

The company's Universal Insurance Product

Instructor note

Time

2 hours

Audience

This module is appropriate for any audience being trained who needs to understand the basics of The company's Universal Insurance (UI) product. At minimum, participants should have successfully completed the universal insurance section of the Pictorial Life Basics manual.

Materials

Overheads

Participant handouts

Preparing to Deliver

Review the basic universal insurance section of the Pictorial Life Basics manual. Make sure you are familiar with all details of the UI product. Also, review the Traditional Products module so that you can compare and contrast the UI and Traditional products as appropriate in this training session.

You should also be prepared to discuss issues related to the class action as appropriate during the delivery of this session.

Overhead 2

Review the objectives and overview of the training module.

Module objectives

Upon completion of this module, you should be able to:

- Identify and describe the basic benefits of The company's non-traditional life insurance products
- Describe the features of The company's Universal Insurance product (UI).
- Identify and define the allegations that involve the The company's Universal Insurance product (UI).
- Distinguish between a UI policy history and inquiry.

Continued on next page

The company's Universal Insurance Product, Continued

In this module This module covers the following topics:

Topic	See Page
Lesson 1: Introduction to Non-Traditional Life Insurance	3
Activity: The Circle of Life Insurance	8
Lesson 2: The company's Universal Insurance Product (UI)	11
Lesson 3: Typical Life Cycle Activities	27
Lesson 4: UI Related Allegations	34
Lesson 5: Introduction to UI Policy Histories and Inquiries	40
Module Summary	42

Lesson 1: Introduction to Non-Traditional Life Insurance

Introduction As insurance consumers and their needs have become more sophisticated, insurance companies have developed products offering additional features. Non-Traditional life insurance combines the features of traditional whole life insurance with more attractive value enhanced benefits.

Purpose The purpose of this lesson is to help you understand why non-traditional life insurance is an attractive product and to introduce you to concepts associated with this.

Continued on next page

Lesson 1: Introduction to Non-Traditional Life Insurance, Continued

Instructor note Before displaying the overhead:

Ask: What are the life insurance products that fall into the category of permanent life insurance?

- *Whole Life*
- *Variable*
- *Universal*
- *Variable Universal*

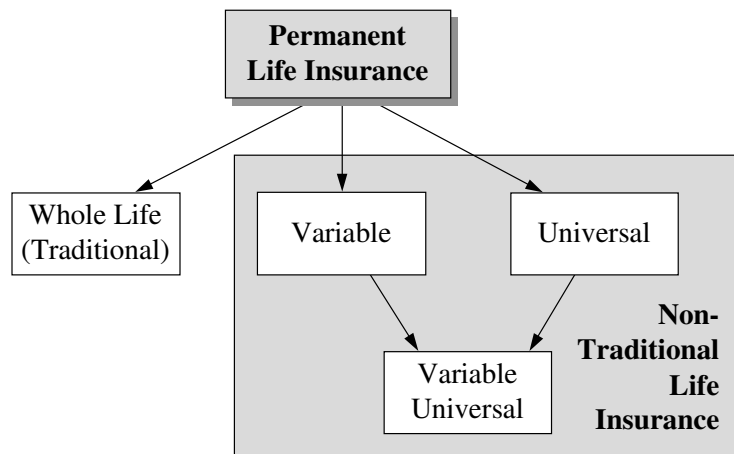
Overhead 3

Review the products that fall in the category of Permanent Life Insurance. Distinguish between traditional and non-traditional insurance products. Remind the participants that they learned about Permanent Life Insurance in the Pictorial Life Basics manual.

Permanent life insurance

Like whole life, or traditional life insurance, non-traditional life insurance is permanent life insurance. Unlike term insurance which provides a death benefit to beneficiaries when the policy holder dies within a defined period of time, or term, permanent life insurance can accumulate a cash value.

Permanent life insurance encompasses the following types of life insurance.



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Lesson 1: Introduction to Non-Traditional Life Insurance, Continued

Non-traditional life insurance Non-traditional life insurance includes the following types of life insurance:

- Variable
- Universal
- Variable Universal

Non-traditional product premium payments are used to cover the costs associated with the life insurance portion of the contract as well as administering the investment aspect of these products. Once all charges are deducted, the remaining premium is placed into an investment account(s) to accumulate value. The value accumulation varies, depending on the investments selected and the product line.

Instructor note

Overhead 4

Review the characteristics of non-traditional life insurance. Be sure to present the information that appears in the 2 features and benefits tables that follow.

Reasons for choosing non-traditional life insurance

Policy holders who select non-traditional life insurance over traditional life insurance typically want or need:

- Flexible premiums
 - Adjustable death benefit
 - Greater control over investments and accumulation of cash value
-

Continued on next page

Lesson 1: Introduction to Non-Traditional Life Insurance, Continued

Features & benefits

The following are benefits that both traditional and non-traditional products have in common.

Features	Benefits
Death benefit for the entire life of the insured	Peace of mind due to guaranteed death benefit regardless of the age of the insured when he/she dies
Policy accumulates cash value	Loans may be taken against the policy's accumulated cash value
	Policy can be surrendered for the partial or full accumulated cash value
Riders can be added to increase or change coverage at a later date	Flexibility for accommodating future needs
Death benefit is generally not taxable income	Beneficiary receives full death benefit

Non-traditional features and benefits

Listed below are some of the features and benefits of non-traditional life insurance products that distinguish them from traditional whole life insurance.

Features	Benefits
Premium payment flexibility	More control over when the payments are made allowing greater financial flexibility.
Additional investment control	Allows policyholders to have some say in how their premium dollars are invested. Premium dollars can be directed to a particular category of investment.
Death benefit options increase the amount of insurance paid to the beneficiary	Enables the policyholder to maximize the amount of death benefit purchased which can provide a hedge against inflation.

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Lesson 1: Introduction to Non-Traditional Life Insurance, Continued

Instructor note **Overhead 5**

Review the risks associated with non-traditional life insurance as they are listed below and on the overhead.

Risks

Risks associated with non-traditional life insurance are outlined below.

- Policyholders cannot assume that positive rates of return will continue.
 - Premium payment flexibility is not guaranteed (investment performance is also factored in).
 - In some types of non-traditional life insurance, the policyholder has control over the investment decisions and should monitor investment performance.
-

Instructor note **Overhead 6**

Review the list of The company's non-traditional products as they appear below and on the overhead.

