additions shall be paid to the owner upon termination of the policy.

X. PAYMENT OF PREMIUM

- (1) There shall be a provision for payment of premiums Any policy fees shall be identified.
- (2) The policy shall provide for payment of the initial premium in advance of the policy becoming effective.
- (3) The requirements for any premium payments shall be at least as favorable as follows:
 - (a) Policies shall not include any provision that permits the company to refuse premium payments unless such provision provides the specific reasons or circumstances for refusal which cannot include company discretion to refuse premium payment.
 - (b) Policies shall include any upper and/or lower dollar limits on premium payments, which the company may waive in a uniform and non-discriminatory manner upon written notice

of any new limits to the owner. The form shall describe the initial limits and the required written notice of any new limits.

- (c) The maximum premium payment for a flexible premium life insurance policy shall not be less than the greater of (i) the amount that will continue to qualify the policy as life insurance, or (ii) the amount necessary to keep the policy in force..
- (4) The policy shall provide for the refund of the excess of any premium payment made over the maximum amount that could be paid without disqualifying the policy as life insurance under Section 7702 of the Internal Revenue Code. However, the premium shall not be refunded if it is necessary to continue coverage.

Y. POLICY ADJUSTMENTS

- (1) The policy may contain a provision allowing the owner to increase or decrease the specified amount, or change death benefit options. The policy shall permit the company to require evidence of insurability if, at the time of policy adjustment, the net amount at risk is increased or changed from a decreasing amount to a non-decreasing amount. Otherwise, an adjustment shall not be subject to evidence of insurability.
- (2) Automatic increases in the specified amount (i.e., increases that occur by operation of the policy and not by owner request) shall not be subject to evidence of insurability.
- (3) If the owner has the right to change the basic coverage, any limitation on the amount or timing (including age or frequency limits) of such changes shall be disclosed in the policy. If the owner has the right to increase the basic coverage, the policy shall disclose whether a new period of contestability, if evidence of insurability was required for the increased coverage, and/or a suicide exclusion is applicable to the additional coverage. If a minimum specified amount is necessary to maintain the policy in force, then that amount shall be defined in the policy.
- (4) The maximum surrender charges and the maximum age for increases shall be described in the form at issue.
- (5) The guaranteed maximum cost of insurance rates for increased amounts should not change unless the insured's risk class has changed.
- (6) Death benefit options, if the elected option can be changed, any limitations on the changes (including age and frequency limits), and how changes affect the account values and surrender values shall be described in the policy.
- (7) If a portion of the surrender charge is collected for a decrease in specified amount, the policy shall disclose how this charge is calculated and that a corresponding reduction will be made in subsequent surrender charges.
- (8) For a policy adjustment being requested by the owner involving payment of additional premium or an increase in the planned premium that results in an increase in the net amount at risk, the

company shall reserve the right to request evidence of insurability and/or reserve the right to refuse the premium.

- (9) The policy shall provide that it will refund the excess of any premium payment made over the maximum amount that could be paid without disqualifying the policy as life insurance under Section 7702 of the Internal Revenue Code. However, such premium shall not be refunded if it is necessary to continue coverage.
- (10) The policy shall define the order in which any decrease in specified amount would apply to any increases in specified amount and to the initial specified amount.
- (11) The policy shall state that the policy will be amended or endorsed to reflect the adjustment and its effect upon policy features, including any increase, decrease or other adjustment to the amount or type of coverage, expense charges, surrender charges and/or cost of insurance rates, if applicable. Alternatively, the Additional Submission Requirements may include a certification that the policy will be so amended or endorsed.

Z. REINSTATEMENT

- (1) The policy shall contain a reinstatement provision with respect to policies for which the grace period has elapsed and include the conditions of the reinstatement.
- (2) The period of reinstatement may not be less than three years from the date of lapse.
- (3) Evidence of insurability may be required.
- (4) The policy shall clearly describe the dollar amount necessary to reinstate. The company may require that the monthly deduction for any grace period be paid plus sufficient premium to maintain the policy in force for up to three months. Monthly deductions cannot be charged for the period of default beyond the grace period.
- (5) If applicable, repayment/reinstatement of any policy loan may be required with interest rates not exceeding the interest rates as permitted in the loan provision of the policy.
- (6) If the policy imposes charges for a limited period of time (for example, surrender charges on the account value), the reinstatement provision shall state whether and in what manner the charges will be imposed on the reinstated policy. Otherwise, no charges shall be applicable with respect to the reinstatement policy.
- (7) The policy shall describe how the account value will be determined upon reinstatement. If the account value and any loan value are reinstated, interest shall be credited to the account value consistent with any interest charges on the loan during the period of lapse.
- (8) With respect to any reinstated policy, the following applies:
 - (a) With respect to statements made in an application for reinstatement, the policy is incontestable after it has been in force during the insured's lifetime for two years beginning with the day of reinstatement. The contestable period is based only on

