

# Handling Modified Endowment Contracts (MEC)

## Overview

This procedure assists in identifying whether or not a payment will cause a policy to MEC, communicating with agents and customers concerning MEC limits, dealing with money in suspense for MEC violations, curing a MEC, and transitioning a policy to a MEC.

Useful items to pair with this procedure include the MEC Flow Chart, the MEC Calculator, the full-size sample of how to complete the MEC Calculator (screenshots are included within this procedure), the canned emails and letters included in the MEC folder, the Refund Procedure, and the Refund Top Sheets.

**Tip:** Workflow routing is handled when money comes in and errors to suspense for potentially violating the MEC limit on the policy (error E876). If a payment is being processed before that point, it's best practice to review the MEC limit. If you determine the payment will error to suspense, go ahead and send out the appropriate communication.

## Procedure

### Procedure at a Glance

*To see this procedure in detail, click the steps above.*

Step	Action
1	Determine if a payment will cause a policy to MEC.
2	If the policy is in danger of MEC'ing, communicate with the agent.
3	Process the money as directed by the agent/customer.

### Step 1: Determine if Payment will cause a Policy to MEC

In this step, you will review the payments and ascertain if it will cause the policy to MEC. The system you'll access to evaluate the payment depends on the availability of funds on the policy.

If a policy does not have funds in suspense, use the TX1 screen in Mainframe to determine if payment will lead to MEC. If there are funds in suspense, use the Suspense Management System (SMS) in LSP to determine if payment will lead to MEC.

### Determining if payment will lead to MEC in Mainframe (No funds in Suspense)

**Note:** If there are funds in suspense, skip to determining if payment will lead to MEC in SMS.

1. Access the TX1 screen in Mainframe and review the information on the screen.
2. Determine the policy year and the cumulative limit for that year.
3. Ascertain the full amount paid into the policy within the MEC period by adding together the amounts in the "Cumulative 7PP Remittance" column.

COMMAND									
CO	CD	NL	POL	L	SEC	ID	PROD	U1	PLAN 101218 LOB LDX STAT A
RSTR	SPND	PDF	IND	N	CONTR	S	ANN	DT 03/10/2021	LST FIN DT 02/18/2021 LN ID N
*TAMRA SEVEN PAY SEGMENT(TX1)* SUSP PENDING									
		Cumulative limit by year		CUMULATIVE		Amount paid in by year			
		7P LEVEL PREM		7P REMITTANCE		AMOUNTS PAID		CAPITAL OUT	
YEAR 1		34,452.00		34,130.00		34,130.00		0.00	
YEAR 2		68,904.00		0.00		0.00		0.00	
YEAR 3		103,356.00		0.00		0.00		0.00	
YEAR 4		137,808.00		0.00		0.00		0.00	
YEAR 5		172,260.00		0.00		0.00		0.00	
YEAR 6		206,712.00		0.00		0.00		0.00	
YEAR 7		241,164.00		0.00		0.00		0.00	
7P START DATE		03/10/2020		7P START ACV		0.00			
7P END DATE		03/10/2027		Start and end date of MEC period					
7P START TRX CODE		PRC							
7P START TRX FILE CODE		00011							
7P START ORIGINATOR		UIF							
7P CURRENT TEST YEAR		01							
NO MORE									
NXT	TRX	TX2	VER	PROD	U1	CL/POL		SEC ID	CO NL OVRD N

4. Determine how much can be paid into the policy before hitting the MEC limit. To do this, use one of the methods below.
  - o Subtract the amount paid into the policy from the cumulative limit to determine how much can be paid into it before the MEC limit is hit.
  - o Use the MEC Calculator. Input the annual 7PP limit, the 7PP start date, and the 7PP remittance amount per year to fill out the calculator per the examples below.