**The company's
non-traditional
life products**

Non-traditional product lines that The company currently offers or has sold in the pasts are listed below:

- Variable Life (VLI)
- Flexible Variable Life (FLV)
- Universal (UI)
- Variable Universal (Medallion or MVL)

The remainder of this training module focuses specifically on The company's Universal (UI) product.

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Activity: The Circle of Life Insurance

Instructor note

Introduce the first exercise of the module. Mention that the purpose is to provide an opportunity for the participants to think about how life stage issues affect a person's need for life insurance.

The trainer has the option of conducting this exercise as an individual or group activity.

Directions:

- If conducting as a group activity, create groups of 3 to 5 participants.
- Instruct the groups (or individual participants) to:
 1. Direct their attention to the "Circle of Life Insurance" table that follows.
 2. Read the information that appears in the "Life Stage and Age" and "Important Life Issues" columns.
 - Consider (if in groups, discuss) the need for life insurance for each of the six stages of life listed in the table.
 3. Decide how much life insurance is needed during each life stage. Limit choices to:
 - No life insurance needed
 - Low amount needed
 - Medium amount needed
 - High amount needed
 4. Prepare to discuss rationale for each answer.
- Reconvene and discuss with the entire class.

**Participant
Activity:
Circle of Life
Insurance**

Just like preferences for music, hair styles and clothing, people's wants and needs change many times during their lives. Life insurance priorities also change as people move from one stage of their lives to another.

For many people, flexibility is an important characteristic to consider when making a decision to purchase life insurance. This activity is designed to provide you with an opportunity to think about how life insurance priorities change during a person's life.

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Activity: The Circle of Life Insurance, Continued

Directions

Discuss with members of your group, each of the 6 phases of life that are identified in the table that follows. As you think about the living priorities of each phase consider the need for life insurance. In the right hand column of the table, indicate the amount of life insurance that you think you should have for each of the 6 phases. Limit your answers to these responses:

- No life insurance
- Low amount of life insurance
- Medium amount of life insurance
- High amount of life insurance

When you are done, you will be asked for your answers and an explanation of the thought process that led to your answers.

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Activity: The Circle of Life Insurance, Continued

Life stage & age	Important life issues	Need for life insurance
College student, Age 20	<ul style="list-style-type: none"> • Living away from home • Studies and grades • Job after graduation • How to attend 11 parties Friday night. 	
First real job, Age 25	<ul style="list-style-type: none"> • Rent, car loan, paying school loans • Career • Playing golf • Graduate school • Moving back with mom and dad 	
Married, Age 30	<ul style="list-style-type: none"> • Buying a first home • Planning a family • Advancing career • Avoiding the in-laws 	
Still married, 2.5 kids, Age 40	<ul style="list-style-type: none"> • Raising kids • Paying the mortgage • Saving for retirement • Saving for college tuition • Planning Disney vacation • Attending daughter's 1:00 soccer game in Springfield • Attending son's 1:00 soccer game in Newburyport 	
Still married, Kids gone, Age 50	<ul style="list-style-type: none"> • Meeting first grandchild • Playing golf • Worrying about retirement • Planning trip to Las Vegas • Making sure kids don't move back home 	
Spouse deceased, Age 68	<ul style="list-style-type: none"> • Selling family home • Staying independent • Thinking about golf • Playing bingo 	

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Lesson 2: The company's Universal Product

Introduction

Universal insurance was designed in response to policyholders needs for an insurance policy that would keep pace with inflation, recession, high interest rates, and stock market fluctuations like those that occurred in the 1980's.

Policyholders want the flexibility to change both the premiums and death benefits of their life insurance policies. They also want access to the cash value of their policy and to take advantage of high interest rates and stock market gains. In response, insurance companies have designed and offer what is now known as, universal insurance.

Purpose

The purpose of this lesson is to help you understand the features and benefits of universal and how it differs from other types of non-traditional life insurance.

Continued on next page

Lesson 2: The company's Universal Product, Continued

Instructor note

Overhead 7

Introduce the target markets for The company's UI product.

**Target markets
for Universal
Insurance (UI)**

Universal Insurance (UI) is a good life insurance alternative for people whose needs include:

- Low cost permanent death benefit
 - Ability to accumulate a cash value
 - Ability to adjust premiums to match changing needs
 - Option to change death benefit without purchasing an additional policy
-

**The company's
Universal
product (UI)**

Universal Insurance (UI) is the The company universal product. It is an "unbundled" product. Premiums are used to pay an initial sales load, monthly mortality costs, and policy maintenance charges. The balance of the premium earns interest and accumulates as cash value or increased death benefit.

UI allows policyholders to:

- Increase and decrease premium payments
 - Make additional lump-sum deposits
 - Increase or decrease the policy face amount as protection needs change
 - Change their death benefit option depending on whether they need accumulated cash values for income, or an increased death benefit for their family
-

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Lesson 2: The company's Universal Product, Continued

Instructor note

Overhead 8

Review the information regarding UI's premiums. Be sure to use the "Bucket Theory" graphic to discuss what happens each premium dollar.

**Flexible
premium**

A flexible premium permits a policyholder to increase or decrease the premium amount that is paid in accordance with the premium stated in the contract. If the policyholder pays more premium than is required to meet the cost of insurance plus other costs, the universal policy accumulates cash value.

The amount of flexibility is subject to maximum contribution amounts that are legislated through the Technical and Miscellaneous Revenue Act (TAMRA) which was signed into law in 1988. TAMRA was enacted to discourage policyholders from using life insurance products as investment vehicles for the favorable tax treatment they provide.

The minimum allowable premium depends on the availability of accumulated cash value in the policy. If the cash value is greater than the cost of insurance, the policy holder may be able to skip a premium payment.

A policy's cash value is determined by the premiums contributed in the past, and the interest that has accrued on the cash value. A minimum interest rate of 4% is guaranteed. Prior to January 1, 1989, the minimum interest rate was 4.5%. Depending on market conditions, the interest return can exceed 4%.