- statements in the reinstatement application, unless the original contestable period has not yet expired. The reinstated policy may include an exception to the incontestability provision for fraud in the procurement of the reinstated policy when permitted by applicable law in the state where the policy is delivered or issued for delivery.
- (b) The suicide exclusion shall not exceed two years from the day of reinstatement.
 - (c) If a policy contains a reinstatement provision or other policy provision that references the subject matter of Paragraph (8)(a) and/or (8)(b), the policy references shall be consistent with (8)(a) and/or (8)(b).

AA. REPORTS TO OWNER

(1) Periodic Report

- (a) The policy shall provide for the delivery, at least annually and without charge, of a report to the owner which serves to keep such owner advised as to the status of the policy, and which provides any other information required under state or federal law, including the requirements of Items (b) and (c) below.
- (b) The status report of the policy shall provide current information as of a date not more than four months prior to the date of mailing.
- (c) The policy shall state that the report shall contain at least the following information:
 - (i) The beginning and end dates of the current report period.
 - (ii) The account value, if any, at the beginning of the current report period and at the end of the current report period.
 - (iii) The amounts that have been credited or debited to the account value during the current report period. The credited and debited amounts must be identified by type; for example, premium payments, interest credits, bonus credits, persistency credits, cost of insurance charges, expense charges, withdrawal amounts, withdrawal charges and cost of rider(s).
 - (iv) The current death benefit at the end of the current report period on each life covered by the policy.
 - (v) The cash value, if any, at the end of the current report period.
 - (vi) The amount of outstanding loans, if any, at the end of the current report period.
 - (vii) For a policy that does not require payment of a scheduled premium, if assuming guaranteed interest, mortality and expense loads, the policy's cash surrender value will not maintain insurance in force until the end of the next reporting period

unless further premium payments are made, a notice to this effect must be included in the report.

- (viii) For a policy that requires payment of a scheduled premium, if assuming guaranteed interest, mortality and expense loads and continued scheduled premium payments, the policy's cash surrender value is such that it would not maintain insurance in force until the end of the next reporting period, a notice to this effect must be included in the report.

BB. RIGHT TO EXAMINE POLICY

- (1) The Right to Examine Policy provision appearing on the cover page or that is visible without opening the policy shall include the following:
 - (a)
 - (i) If the policy is not a replacement policy, a period of ten days beginning on the date the policy is received by the owner, and at the discretion of the company a longer period may be filed; or
 - (ii) If the policy is a replacement policy, a minimum of thirty days beginning on the date the policy is received by the owner, or any longer period as may be required by applicable law in the state where the policy is delivered or issued for delivery;
 - (b) A requirement for the return of the policy to the company or an agent of the company. Policy is considered void from the beginning and the parties shall be in the same position as if no policy had been issued;
 - (c) A refund of all premiums paid to the general account, including any fees or charges, if the policy is returned; and
 - (e) For premiums paid to any variable account, if the policy is returned, the policy shall specify either a refund of:
 - (i) The premiums paid; or
 - (ii) The variable account value plus any amount deducted from the portion of the premium applied to the account.

CC. SEPARATE ACCOUNTS

- (1) The policy shall explain the allocation to subaccounts and any restrictions (e.g. transfers between/among subaccounts and between/among general accounts).
- (2) The policy may contain a provision stating that the portion of assets of the separate account equal to the reserves and other contract liabilities with respect to the account must not be charged with liabilities arising out of any other business the insurer may conduct.

- (3) The policy shall provide that income, gains, and losses, whether or not realized, from assets allocated to a separate account shall be credited to or charged against such account without regard to other income, gains or losses of the insurer.
- (4) The policy shall identify or describe the separate accounts available under the policy, either within the policy itself or on the specifications page, or in the attached application.
- (5) The policy shall specify the dates on which the assets of the separate account will be valued and provide that assets allocated to a separate account shall be valued at their market value on those dates. If there is no readily available market for assets in the separate account, then the policy shall specify how the assets would be valued.

