Customer Services - September 1995

Flex Term Insurance

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FLEX TERM MANIA

What is It, and How Many are There, Really?

Written by Leeds Brewer, May 1995

It's April 1986 and savvy customers are beginning to demand more insurance for their buck. In response, National Life develops the first Flex Term riders with the Summit Series. Billed as a new, no-cost dividend option--Flex Term is announced to our field force, to be available April 1, 1986. The first release of this dividend option includes 3 variations, each with its own alias:

Flex Term 1 (aka: Flex B, aka: Decreasing Term Rider)

Flex Term 2 (aka: Flex A, aka: Level Term Rider)

OYT (aka: Early Vanishing Premium, aka: EVP)

Why Flex 1 is "B" and Flex 2 is "A" remains one of life's unanswered questions. Immediately, there is a great deal of interest in, and confusion about, this new option. Flex Term, it seems, will allow Joe Schmoe from Kokomoe to buy enough protection to cover his whole mortgage and still afford the house payments, if we can only fill out the right forms correctly.

Both of these riders are designed to provide additional coverage by using dividends to purchase a combination of one year term insurance and dividend additions. There are subtle, but important, differences between the two riders.

But first, let's pause for a brief word about our sponsors, "Term" and "Adds."

Term, in this instance, is pure insurance coverage which lasts for only one year. On each policy anniversary, a new term policy is purchased by dividends for the following 12 month period. At the end of the 12 months, the coverage expires and is automatically replaced. Depending on whether it is decreasing or level term, the new benefit may or may not be a different amount. This coverage has no cash value nor does it earn a dividend on itself.

Additions, on the other hand, are permanent insurance. Once purchased, they remain in force until they are either surrendered or paid as a claim. Therefore, their death benefit increases each year as new coverage is added. Adds also have cash value and do earn a dividend on themselves.

Now back to our regular programming.

Flex Term 1 is designed to add a level death benefit to the basic policy face amount. Dividends purchase a decreasing term insurance benefit with an increasing additions benefit. On each policy anniversary, the total of the two amounts equals the total Flex Term death benefit. For every dollar of term insurance decrease, there is a replacement dollar of additions. Eventually, there may be enough additions to provide the full Flex benefit, at which time the term insurance mysteriously disappears. If this point is actually reached, the total death benefit starts to increase because dividend additions accumulate (remember?).

Flex 2 will, as advertised, provide an increasing death benefit. What magic allows this, you ask? Instead of decreasing term, Flex 2 provides a level term benefit for the full amount of the rider. Any excess dividend remaining after the term is purchased will be used to purchase adds. Thus, the total benefit increases by the amount of new adds each year. Term costs are less expensive than Adds, so Flex 2 has the potential to provide inexpensive coverage while adding substantially, over time, to the policy cash and dividend value, because those darn additions just keep adding up!

Not satisfied with only 2 confusing dividend options, we also offer OYT. This is the dividend option which is an integral part of the Early Vanishing Premium (EVP) option. EVP is a way for policyowners to create a paid up policy upon which there are no further premiums due. The basic policy is changed to paid up insurance for a reduced, guaranteed, face amount. The difference between the original face value and the reduced amount is provided by the now famous combination of Term insurance and Adds. Each year, Adds increase and Term Decreases in much the same way as Flex 1 (B, Level).

The common thread in all of these options is that dividends must remain payable in amounts equal to or greater than the issue scale in order to continue full coverage without cash payments. Further, Adds cannot be surrendered for any reason without reducing coverage since that action cancels future term insurance and future dividends will purchase Adds only, thus permanently and irrevocably canceling Flex.

The marriage of these dividend options to National Life policies continues on in proverbial bliss until the now infamous dividend scale reduction of 88. Suddenly, there is a need for bliss until the now infamous dividend scale reduction of 88. Suddenly, there is a need for flexibility. The original Flex options will no longer provide the desired coverage because dividends are no longer large enough to purchase the full amount of insurance needed. Worse yet, policyowners begin receiving bills for the term premium amount which cannot be paid because of dividend insufficiencies.

National Life responds, creating in a flash of genius two categories of Flex - Old Flex and New Flex - and the Rally program. Suddenly, there are 4 riders!

The difference between Old and New appears if a Flex rider is canceled because the term premium due is not paid. On an Old Flex, this has the same basic effect as an Adds surrender, meaning that there is no more term and all future dividends purchase Adds only. New Flex, on the other hand, does the reverse and simply uses dividends to purchase all term insurance. Because term is less expensive, the New riders will offer more coverage if a policyowner chooses not to pay the term premium. In both cases, the Flex remains in full force and effect if the premium is paid. The Rally program gives policyowners the chance to change from Old to New Flex...they can choose either one.