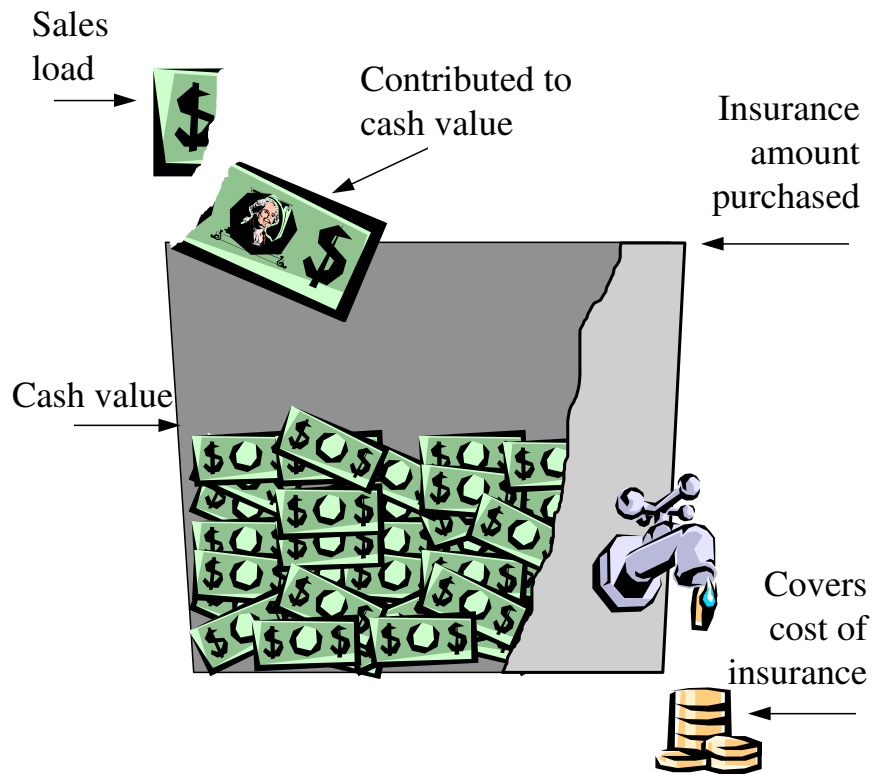
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Lesson 2: The company's Universal Product, Continued

Example:
bucket theory

The following graphic demonstrates how a premium dollar:

- Contributes a portion as a sales charge or load
- Contributes to the policy's cash value
- Covers cost of insurance



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Lesson 2: The company's Universal Product, Continued

Instructor note Review the example flexible premiums presented below. Be sure to point out:

- Varying contribution amounts
- Constantly increasing insurance cost
- Interest accruals
- Changing cash value

**Example:
flexible
premium** The universal contract used in this example calls for a \$750 premium. During the first five years the following premiums have been contributed and interest amounts have accrued on the cash value:

Year	Contribution	Insurance Cost	Interest	Cash Value
1	\$750	\$450	\$19	\$319
2	\$1,000	\$515	\$62	\$866
3	\$750	\$586	\$70	\$1,100
4	\$0	\$671	\$24	\$453
5	\$1,750	\$764	\$83	\$1,522

After premium contributions and interest accruals for years 2 and 3, the cash value exceeded the amount required for the cost of insurance. In year 4, the policyholder made no premium contribution. However, because the policy's accumulated cash value is sufficient to pay the cost of insurance, the policy will not lapse even though no premium was contributed for the year.

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Lesson 2: The company's Universal Product, Continued

Instructor note

Overhead 9

Review the information that follows regarding:

- Lump sum payments - Mention that lump sum payments can increase the policy's capacity to accrue interest.
- Grace period provided when the cash value is less than the monthly deduction for the cost of insurance.
- Adjustable death benefit - Point out that a policyholder can increase or decrease the policy's death benefit. Note that an increase may require evidence of insurability.
- Death benefit options - Introduce the death benefit options which will be reviewed in more detail later in this lesson.

Lump sum payments

UI policyholders can make lump-sum deposits to pay premiums. This is another way of increasing the cash value of the account quickly. Some universal policies were issued and funded with a lump-sum deposit from other policies.

Grace period

When the cash value account no longer contains enough money to pay the next cost-of-insurance deduction, coverage under the contract expires. There is generally a 30 day grace period. During this grace period, the policyholder must make a premium payment to keep the policy in force.

Adjustable death benefit

Like premiums, policyholders may adjust the death benefit of their Universal policy. Subject to certain limits, the policyholder may either increase or decrease the stated death benefit. Neither an increase nor decrease in death benefit requires issuing a new policy. However, evidence of insurability is required to increase the death benefit.

Death benefit options

There are three death benefit options offered with The company's Universal Insurance (UI) product. These three options are:

- Level Death Benefit (Option 1)
 - Increasing Death Benefit (Option 2)
 - Death Benefit Indexed to the Consumer Price Index (CPI) (Option 3)
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Lesson 2: The company's Universal Product, Continued

Instructor note

Overhead 10

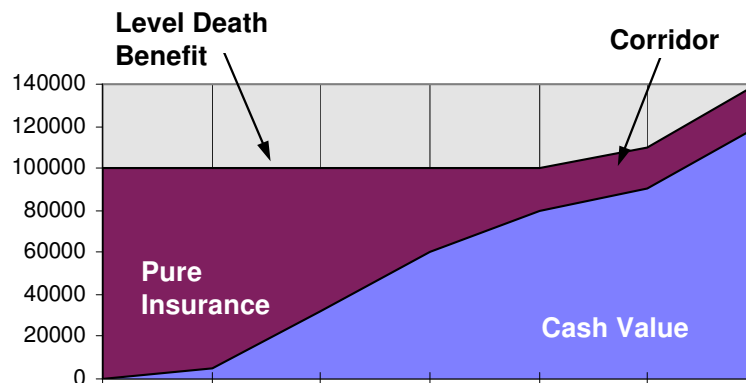
Discuss the Level Death Benefit (Option 1). Use the graphic on the overhead to illustrate the:

- Level death benefit
- Reduction in pure insurance as the cash value accumulates
- Corridor that is created to ensure that the death benefit always exceeds the cash value until the policy matures

Level Death Benefit (Option 1)

Like traditional whole life insurance, the Level Death Benefit (Option 1) provides an initial face amount, and depending on premium payments, an accumulation of cash value. Ideally, an UI policy should be funded so that the cash value grows and the net amount at risk (face amount less account value) decreases steadily.

The tax laws prohibit the account value from growing too large in comparison to the death benefit. Through age 95 (age 100 on variable life insurance policies like VLI and Medallion), there must always be a pure insurance element. The UI product that The company sold during the class period terminates when the policyholder reaches an age of 95, the earliest age allowed under the tax law, and the account value was paid out. The account value may be less than the death benefit, and if fully funded it would have been equal to the face amount at maturity. The account value is never greater than the death benefit.