DD. SETTLEMENT OPTIONS

- (1) The policy shall contain a description of type(s) and form(s) of settlement option provided in the policy. The guaranteed interest rate and mortality table, if applicable, being utilized for a designated settlement option shall be identified in the policy. In lieu of the interest rate and mortality table disclosure, complete tables of guaranteed settlement option amounts may be included in the policy. At least one settlement option shall be provided on a fixed basis only.
- (2) The policy shall contain a provision stating that any annuity benefits at the time of their commencement will not be less than those that would be provided by the application of the proceeds to purchase a single consideration immediate annuity contract at purchase rates offered by the company at the time to the same class of annuitants whether the annuity benefits are payable in fixed or variable amounts or both, if the company offers a single consideration annuity contract at the time to the same class of annuitants.
- (3) For variable annuity payment options, the policy shall contain a description of how annuity payments are determined.

EE. SUICIDE

- (1) The policy may provide for a suicide exclusion, which may include the phrase “sane or insane.”
- (2) The suicide exclusion shall include the conditions of the provision.
- (3) The suicide exclusion period for the initial coverage shall not exceed two years from the date of issue of the policy. The policy may allow a separate suicide period, no greater than two years from the date of any increase, for any increase in specified amount that was requested by the owner and subject to evidence of insurability. The suicide limitation shall be limited to the amount of the increase.
- (4) At a minimum, a refund of all premiums paid, less dividends paid, any indebtedness and any partial withdrawals, shall be paid by the company in the event of death by suicide during the initial suicide exclusion period. For increases in specified amount, the settlement for suicide shall be at least as favorable as the return of the monthly deductions, including all expenses, for the increase.

FF. VALUES DEFINED

- (1) The policy shall provide a full description of the benefit base (the amount to which the net investment return is applied) and the method of calculation and application of any factors used to adjust variable benefits under the policy. The procedure for the crediting of the variable return to the account shall be clearly described, the order of the application of charges and credits must be described, and all related terms must be fully defined (e.g. net asset value). Each variable policy shall be credited with the full amount of the net investment return applied to the base policy.
- (2) The policy shall stipulate the investment increment factors to be used in computing the dollar amount of variable benefits or other variable contractual payments or values, and must guarantee that expense and mortality results shall not adversely affect the dollar amounts. Guaranteeing a range of values for expense and/or mortality factors shall be allowable. "Expense" as used in this subsection may exclude some or all taxes, as stipulated in the contract.

§4 ADDITIONAL STANDARDS FOR FRATERNAL BENEFIT SOCIETIES

The policy may include the following provisions:

A. MEMBERSHIP

- (1) The certificate may include a provision stating that the insured and/or owner is a member and that the form that has been issued to evidence coverage is a certificate of membership and insurance.

B. MAINTENANCE OF SOLVENCY

- (1) The certificate may include a provision setting forth the legal rights and obligations in the case of a fraternal's financial impairment.

§5 SPECIALIZED PRODUCTS/MARKETING

A. NO LAPSE PROVISIONS

There are at least two basic types of no lapse guarantee premium provisions. The traditional cumulative no lapse provision defines a period of time during which payment of premiums in excess of an accumulation of the specified no lapse guarantee premium will continue the policy in force when it normally would lapse. Another type is the shadow account. This type defines a reference amount equal to an accumulation of premiums at specified minimum interest rates and specified maximum expenses and/or costs of insurance. The interest rates, expenses and costs used for the shadow account may be different than those specified in the policy for purposes of calculating the policy value. Whenever the monthly deduction cannot be paid by the policy value, the shadow account reference amount is checked. If the reference amount is above zero, the policy remains in force. The no lapse premiums may be measured either cumulatively or on a periodic basis. When measured cumulatively the owner is permitted to pour-in additional premiums to "catch up" to the minimum no lapse requirement. Under this method the no lapse requirement and the no lapse test are applied only at the time of lapse. When measured on a periodic basis, the company requires that the no lapse be fully funded on a continual

basis, and that the premiums paid to date must meet the minimum no lapse requirement at specific intervals (such as monthly).