# **CALCULATOR - MEC** Instructions: Fill in Yellow fields from TX1 screen

Policy #

From TX1 Screen:

	7P LEVEL PREM	7P REMITTANCE
YEAR 1	A \$ 16,364.41	\$ 16,364.24
YEAR 2	\$ 32,728.82	\$ 16,364.24
YEAR 3	\$ 49,093.23	\$ 16,364.24
YEAR 4	\$ 65,457.64	\$ 16,364.24
YEAR 5	\$ 81,822.05	
YEAR 6	\$ 98,186.46	
YEAR 7	\$ 114,550.87	
7PP Start Date	9/1/2013	C

Planned Maximum Premiums

Annual	\$ 16,364.41
Semi-Annual	\$ 8,182.21
Quarterly	\$ 4,091.10
Monthly	\$ 1,363.70

	Anniversary	\$ Amnt Remitted	\$ Amnt Allowed
Year 1 Start Date	9/1/2013	\$ 16,364.24	\$ 0.17
Year 2 Start Date	9/1/2014	\$ 16,364.24	\$ 0.34
Year 3 Start Date	9/1/2015	\$ 16,364.24	\$ 0.51
Year 4 Start Date	9/1/2016	\$ 16,364.24	\$ 0.68
Year 5 Start Date	9/1/2017	-	\$ 16,365.09
Year 6 Start Date	9/1/2018	-	\$ 32,729.50
Year 7 Start Date	9/1/2019	-	\$ 49,093.91

Locate the current year - the amount in the \$ Amnt Allowed column is what can be paid before the next policy anniversary

Note: Amounts are cumulative

Note: This does not take TEFRA guidelines into account

Amount that can be paid in 2019

Page: 1 Document Name:

TX1 SCREEN - UTILIZED TO COMPLETE MEC CALCULATOR

COMMAND  
CO CD NL POL LS03 3 SEC ID PROD U1 PLAN 101208 LOB LDX STAT A  
RSTR SPND PDF IND N CONTR S ANN DT 09/01/2019 LST FIN DT 08/01/2019 LN ID N  
\*TAMRA SEVEN PAY SEGMENT(TX1)\*

	7P LEVEL PREM	CUMULATIVE 7P REMITTANCE	AMOUNTS PAID	CAPITAL OUT
YEAR 1	16,364.41 A	16,364.24	16,364.24	0.00
YEAR 2	32,728.82	16,364.24	16,364.24	0.00
YEAR 3	49,093.23	16,364.24	16,364.24	0.00
YEAR 4	65,457.64	16,364.24	16,364.24	0.00
YEAR 5	81,822.05	0.00	0.00	0.00
YEAR 6	98,186.46	0.00	0.00	0.00
YEAR 7	114,550.87	0.00	0.00	0.00

7P START DATE 09/01/2013 C 7P START ACV 0.00  
7P END DATE 09/01/2020  
7P START TRX CODE PRC  
7P START TRX FILE CODE 00008  
7P START ORIGINATOR UTF  
7P CURRENT TEST YEAR 06

NO MORE

NXT TRX TX2 VER PROD U1 CL/POL LS03 3 SEC ID CO NL OVRD N

NOTE: A-C correspond to the sample MEC calculator on the following page

## **Determining if payment will lead to MEC in SMS**

1. Access the SMS screen in LSP.

Acceptance Date: 04/25/2020  
Effective Date: 03/10/2020  
Policy Status: A  
Frequency/Option: Monthly / Bank Draft  
Modal Premium: \$1,400.00

MEC Indicator: N  
7PP Amount: \$34,452.00  
7PP Start Date: 03/10/2020  
7PP Balance Remaining: \$322.00  
Min Monthly Premium: \$517.52  
Min Guar monthly Premium: \$629.42  
Required Premium:

annual 7PP amount

amnt that can be paid before next anniversary without MECing

2. If there are funds in SMS, the system will tell you the annual MEC limit, the MEC period start date, and the amount that can be paid in as of the present date without causing the policy to MEC.

3. If there are funds in suspense, and the policy is within 45 days of the anniversary, we can hold the funds until the anniversary and apply effective the **day after** the anniversary.
  - If the policy is on EFT in this situation, determine if the total annual planned premiums will exceed the MEC limit. If they do not, continue as above. If they do, proceed Step 2.