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Lesson 2: The company's Universal Product, Continued

Instructor note

Overhead 11

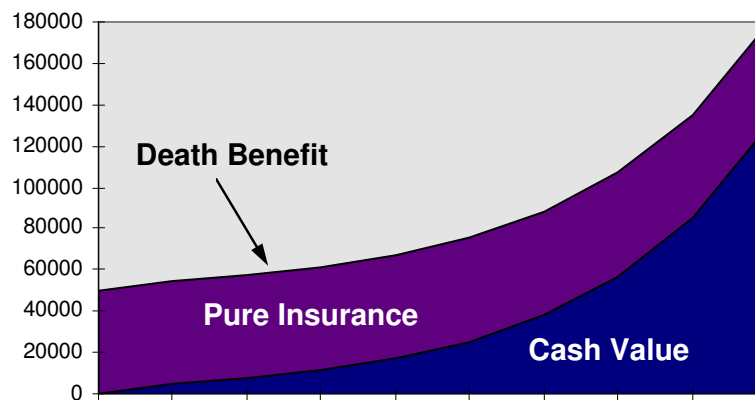
Discuss the Increasing Death Benefit (Option 2). Use the graphic on the overhead to illustrate how the:

- Amount and cost of pure insurance stays constant
 - Death benefit is equal to the face amount plus accumulated cash value
-

**Increasing
Death Benefit
(Option 2)**

The death benefit provided by the Increasing Death Benefit (Option 2) is equal to the face amount of the policy plus the policies accumulated cash value. Unlike the Level Death Benefit (Option 1), the amount of pure insurance remains the same for the life of the policy. As a result, the cost of insurance does not decrease over the policies life as it does with the Level Death Benefit (Option 1).

The Increasing Death Benefit (Option 2) is illustrated in the graphic below.



**Death Benefit
Indexed to the
CPI
(Option 3)**

Option 3 provides a death benefit that is indexed to the Consumer Price Index (CPI). Annually the death benefit is adjusted in accordance with the CPI. In years when the CPI declines, the death benefit remains at the prior years death benefit. While the death benefit increases when the CPI increases, the death benefit does not decline when the CPI declines.

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Lesson 2: The company's Universal Product, Continued

Instructor note

Overhead 12 & 13

Discuss how interest accrues to the cash value that accumulates on a UI policy. Be sure to discuss both:

- Interest Crediting
- Bonus Interest Crediting

**Interest
crediting**

The accumulated cash value of a UI policy accrues interest daily. The amount of interest that accrues is based upon current interest rates in the The company portfolio. The minimum interest rate that will accrue on the accumulated cash value in a UI policy issued after January 1, 1989 is 4%. Policies issued before January 1, 1989 accrued interest at a rate of at least 4.5%. These rates represent the policy's guaranteed minimum interest rate.

Note that the policy value is invested in the Company's General Account. The company takes responsibility for the risk of investing the assets in the General Account. This is in contrast to The company's variable and variable universal products which offer policyholders the option to invest accumulated cash value in one or more investment accounts. In choosing this option, policyholders assume the risk associated with making all investment decisions.

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Lesson 2: The company's Universal Product, Continued

Bonus interest credit

At the beginning of a UI policy's eleventh policy year, the accumulated cash value becomes eligible for a bonus interest credit. Loaned cash value amounts are not eligible. The bonus interest credit accrues to the non-loaned policy cash value under the following conditions:

- The policy has started at least the eleventh policy year.
- When portfolio's interest crediting rate is 8% or more, a bonus interest credit of 50 basis points accrues on the non-loaned cash value.
- When the policy's interest crediting rate is between 4% and 8%, a bonus interest credit also accrues on the non-loaned cash value. The amount of the bonus credit decreases uniformly from 50 to 0 basis points. One basis point is equal to one hundredth of one percent.

For example if the policy's interest crediting rate is 8% the policy accrues a bonus interest credit of 50 basis points (half of one percentage point).

When the interest crediting rate is 4% the bonus interest rate is 0.

How interest and bonus interest credit accrue on the accumulated cash value of a UI policy is described in the table below.

If the interest crediting rate is:	And the current policy year is:	Then the interest accrues at:
4% or below	Any year	4%
Between 4% and 8%	No more than the tenth policy year	Current interest crediting rate
	Start of at least the eleventh policy year	Current market rate plus a bonus interest credit which decreases uniformly from: <ul style="list-style-type: none"> • 50 basis points (half a percentage point) when the rate is 8% • 0 basis point when the rate is 4%
8% or higher	No more than the tenth policy year	Current interest crediting rate
	Start of at least the eleventh policy year	Current interest crediting rate plus 50 basis points (half a percentage point).

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Lesson 2: The company's Universal Product, Continued

Instructor note

Overhead 14 & 15

Discuss how policyholders can take a loan against the cash value that they have accumulated in their UI policy. Make sure to discuss:

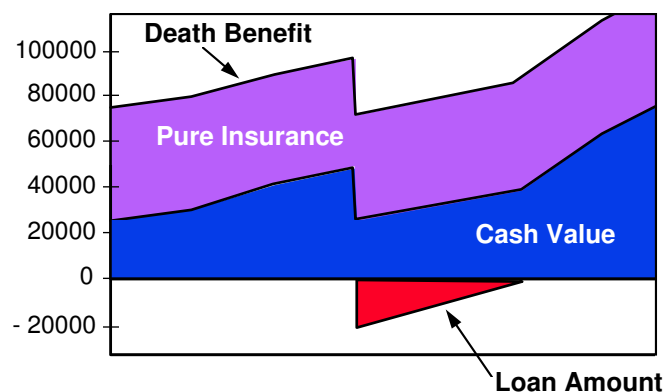
- Loans available after the 1st year of the policy
- Maximum loan amount is equal to the surrender value of the policy
- Death benefit is reduced by the outstanding loan amount

Policy loans

Policy loans are available to universal policyholders like any other cash value life insurance policy. These loans are offered at a low interest charge. Cash value and death benefits are reduced by the amount of the policy loan, as illustrated in the graphic below. Loans are considered tax deferred. The loan interest rate can be fixed or variable.

The assets or portion of accumulated cash value that is withdrawn as part of the loan, continues to accrue interest but at a reduced rate. The rate at which the loaned assets accrue interest is as follows:

- Prior to January 1, 1989, the rate was equal to the interest rate of the loan minus 3%.
- After January 1, 1989, the rate was equal to the interest rate of the loan minus 2%.