(1) GENERAL FORM REQUIREMENTS

- (1) The policy may provide for no lapse guarantee provisions that guarantee the policy will not lapse so long as premiums paid to date meet a minimum premium requirement or support a minimum accumulation amount. A policy with a no lapse provision shall satisfy the following:
 - (i) Any no lapse premium and the period for which it is payable shall be disclosed on the specifications page. All multiple no lapse periods, if applicable, must be described in the no lapse provision and shown on the specifications page. For policies that allow the applicant to select between various optional guarantee periods and allow for a future change in the guarantee no lapse period, the specifications page must list the selected guarantee no lapse period as well as the maximum guarantee no lapse period.
 - (ii) The no lapse provision shall indicate that, on a guaranteed basis, the policy value at the end of the guarantee period may be insufficient to keep the policy in force unless an additional payment is made at that time. This requirement is not applicable if the policy value at the end of the guarantee period (assuming payment of any no lapse premiums and guaranteed credits and charges) is sufficient to prevent lapse. This will typically be the case for no lapse tests if the surrender charges are zero by the end of the guarantee period. The requirement is also not applicable if the no lapse period extends to the end of the policy, such as a lifetime no lapse period.
 - (iii) The policy shall provide for a grace period with respect to payment of the no lapse premium consistent with the grace period of the underlying policy. The provision shall allow the no lapse premiums to be paid to keep the policy in force as an alternative to the monthly deduction or other amount specified. For no lapse provisions measured periodically, the provision shall also provide for written advance notice prior to termination of the no lapse feature whenever premiums paid are insufficient to maintain the no lapse requirement.
 - (iv) The grace period for the policy shall be coordinated with the grace period provided for the no lapse premium. The amount required to avoid lapse shall be the amount required to fund the no lapse guarantee or the amount to pay any balance due for the monthly deduction, whichever is less. This required amount is the amount to be deducted from any death claim during the grace period.
 - (v) The policy shall address how the underlying policy provisions will operate when the no lapse provision is not in effect and state that, as long as the policy value is sufficient to pay the monthly deduction, the policy will not lapse even if the no lapse guarantee has terminated.

- (vi) The no lapse provision shall state whether or not and to what extent monthly deductions continue while the policy is in force under the no lapse feature, and whether those amounts are due when the no lapse feature is no longer in effect. If the no lapse feature allows a policy to remain in force with a negative account value, then no interest may be “credited” to that value (resulting in an interest charge), and the cost of insurance charge cannot increase the net amount at risk to reflect the negative account value.
- (vii) The policy may allow for the reinstatement of the no lapse provision upon reinstatement of the policy. The reinstatement provision shall describe any additional amounts necessary to reinstate the feature. If applicable, the no lapse provision or Reinstatement provision shall clearly state that the no lapse guarantee will be reinstated only if it was in effect at the time the policy lapsed.
- (viii) The no lapse provision shall not be nullified upon obtaining a loan or partial withdrawal. However, the cumulative premium amounts used to determine the adequacy of the no lapse test may be reduced by loans and partial withdrawal. These amounts may be adjusted for interest. Alternatively, the cumulative premium amounts may be reduced by partial withdrawals but not by loans. In that case, the no lapse provision would not protect a policy from lapse if total indebtedness equals or exceeds the cash value.
 - A. The no-lapse provision shall clearly describe the policy benefits in force when the no-lapse feature is in effect. The amount of the no-lapse guaranteed premium may only be adjusted for policy changes (for example, increases or decreases in the specified amount, death benefit option changes, or addition or deletion of any riders) which are covered by the no-lapse period and whose coverage is continued in force by the no lapse provision.
- (ix) The no-lapse guarantee provision may be terminated due to changes to the policy, such as death benefit option changes, specified amount increases or decreases, and the addition of any riders. However, proper disclosure must be made to the owner: (a) when the policy is issued and (b) when such changes are made to the policy. Alternatively, policy provisions such as death benefit option changes, specified amount increases or decreases, and the addition of any riders cannot be limited, disallowed, or affected due to the existence of the no-lapse guarantee provision.
- (x) When this feature is provided by a policy provision incorporated into the policy, the company may not charge a separate additional premium and/or monthly charge for the no lapse provision.