## **Step 2: If the policy is in danger of MEC'ing, communicate with the Agent.**

1. Determine if the policy is on EFT. If not on EFT, continue to the next step (number 2). If the policy is on EFT, determine if the planned annual premiums exceed the MEC limit.
  - If not, continue to the next step.
  - If planned annual premiums exceed the MEC limit,
    - reach out to the agent with the *"Automatic Withdrawals in Danger of Violating MEC Limit"* canned email.
    - Give them two weeks from the date of the email to respond.
    - Fill out the email with necessary information.
    - If there is no loan on the policy, remove the option that involves applying excess premium as a loan repayment.
    - Annotate the SMS item with the date the response is due. For example, "02/24 response due."
2. Contact the agent to determine whether the Policy Owner wants the policy to convert to an MEC if it is not on EFT or if it is on EFT but the planned annual premiums do not exceed the MEC limit.
  - use the canned "Policy in Danger of Violating MEC limit" email
  - Give them two weeks from the date of your email to respond
  - Fill out the email with the necessary information
  - If there is no loan on the policy, remove the option that involves applying excess premium as a loan repayment
  - Annotate the SMS item with the date the response is due, for example, "02/24 response due"

**Note:** The options provided in these emails are:

- Apply the maximum possible amount and refund the remainder.

- Apply the maximum possible amount to the premium and apply the remainder as a loan repayment (if a loan is present on the policy).
- Refer the policy to Contract Change to increase the face amount so that the full amount can be applied as a premium payment without causing the policy to MEC.
- Apply the full amount and MEC the policy.

### **Step 3: Process the money as directed by the agent/customer**

**Note:** If no response is received by the due date provided in your email from Step 2, proceed with applying the maximum amount possible, refunding the remainder, and adjusting bills or EFT payments as needed.

Your actions in this step depend on the response received from the email sent to the agent in step 2. The options typically fall into 3 categories - apply up to maximum amount and refund the remainder, apply up the maximum amount and apply the excess as a loan repayment, increase the face amount of the policy so that they can continue to make payments, and pay on the full amount and transition the policy to a MEC. Click the categories below to review the procedure for handling the customer's choice.

If the customer has chosen the option to apply up to the maximum amount and refund the remainder

1. Apply the maximum amount possible immediately, using the date the funds were received.
2. If the standard 10-day waiting period for a refund has not elapsed, annotate the SMS item with the date to refund the excess funds and process any necessary changes to the billing or EFT, for example, "02/28 ref/proc."
3. Once the 10-day period has elapsed, refund excess funds.
  - If the policy is on EFT, make the necessary EFT changes to avoid future MEC issues.
    - Push out the draft date to the MEC anniversary.
    - Reduce future drafts to an amount that will equal the MEC amount rather than exceed it.
    - Send a "Variable Letter" through EFT Maintenance using the relevant canned language provided in the "MEC EFT Language" document.
  - If the policy is not on EFT, if needed, push out the bill extract date to the next MEC anniversary and reduce future bill amounts so that they will not exceed the MEC limit. Fill out and send the "MEC Refund" letter.

If the customer has chosen the option to apply up the maximum amount and apply the excess as a loan repayment

If the customer has chosen the option to apply up the maximum amount and apply the excess as a loan repayment:

1. Process these transactions immediately, with the effective dates equal to the date the money was received.
2. If the policy is on EFT, make any necessary EFT changes to avoid future MEC issues.
  - Set the draft date to the MEC anniversary.
  - Reduce future drafts to an amount that will equal the MEC amount rather than exceed it.
  - Send a "Variable Letter" through EFT Maintenance using the relevant canned language provided in the "MEC EFT Language" document.
3. If the policy is not on EFT, if needed, push out the bill extract date to the next MEC anniversary and reduce future bill amounts so that they stay within the MEC limit.

If the customer has chosen to increase the face amount of the policy so that they can continue to make payments

If the customer has chosen to increase the face amount of the policy so that they can continue to make payments:

1. Reply to the email requesting a face amount increase and cc [ContractChange@nationallife.com](mailto:ContractChange@nationallife.com).

Ask Contract Change to please assist the agent/customer with the requested face amount increase.

2. Change the funds in suspense to the B2R WHO code and add a note reading "MEC Face Inc."

If the customer has chosen to pay on the full amount and transition the policy to a MEC

If the customer has chosen to pay on the full amount and transition the policy to a MEC

1. Complete a MEC Authorization Letter and request a signature from the customer. Follow the bullet points below to complete and send a MEC Authorization Letter.
  - Fill out the "MEC Authorization" letter and print it to ScanSoft.

**Note:** The letter is two pages long. Fill out both pages.

- Print the "MEC Q&A" document to ScanSoft and append it to the end of the "MEC Authorization" letter.