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Lesson 2: The company's Universal Product, Continued

Instructor note

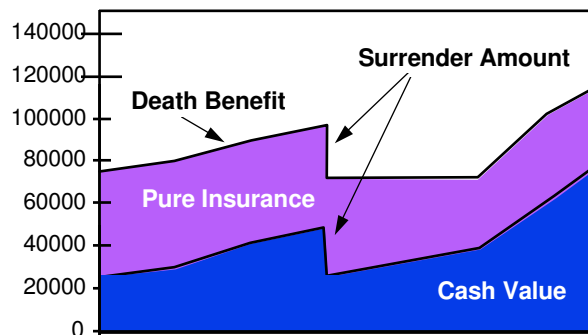
Overhead 16 & 17

Present the following information regarding taking a partial surrender from the cash value that has accumulated on a UI policy:

- Available after the first year
- \$25 transaction fee
- No surrender charge
- \$500 cash value must remain in the policy
- Reduces the death benefit
- Maybe taxable

Withdrawal or partial surrender

Another means of obtaining funds from the cash value of a universal contract is through withdrawal or partial surrender. The policyholder withdraws the desired cash directly from the policy's cash value and pays a service charge. The policy's death benefit is reduced by the amount of the partial surrender as illustrated in the graphic below.



Partial surrenders are subject to the following rules and conditions:

- Not available during the first policy year.
- No surrender charges. Surrender charges apply only to a full policy surrender.
- At least \$500 of surrender value must remain in the policy after a partial surrender.
- The company reserves the right to limit the number of partial surrenders and may defer payment up to six months.
- Under current tax law, partial surrender may be taxable.

Continued on next page

Lesson 2: The company's Universal Product, Continued

Instructor note

Overhead 18

Review the following information regarding how a policy will lapse:

- When the policy has a negative surrender value (except during MMPP)
 - Cash value is insufficient to cover the cost of insurance
 - Lapse notice is sent to the policyholder
 - Payments to keep the insurance in force
-

Policy lapse procedure

The UI policy will lapse if the surrender value is negative unless the policy is within the Minimum Monthly Premium Period (MMPP). If the accumulated target premiums have been paid during the MMPP, the policy will not lapse even if there is a negative surrender value.

After the MMPP the policy will lapse if the cash value is insufficient to cover the cost of insurance and other applicable fees (i.e. maintenance charges). Payment of the target premium should prevent lapse in most instances if there are no outstanding loans or partial surrenders..

After the MMPP, if the cumulative target premiums have not been paid or if the surrender value is negative, the policy will lapse and a lapse notice will be generated. To keep the policy in force, the lapse notice will request that the policyholder provide the lesser of a:

- Cumulative target premium
- Amount sufficient to create a positive surrender value, also known as the default amount.

The amount must be submitted prior to the end of the grace period or the policy will lapse. If the amount is not provided before the completion of the grace period, the insurance will be terminated and a notice will be sent to the policyholder.

Continued on next page

Lesson 2: The company's Universal Product, Continued

Instructor note Review the following information regarding policy maturity:

Policy Maturity The UI policy matures when the policyholder reaches the age of 95. On the anniversary date closest to the policyholders 95th birthday, the policy will endow for the cash value. The methods of distributing the cash value to the policyholder and the tax consequences are described below:

- One time payment of the entire cash value. The policyholder must pay taxes in the current tax year on the entire cash value distribution.
- Installments spread over a period of time. The policyholder will pay taxes on the amount received during each tax year.

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Lesson 2: The company's Universal Product, Continued

Instructor note Direct the participants to complete the activity. There are 8 true/false questions below. Provide participants about 5 minutes to answer the questions. When done, discuss the correct answers with the class.

Questions		True	False
	1. In the case of a UI policy, the policyholder accepts more investment risk than The company.	<input type="checkbox"/>	<input checked="" type="checkbox"/>
	2. A UI policy should be set up so that over time the cash value increases while the cost of insurance decreases.	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	3. TAMRA restricts the minimum tax deferred contributions that can be made to a life insurance policy.	<input type="checkbox"/>	<input checked="" type="checkbox"/>
	4. In the case of the Level Death Benefit (Option 1), the cash value of the policy will always be less than the death benefit, except when the policy matures.	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	5. Policies with the Increasing Death Benefit (Option 2) experience a decrease in the cost of insurance as the cash value increases until the policy matures.	<input type="checkbox"/>	<input checked="" type="checkbox"/>
	6. A lump sum premium payment is not permitted on a UI policy.	<input type="checkbox"/>	<input checked="" type="checkbox"/>
	7. A loan taken against the value of a policy will reduce the death benefit and cash value until the loan is repaid.	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	8. The UI policy pays out the entire cash value of the policy when the policy matures. This occurs on the anniversary date closest to the policyholders 95 th birthday.	<input checked="" type="checkbox"/>	<input type="checkbox"/>

Lesson 2: The company's Universal Product ,Continued

Questions		True	False
	1. In the case of a UI policy, the policyholder accepts more investment risk than The company.	<input type="checkbox"/>	<input type="checkbox"/>
	2. A UI policy should be set up so that over time the cash value increases while the cost of insurance decreases.	<input type="checkbox"/>	<input type="checkbox"/>
	3. TAMRA restricts the minimum tax deferred contributions that can be made to a life insurance policy.	<input type="checkbox"/>	<input type="checkbox"/>
	4. In the case of the Level Death Benefit (Option 1), the cash value of the policy will always be less than the death benefit, except when the policy matures.	<input type="checkbox"/>	<input type="checkbox"/>
	5. Policies with the Increasing Death Benefit (Option 2) experience a decrease in the cost of insurance as the cash value increases until the policy matures.	<input type="checkbox"/>	<input type="checkbox"/>
	6. A lump sum premium payment is not permitted on a UI policy.	<input type="checkbox"/>	<input type="checkbox"/>
	7. A loan taken against the value of a policy will reduce the death benefit and cash value until the loan is repaid.	<input type="checkbox"/>	<input type="checkbox"/>
	8. The UI policy pays out the entire cash value of the policy when the policy matures. This occurs on the anniversary date closest to the policyholders 95 th birthday.	<input type="checkbox"/>	<input type="checkbox"/>

Lesson 3: Typical Life Cycle Activities

Introduction

There are a number of milestones during the life of a UI policy. From the inception of the policy to its maturity, the policy can be changed or terminated for a number of reasons.

Purpose

The purpose of this lesson is to help you understand the activities and milestones of a UI policy. In particular, the events that terminate or end a UI policy are presented.

Continued on next page

Lesson 3: Typical Life Cycle Activities, Continued

Instructor note

This lesson is designed to discuss the activities that can take place at several different point in the life of a policy. This is an opportunity for you as the trainer to significantly enhance the training using your experience. In particular, you should be prepared to discuss the allegations of the class action as they apply to life cycle of the typical UI policy.