(2) ADDITIONAL SUBMISSION REQUIREMENTS

- (a) The actuarial memorandum submitted pursuant to the Additional Submission Requirements shall describe all available no lapse periods applicable to each issue age.

(3) VARIABILITY OF INFORMATION

- (a) The policy may provide for various no lapse periods that may be identified as a variable item on the specifications page. The variability of this item is subject to Paragraph (5) of the general Variability of Information section.

B. POLICY PROVIDING FOR PAYMENT OF PROCEEDS IN INSTALLMENTS

- (1) Death benefit shall always be available in a lump sum and installments are optional. If policy proceeds are paid in installments that are determinable prior to the policy maturity, the policy shall contain a table showing the amount of the guaranteed installments.
- (2) A policy that provides installments may provide the owner with the right to commute the installments. If commutation is permitted, the commutation basis should be in the policy.

§6 JOINT FIRST TO DIE STANDARDS

Scope: These standards apply to joint first to die coverage where two insureds are insured and the death benefit is payable upon the first death.

As used in these standards the following definitions apply:

“Joint equal issue age” or “equivalent equal age” is the age used for the determination of policy benefits and values and is determined using the individual issue ages of the insureds covered under the policy.

A. ACTUARIAL MEMORANDUM REQUIREMENT

The Paragraph B. (1)(a), (c), (d), and (g) requirements under §1 Additional Submission Requirements are replaced with the items below.

- (2) Include an actuarial memorandum prepared, dated and signed by the member of the American Academy of Actuaries who provides the following information for all available guarantee periods concerning the determination of the nonforfeiture values:
- (a) (i) Sample calculations at various issue ages involving two insureds illustrating the determination of the maximum excess acquisition expense charge (determined according to Section 4C(6) of the NAIC Variable Life Insurance Regulation, Model #270 using Actuarial Guideline XXIV) and its amortization. A comparison should be shown between these values at each surrender charge duration and the actual initial surrender charge applicable.

The demonstration shall be per \$1,000 amount of insurance for the durations for which surrender charges apply and the minimum policy size. The demonstration shall be presented in the format prescribed in Appendix A of these standards and shall be in accordance with actuarial procedures that recognize the variable nature of the policy;

- (ii) The sample calculations should be prepared for three situations: (i) two insureds, each age 35 (any rate classes may be used), or other representative issue age if the policy is not available at age 35; (ii) one insured of the maximum issue age available under the policy and one insured of the same rate class but of a lesser issue age with that lesser issue age determined using the maximum age differential permitted by the company between insureds; (iii) one insured of the minimum issue age available under the policy and one insured of the same rate class but of an older issue age with that older issue age determined using the maximum age differential permitted by the company between insureds.
- (c) Identification and description of the source of the applicable mortality tables that are the basis of guaranteed maximum cost of the insurance rates. The methodology applicable for determining the rates and insured ages must be the same as that used in developing the mortality table used in demonstrating compliance with the minimums required by the NAIC Variable Life Insurance Regulation, model #270;

The guaranteed maximum cost of insurance rates for two insureds, age 35, one male and one female (any combination of underwriting classes available under the policy may be used). If the policy is not available at age 35, another issue age appropriate to the issue age range under the policy may be used to satisfy the requirements of this Item (d). Any formula consistent with generally accepted actuarial methodologies and applicable Actuarial Standards of Practice may be used to convert the guaranteed maximum annual cost of insurance rates to their equivalent modal guaranteed maximum cost of insurance rates provided such modal rates do not exceed the lesser of:

$$\{1 - (1 - q[t])^{(1/n)}\} / \{(1 - q[t])^{(1/n)}\} \text{ or } 1/n$$

where n equals the number of cost of insurance deductions from the account value per year and q[t] is the annual mortality rate from the applicable table for year t of the policy;

- (g) Identification of the mortality table used in demonstrating compliance with minimums required by Section 4C(6) of the NAIC Variable Life Insurance Regulation, Model #270 using Actuarial Guideline XXIV. The smoker/nonsmoker mortality tables in the NAIC Model Rule (Regulation) Permitting Smoker/Nonsmoker Mortality Tables For Use In Determining minimum Reserve Liabilities And Nonforfeiture Benefits, or the mortality rates which are a blend of the male and female rates in the NAIC Procedure For Permitting Same Minimum Nonforfeiture Standards For Men and Women Insured Under 1980 CSO And 1980 CET Mortality Tables, or any other mortality tables approved for use by the NAIC in determining minimum nonforfeiture values, may be used in

determining minimum nonforfeiture values. The actuarial memorandum should also include a description of the methodology to be used for determining the ages to be used for determining the mortality rates (for example, exact ages and rate classes, equivalent equal age, table of uniform seniority, or joint equal issue ages). The methodology should be described in a generally accepted publication of the actuarial profession, and information adequate to support its general acceptance and validity shall be included with the filing. If applicable for the policy form submitted, for issue ages less than that for which rates are nonsmoker/smoker distinct, the composite version of the mortality table shall be used for demonstrating compliance.