- If we are sending the letter to the agent to get to the customer, Hyland Print it to OnBase as a billing item, then email it to the agent.
  - If we are mailing the letter to the customer directly, Hyland Print it to AGY Billing
2. Update Mainframe once we have received signed authorization from the Policy Owner to transition the policy to MEC.
- In Mainframe, access the CI1 screen using the F4 key, **not** the Enter key. Use the below transactions:
- CI1 (F4) (F4)
  - Change the "Reject Premium Indicator" field from Y to N

CI1 (F4)F4)

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COMMAND CHANGE

CO CD NL POL	LS0	13 SEC ID	PROD U1 PLAN 101208 LOB LDX STAT A
RSTR SPND PDF IND N	CONTR S ANN DT 09/01/2019	LST FIN DT 08/01/2019	LN ID N
*** CONTRACT INFO (CI2) ***			

  

GDLN SINGLE PREM	104,148.15	GDLN LEVEL PREM	376,380.56
GDLN SINGLE PREM OVRD		GDLN LEVEL PREM OVRD	
TEFRA/LITA INDICATOR		SEC GDLN PREM	
TEFRA GDLN ACCUM	480,000.00	SEC GDLN PREM OVRD	
MOD ENDOWMENT CONTR IND	N	MOD ENDOWMENT CONTR DATE	99/99/9999
SOCIAL SECURITY VERIFY IND	N	7 PAY PREM ADJUST	+
WITHHOLDING INDICATOR	N	BASIC STRATEGY MIN LEV	8,565.00
TAX PENALTY INDICATOR	N	10/20/1988 AMOUNT	
TAMRA TESTING INDICATOR	S	DEATH BENEFIT LIMIT	
<b>REJECT PREMIUM INDICATOR</b>	<b>N</b>	COST BASIS RELIABILITY IND	
LIFE REINSURANCE INDICATOR	Y	COST BASIS IN	480,000.00
MEC TRANSACTION EFF DATE		COST BASIS OUT	
MEC TRANSACTION FILE CODE		COST BASIS AMOUNT	480,000.00
NL CREDITING OPTION		UNEMPLOYMENT RIDER IND	99/99/9999
PSO IND N PSO TERM DT		OVERLOAN PROT RIDER IND	09/01/2013 A
CCR IND N CCR START DT			
EDB IND N EDB TARGET AGE		KEEP MINIMUM IF ACCEL	0.00

  

NXT TRX CI3 VER PROD U1 CL/POL LS0 13 SEC ID CO NL OVRD N

1. Enter CI1 (F4) (F4) on Mainframe
2. Change the "Reject Premium Indicator" field from Y to N
3. (F4)(F4)

- Press (F4) (F4) (F5)
- Apply the funds through SMS using the date the funds were received as the effective date.

**Note:** If there is already a transaction pending, you will be unable to process the transaction using F5.

Instead, use F4 to submit the transaction. If F4 is used, you must wait until the following business day to apply the money through SMS.

## Curing a MEC

Once a policy has been designated a MEC, the PO has 60 days to change their mind and reverse the MEC. Follow the steps below to reverse a MEC.

1. Determine how much needs to be refunded so that they have no longer exceeded their MEC limits, and process that refund.

**Note:** Refer to the Refund Procedures if assistance is needed with the refund process.

2. Reverse the process followed in Mainframe that allowed the policy to MEC. Access the CI1 screen using the F4 key, **not** the Enter key.
  - o CI1 (F4) (F4)
  - o Change "Reject Premium Indicator" field from Y to N
  - o (F4)(F4)(F4)
3. Send the "MEC Cure" Letter.
4. If the policy is on EFT, make any necessary EFT changes to avoid future MEC issues.
  - o Push out the draft date to the MEC anniversary.
  - o Reduce future drafts to an amount that will equal the MEC amount, rather than exceeding it.
  - o Send a "Variable Letter" through EFT Maintenance using the relevant canned language provided in the "MEC EFT Language" document.
5. If the policy is not on EFT, if needed, push out the bill extract date to the next MEC anniversary and reduce future bill amounts so that they will not exceed the MEC limit.

## Related Resources

- [Modified Endowment Contract](#)
- [MEC Training Videos](#)

## Article Details

<b>Last Reviewed</b>	10/7/2024	<b>Intended Audience</b>	Billing
<b>Approved by</b>	Maggie Allen	<b>Department</b>	Inbound Payment Center

PUBLISHED

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