Overhead 19

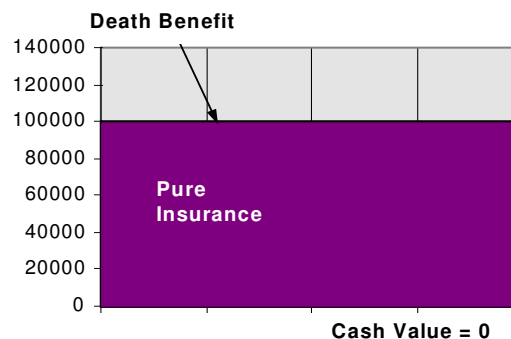
Mention that every UI policy begins with a contract stipulating the policy's:

- Mortality
- Investment
- Expense factors
- Death benefit vs. policy value at inception
- Billing

Policy inception

Because UI is an unbundled product, the factors used for structuring the premiums are stated and can be tracked separately. The three components are:

- Mortality
- Investment
- Expense factors



Billing

For policies with a planned premium, The company mails a premium bill to the policyholder. Typically, this occurs 21 days before the premium is due. If the premium is paid the policy continues in force. Note that bills sent to policyholders do not include interest due on outstanding loans.

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Lesson 3: Typical Life Cycle Activities, Continued

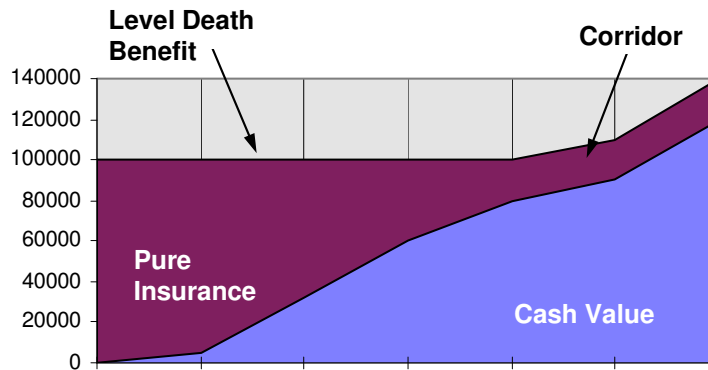
Instructor note

Overhead 20

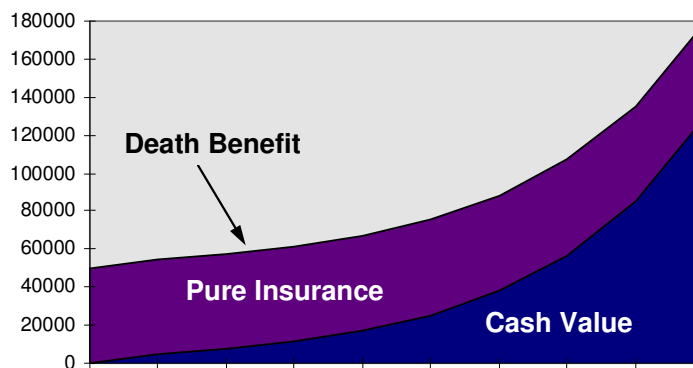
Review how the policy will accumulate cash value over time. Be sure to contrast the effect of cash value accumulation on Level Death Benefit (Option 1) and Increasing Death Benefit (Option 2).

Cash value accumulation

Depending on the premiums paid by the policyholder, the policy begins to accumulate a cash value. If the policy is a Level Death Benefit (Option 1) policy, the cost of insurance will decrease as the cash value increases.



Policies with the Increasing Death Benefit (Option 2) will experience an increase in the policy's death benefit that corresponds with the accumulation of cash value.



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Lesson 3: Typical Life Cycle Activities, Continued

Instructor note This is a good time to interject information regarding the allegations. There are many reasons why policyholders take money out of a UI policy. Be sure to discuss the life stage reasons. Be sure to review how money can be taken out of a policy to fund a different type of life insurance policy or investment. Note that a more detailed discussion regarding allegations occurs later in this module.

Need for taking money out of a UI policy During the life of a UI policy, a policyholder may have a need to take money from the policy. There are many reasons why a policyholder would take money from a UI policy including:

- Purchase of a home
- Loss of a job
- College tuition
- Prolonged illness
- Retirement spending
- Purchase a different type of insurance or investment

Policyholders have three options for taking money from a UI policy. The options are:

- Loan against the policy's cash value
- Partial surrender of the policy's cash value
- Full surrender of the policy's cash value

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Lesson 3: Typical Life Cycle Activities, Continued

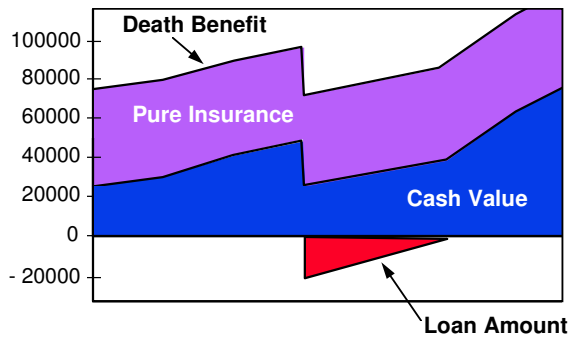
Instructor note

Overhead 21

Review how money can be taken from a UI policy through a loan or partial surrender. Remind the participants that the death benefit and cash value are effected by loan or partial surrender. Relate your experience regarding the situations in which people take money out of the policy's cash value by loan or partial surrender.

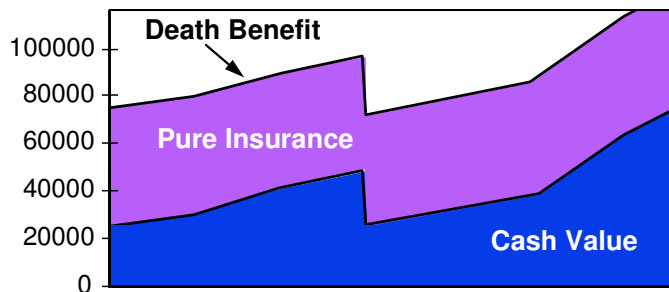
Policy loan

Once a cash value has accumulated in a UI policy, the policyholder can take a loan against the policy. Loans provided at a low interest rate can be a fixed or variable rate loans. The net death benefit and net cash value is reduced by the amount of the loan until the loan is paid back fully.