B. COVER PAGE

The Paragraph A. (9) under §2 General Form Requirements is added.

- (9) The caption shall also include a reference to Joint First to Die coverage and indicate that the insurance is payable on the death of the first insured to die.

C. SPECIFICATIONS PAGE

The Paragraph B. (1) under §2 General Form Requirements is replaced with the paragraph below.

- (1) The specifications page shall include the benefits, amounts, durations, premium information, and any other benefit data applicable to the insureds. The specifications page shall list the actual ages of all insureds along with, if applicable, the joint equal issue age or equivalent equal age.

D. DEATH BENEFIT PROCEEDS

The Paragraph G. (4) under §3 Policy Provisions is replaced with the paragraph below and Paragraph (5) is new.

- (4) The policy may require that due proof of the death of the first insured to die will consist of a certified copy of the death certificate of the insured, or other lawful evidence providing equivalent information, and proof of the claimant's interest in the proceeds.
- (5) The policy shall state that the death benefit is payable upon the death of the first insured to die.

E. INCONTESTABILITY

The Paragraph M. (2) under §3 Policy Provisions is replaced with the paragraph below.

- (2) The contestable period shall be no greater than two years from the date of issue during the lifetime of the first insured to die.

F. MATURITY DATE EXTENSION

The Paragraph Q. (1)(e) under §3 Policy Provisions is added.

- (1) (e) The age for maturity shall be based on the age of the youngest insured.

G. MISSTATEMENT OF SMOKING STATUS

The Paragraph S. (1) under §3 Policy Provisions is replaced with the paragraph below.

- (1) In lieu of the right to contest the policy based on a misstatement of smoking status, the policy may provide during the first two policy years for an adjustment due to a misstatement of smoking status of an insured. The adjusted death benefit shall be that amount which would have been purchased at the correct smoking status in consideration of the most recent mortality charge by adjusting the net amount at risk by the ratio of the incorrect cost of insurance rate to the correct cost of insurance rate. In this instance the company shall not make any retrospective recalculations to the account value. The company may adjust future months' deductions so as to reflect the corrected smoking status.

Appendix A

Flesch Methodology

The following measuring method shall be used in determining the Flesch score:

- (1) For policy forms containing 10,000 words or less of text, the entire form shall be analyzed. For policy forms containing more than 10,000 words, the readability of two, 200-word samples per page may be analyzed instead of the entire form. The sample shall be separated by at least 20 printed lines.
- (2) The number of words and sentences in the text shall be counted and the total number of words divided by the total number of sentences. The figure obtained shall be multiplied by a factor of 1.015.
- (3) The total number of syllables shall be counted and divided by the total number of words. The figure obtained shall be multiplied by a factor of 84.6.
- (4) The sum of the figures computed under (2) and (3) subtracted from 206.835 equals the Flesch reading ease score for the policy form.
- (5) For purposes of (2), (3), and (4), the following procedures shall be used:
 - (a) A contraction, hyphenated word, or numbers and letters, when separated by spaces, shall be counted as one word;
 - (b) A unit of words ending with a period, semicolon, or colon, but excluding headings and captions, shall be counted as a sentence; and
 - (c) A syllable means a unit of spoken language consisting of one or more letters of a word as divided by an accepted dictionary. Where the dictionary shows two or more equally acceptable pronunciations of a word, the pronunciation containing fewer syllables may be used.
- (6) The term “text” as used in this section shall include all printed matter except the following:
 - (a) The name and address of the company; the name, number or title of the policy; the table of contents or index; captions and sub-captions; specifications pages, schedules or tables; and;
 - (b) Any policy language which is drafted to conform to the requirements of any federal law or regulation; any policy language required by any collectively bargained agreement; any medical terminology; any words which are defined in the policy; and any policy language required by law or regulation; provided, however, the company identifies the language or terminology excepted by the paragraph and certifies, in writing, that the language or terminology is entitled to be excepted by this paragraph.