**Partial
surrender of
accumulated
cash value**

A partial surrender is a means by which a policyholder can withdraw part of the accumulated cash value from the policy while keeping the policy in force. A partial surrender is not a loan. The policy's death benefit and cash value is reduced by the amount of the partial surrender.



Note that a partial surrender is not available on policies issued at a minimum face value with death benefit Option 1.

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Lesson 3: Typical Life Cycle Activities, Continued

Instructor note

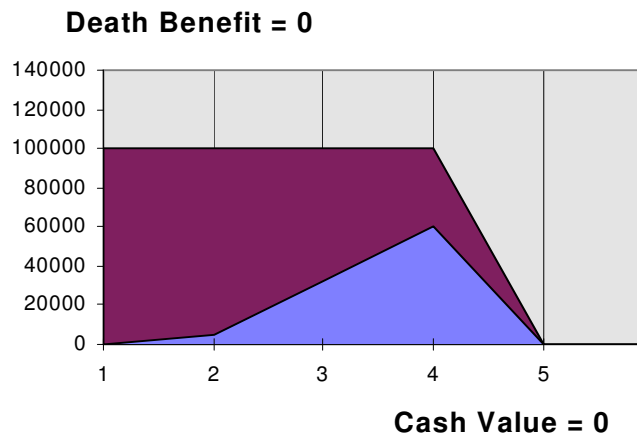
Overhead 22

Explain that a full surrender of the cash value reduces both the death benefit and cash value of the policy to zero. Mention that the policy ends with a full surrender.

Full surrender

A full surrender will end the active life of the policy. A full surrender is the process of withdrawing the entire accumulated cash value from the policy. After the full surrender no death benefit or cash value remain in the policy.

If the policy is less than 20 years old (10 years in New York) a surrender charge will be assessed by The company. The amount of the surrender charge depends on the age of the policy. Over the first 20 years of the policy the surrender charge decreases uniformly.



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Lesson 3: Typical Life Cycle Activities, Continued

Instructor note

Overhead 23

Mention that when a policyholder reaches the age of 95, the policy matures. Make sure to point out that at maturity, the:

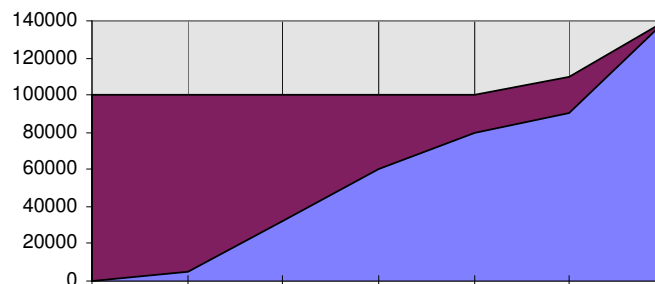
- Death benefit is equal to the cash value in the policy
 - Cash value can be withdrawn from the policy by a one time payment or through installments spread out over a period of time
 - Withdrawals are taxed
-

Policy maturity

The UI policy matures when the policyholder reaches the age of 95. On the anniversary date closest to the policyholders 95th birthday, the policy will endow for the cash value. The methods of distributing the cash value to the policyholder and the tax consequences are described below:

- One time payment of the entire cash value. The policyholder must pay taxes in the current tax year on the entire cash value distribution.
- Installments spread over a period of time. The policyholder will pay taxes on the amount received during each tax year.

Death Benefit = Cash Value



Lesson 4: UI Related Allegations

Introduction There are a number of allegations that involve The company's universal product. Analysts who will score settlement claims need to understand and recognize the allegations that involve these products.

Purpose The purpose of this lesson is to introduce the allegations that involve The company's UI product and spend some time on the details of the APP allegation as it relates to the UI product.

In later training modules, you will learn about the details of the other allegations and how they are scored.

Continued on next page

Lesson 4: UI Related Allegations, Continued

Instructor note

Overhead 24

Introduce the allegations, listed below and on the overhead, involving The company's universal products.

- Replacement. The replacement allegation involves surrendering or loaning the value from an existing policy and using it as a lump sum premium for a new policy. The UI policy was used both as the replacement policy and the replaced policy. As a replacement, the cash value of traditional policies were used as a single premium to establish a UI policy. The intent with the new UI policy was to establish a cash value that would accumulate additional value while covering the monthly cost or insurance. UI policies were also replaced by The company's variable and variable universal policies which were introduced as products after the UI product.
- APP (Vanish). The intention was to establish a cash value in the UI policy which would accumulate value faster than the cost of insurance could take it away.
- Certificates of Deposit (CD) Alternative. While this allegation can involve any life insurance product, it specifically singles out the UI policy. When the interest rates on CDs fell in the late 1980's and early 1990's, many account owners used the balance in their CDs to open new UI policies. These policies offered a higher interest rate than CDs during most of this time period. For many, a UI policy was a smart alternative to turning over their CD accounts into CDs offering much lower interest rates. However, many of these policyholders did not understand the difference between an insurance policy and a CD and were not aware that they were purchasing a life insurance policy. More details will be provided later in other training modules.
- Life Insurance as an IRA or 401(k) Alternative. Explain that life insurance products had been positioned, by some agents, to provide the same benefits as regulated retirement plans. Point out that the participants will learn about the difference between regulated retirement plans and insurance products in later training modules.

Continued on next page

Lesson 4: UI Related Allegations, Continued

Allegations relating to UI policies

The UI product is involved in several of the allegations which will be presented as claims in the settlement process. Some of these are introduced below. The details of the APP allegation are addressed in detail later in this lesson and the others these allegations will be presented in later training modules.

- **Replacement.** The replacement allegation involves using the value from an existing policy as a lump sum premium to a new policy. In some cases, the UI policy was the replacement policy, while in other cases, the UI policy was replaced by a variable or variable universal policy.
- **APP (Vanish).** The intention was to establish a cash value in the UI policy which would accumulate value faster than the cost of insurance could take it away. If successful, the policy would not require continuing premium payments.
- **Certificates of Deposit (CD) Alternative.** While this allegation can involve any life insurance product, it specifically singles out the UI policy.
- **Life Insurance as an IRA or 401(k) Alternative.** Life insurance products had been positioned, by some agents, to provide the same benefits as regulated retirement plans.

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Lesson 4: UI Related Allegations, Continued

Instructor note

Overhead 25

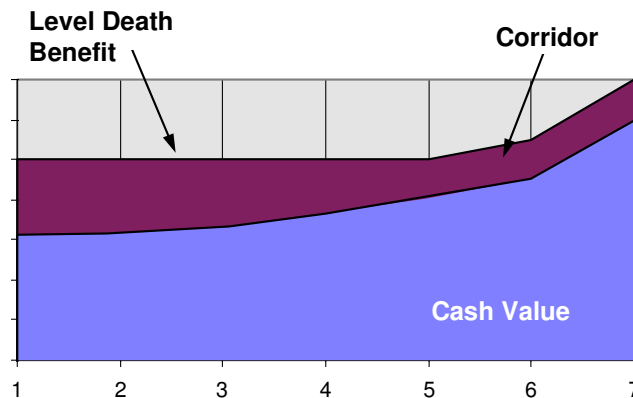
Review the characteristics of a UI policy with a large initial premium payment. Be sure to point out:

- There is a high cash value at the start of the policy.
- The high initial value establishes an immediate and significant earnings power in the policy. Because of the large cash value at the inception of the policy, interest accrues at a greater amount.
- This creates a cash flow into the policy (earnings on the cash value) which exceeds the cash flow out of the policy (monthly deduction for the cost of insurance.)

NOTE: The concept also works with recurring payments made in the early years of the policy.

The APP allegation

The APP (Vanish) allegation relating to the UI product, is similar to the APP allegation as it applies to The company's traditional products. The concept of the APP (Vanish) allegation, is to establish the UI policy so that the rate at which cash value accumulates exceeds the monthly cost of insurance. When the policy is established correctly, it performs like the graphic below.



Note these characteristics regarding the graphic above.

- There is a high cash value at the start of the policy.
- The high initial value establishes an immediate and significant earnings power in the policy.
- This creates a cash flow into the policy (earnings on the cash value) which exceeds the cash flow out of the policy (monthly deduction for the cost of insurance.)

Continued on next page

Lesson 4: UI Related Allegations, Continued

Instructor note

Provide a definitions of:

- Abbreviated Premium Payment (APP)
- Fully Paid Up (FPU)
- Limited Premium Payments (LPP)

Be sure to point out that a single premium payment is a type of LPP and is not necessarily an FPU claim.

**Abbreviated
Premium
Payment**

The characteristic of an APP claim which analysts must evaluate is if an expectation was set with the policyholder that a limited number of premium payments to a UI policy would be required. In some cases, only a single premium was paid into the policy.

Unlike traditional policies, an APP arrangement involving a UI policy does not require the completion of any forms or applications that designate the policy as an APP policy.

An APP arrangement involving a UI policy may be eligible for a settlement as a Fully Paid Up (FPU) or Limited Premium Payment (LPP) claim. APP arrangements involving UI policies work only if the policyholder pays the premiums as originally illustrated. When the premium payments were made late or not at all, the ability of the policy to accumulate value on investment accounts was less than planned. As a result, the APP feature was unattainable as initially planned.

Fully Paid Up

When evaluating a case to determine if it is eligible for a settlement under the APP allegation, analysts first determine if the policy had been marked as Fully Paid Up (FPU).

Analysts must review the information in the claimant's file to determine if at any point the policy was referred to an FPU. This may be found:

- Hand written by an agent on the application
 - In a letter from the agent to the policyholder
 - On the illustration
 - On any other document provided by the customer
-

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Lesson 4: UI Related Allegations, Continued

Limited Premium Payment

An APP arrangement involving a UI policy may be eligible for settlement relief as a Limited Premium Payment (LPP) claim. Key information to be considered in evaluating an LPP claim will include the:

- Illustration disclosure language
 - Interest rate used in the illustration
 - Agent communications
 - Actual payments compared to planned payments on the illustrations
-

Lesson 5: Introduction to UI Policy Histories and Inquiries

Introduction Researching claims and determining appropriate settlements will involve performing basic policy inquiries and reviewing policy histories.

Purpose This lesson is not intended to provide the mechanics of performing inquiries and reviewing histories. This lesson does introduce the characteristics UI policies that analysts will research as they research claims and determine appropriate settlements.

Continued on next page

Lesson 5: Introduction to UI Policy Histories and Inquiries, Continued

Instructor note

Note that this information has been introduced in other training modules. Present the following information as needed during this session.

Overhead 26 & 27

Distinguish between researching using a policy history versus an inquiry. Point out that the terms “history” and “inquiry” are both common terms used at The company and in the industry.

Remind the participants that a history is particularly important when beginning to investigate a case. It documents all of the activities that have taken place during the life of the policy.

In contrast an inquiry can be helpful during any part of an analyst's examination of a case. An inquiry is a search for a specific piece of information which may effect the settlement of a case.

**Policy histories
versus inquiries**

You will use the terms histories and inquiries as you research cases. These are terms which have specific meanings within The company.

A policy history documents all of the activities that have occurred to a policy from the time of its inception until it is closed. Examples of the type of information that can be found by requesting a policy history includes:

- Use of a loan to pay premiums
- Payment history
- Earnings on investment accounts
- Partial surrenders

A policy inquiry would be used to locate a specific piece of information which may be important to determining the appropriate settlement of a case. It may be easier to request an inquiry when you need only a single fact about a policy and you don't need all of the information that is provided with a policy history. Some examples include:

- Date the policy was issued
 - Initial face value of the policy
 - Policyholder age when the policy was issued
 - Account value on a specific date
 - Outstanding loan amount on a specific date
-

Module Summary

Instructor note

Overhead 28

Summarize the topics presented during this module.

Summary

During this module the following topics were addressed:

- Non-traditional life insurance
 - The company's Universal product
 - Typical life cycle activities
 - UI related allegations
 - Introduction to UI policy histories and inquires
-

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Module Summary, Continued

Instructor note

Ask: Ask the participants to imagine that they are researching a case which involves a policy which was established as an APP. During the first several years, the policy seemed to be working as planned. The interest being earned on the policy was out pacing the monthly cost of insurance.

Several years later, after the policyholder had taken a loan against the policy, performance began to deteriorate. Over the next several years the monthly cost of insurance become greater than the interest being earned on the policy. Explain how this could happen.

- *The loan reduced the earnings potential of the policy. As a result the policy was earning less interest.*
- *Over time, the cost of insurance increases. The combination of a reduced earnings capacity (due to the loan) and higher insurance cost prevented the APP from performing as anticipated*

Ask: If this situation is not corrected, what will eventually happen to the policy?

- *Cost of insurance will deteriorate the cash value of the policy. As more money leaves the policy (to pay for the cost of insurance) than accumulates (through interest accrual) to the policy the cash value eventually will be reduced to zero.*

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