Date: 08/25/16

Adopted by the IIPRC

Individual Flexible Premium Variable Adjustable Life Insurance Policy Standards

(7) At the option of the company, riders, endorsements, applications and other forms made a part of the policy may be scored as separate forms or as part of the policy with which they may be used.

Appendix B-1

Rating Class: _____

Specified Amount Assumption: _____

Table of Per \$1,000 Maximum First Year Excess Expense Allowances

Issue Age	SNFL Max Excess 1 st Yr Expense Allowance	Gross Premium	Actual Excess 1st Year Expenses	Unamortized Excess 1st Yr Expense Allowance	Unamortized Excess First Year Expense Allowance End Of Year: *														
					1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
0																			
1																			
2																			
3																			
4																			
5																			
.																			
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.																			
.																			
65																			
66																			
67																			
68																			
69																			
70																			

* Values will be shown for all policy years for which the surrender charge at the end of the year is greater than zero.

Appendix B-2

Rating Class: _____

Specified Amount Assumption: _____

Table Of Per \$1,000 Surrender Charges

Issue Age	Initial Surrender Charge	Surrender Charge End Of Year: *														
		<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>	<u>8</u>	<u>9</u>	<u>10</u>	<u>11</u>	<u>12</u>	<u>13</u>	<u>14</u>	<u>15</u>
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* Values will be shown for all policy years for which the surrender charge at the end of the year is greater than zero.

Appendix C

SAMPLE

CERTIFICATION OF COMPLIANCE

In my opinion, the nonforfeiture values available under this policy equal or exceed the minimums required under Section 6A of the NAIC Variable Life Insurance Regulation, Model #270 using Actuarial Guideline XXIV for all ages, rate classes, and durations at which the policy is available.

I have performed the following analysis, in accordance with all applicable actuarial Standards of Practice and Actuarial Guidelines, in support of this opinion:

[Describe the Nature of the Analysis Performed In Support of this Opinion]

Appendix D

FRATERNAL BENEFIT SOCIETIES

Fraternal Benefit Societies (“fraternals”) are subject to separate fraternal codes in all jurisdictions due to their unique structure, operations and legal obligations. The Drafting Notes included under the Scope, AMENDMENTS, ARBITRATION and ENTIRE CONTRACT standards, the new section entitled ADDITIONAL STANDARDS FOR FRATERNAL BENEFIT SOCIETIES, and Appendix D are included in the standards to allow fraternals to experience the benefits of participating in the single point of filing and review process that the IIPRC offers, without jeopardizing their ability to meet their unique obligations and to operate as required or permitted by law.

By law, a fraternal is defined by five basic elements:

1. one without capital stock;
2. one conducted solely for the benefit of its members and their beneficiaries by providing life, health and annuity benefits and by operating one or more social, educational, charitable, patriotic, or religious purposes for the benefit of members and others;
3. one that is a benevolent and charitable institution and not for profit;
4. one operated on a lodge system that may carry out charitable and other activities; and
5. one that has a representative form of government with a governing body and direct election of its members.

The laws governing fraternals impact the standards in several ways. Fraternals are required by law to issue insurance contracts that incorporate the laws of the Society and the application for membership. Thus, the contract must consist not only of the policy or certificate issued, and the application for insurance, but also the application for membership and the articles and bylaws. Further, the laws governing fraternals require or permit that the articles and bylaws address the structure of lodges, membership requirements, form of governance, grievance procedures, and eligible beneficiaries. Any amendments to the articles or bylaws made after issuance of a certificate must be applied consistently to all members retroactively. However, no amendment shall eliminate or reduce contractual benefits.

By law, fraternals are membership organizations. Because of this, the law refers to the insurance forms issued to members of a fraternal as “certificates” or “certificates of membership and insurance”. Further, due to the membership requirements, fraternal certificates often include a provision stating that the insured and/or owner is a member and that the form that has been issued to evidence coverage is a certificate of membership and insurance. In addition, fraternal certificates may include a Maintenance of Solvency provision setting forth the legal rights and obligations in the case of a fraternal’s financial impairment.