Unfortunately, some states, most notably New York, do not initially approve the New Flex rider. To accommodate those policyowners, we also offer the XXX rider. Although not as explosive as the barrel of moonshine its name would suggest, XXX adds the possibility of an adds surrender to the Flex Term soup tureen. If adds are surrendered to pay a premium due on the policy upon which the rider exists, then the Flex will remain in force. However, if adds are surrendered for any other purpose, the Flex is terminated and all future dividends purchase adds. Further, if a term premium is due on the XXX rider and it is not paid, the dividend option reverts to all term.

Let's review for just a second. Now we have Flex 1, Flex 2, New Flex 1, New Flex 2 and something called XXX which has the added option of an adds surrender if the conditions are right.

This brings us up to 7/1/92. Enter Super Rider, replete with cape and leotards. Able to leap single policies in a single bound, Super Rider has the normal conditions of XXX Flex with the dividend additions surrender capability. The difference here is that whether or not adds can be surrendered is dependent on the $ available as well as the reason for the surrender. Adds can be surrendered to pay the premium on the same policy only if the Flex rider still has enough value to continue after the surrender.

This allows an adds rider to be purchased in cash at the time of issue, thereby creating a fund of surrenderable adds in the event they are needed at a later date. As with Triple X Flex, a surrender of additions for any purpose other than a premium payment will cancel the rider, with future dividends purchasing additions.

So - you think you're confused by all of this?! Well guess what. National Life, undaunted by the sobbing cries of tortured customer service personnel and confused field, opts to introduce the magnificent and mind boggling Premium Paying Flex Term on 2/2/94.

Affectionately referred to as PPFT, this one has everything but a convertible top and pool table and, it takes the place of all previous Flex riders. The continuing decline of dividend table and, it takes the place of all previous Flex riders. The continuing decline of dividend scales, and resulting premium payment requirements on many Flex riders has prompted the powers that be to develop a rider upon which premiums are paid regardless of dividend scales. This premium, in conjunction with the annual dividend earned, is used to purchase our sponsors, Term and Adds. With the added value enhancement of premium payments, the possibility of a rider failure is reduced. Premiums remain level through the life of the rider and can be stopped after 10 years at the policyowner's whim. If premiums are stopped after 10 years, the rider will continue in full force for as long as there are sufficient values to pay Flex term costs. If stopped prior to ten years, the rider terminates and dividends purchase adds.

Premiums may be billed on any mode and must be on anniversary. This rider also has the ability to surrender Adds for premium payments. If the Vanishing premium option is requested prior to the 10th year, the Rider premiums will also be paid by Vanish until the 10th year. During the first 10 years, and prior to age 65, Waiver of premium will pay both premiums and insufficiencies on PPFT in the event of disability. After the 10th year, all charges due are billed to the premium payer. Dividends on PPFT can be used for either Flex A (level benefit) or Flex B (Decreasing Rider).

So, there you have it. There's no guarantee that new and even more complex developments won't rear their ugly heads but, as of today, that's it.

Oh - one last tidbit! Following is a complete summary of Flex Term dividends which gives you more technical information should you need it. We'll keep you posted if there are any new developments.

Oh, one last little thought to make your day:

There once was a rider named Flex
Which had features resembling a hex.
To figure it out
it's just like a bout
with the Flu, it's so darn complex!

FLEX TERM INSURANCE

Quick Reference

Written by Dee Lamberton, last revision September 1995

1	A; Level Flex; FLX2	Annual dividend used to buy term insurance up to Term Amount then any balance buys adds (until age 80 then rider changes to Flex B)

	B; Decreasing Flex; FLX1	Annual dividend used to buy a combination of term insurance and adds so their sum plus existing face of adds equal the Term Amount
	7; OYT; Early Vanishing Premium (EVP)	Annual dividend used to buy a combination of term insurance and adds so their sum plus existing face of adds equal the DTO Freeze Amount
2	OLD	SURRENDERING ADDS: Never. Flex is automatically cancelled by the system (warning status generated FXTRM) and option goes to Adds no matter what the adds are used for. INSUFFICIENCY NOT PAID: System generates an error status B6F DFCHG which tells us to manually cancel Flex and change option to Adds. If this stat goes unprocessed the system will automatically change the option on the next anniversary and generate a status B6F QDEV1.
	NEW	SURRENDERING ADDS: Never. Flex is automatically cancelled by the system (warning status generated FXTRM) and option goes to Adds no matter what the adds are used for. INSUFFICIENCY NOT PAID: Option remains Flex. Future annual dividends will buy as much term insurance as possible. No further insufficiency bills are sent.
	XXX	SURRENDERING ADDS: Only to pay PREMIUM on that same policy. System will not change the option but will produce warning status FXSUR. When adds are applied to another payment or cash then the option must be manually changed to Adds and notification done to the client. INSUFFICIENCY NOT PAID: Option remains Flex. Future annual dividends will buy as much term insurance as possible. No further insufficiency bills are sent.
	SUP	SURRENDERING ADDS: Only to pay PREMIUM on that same policy. System will not change the option but will produce warning status FXSUR. When adds are applied to another payment or cash then the option must be manually changed to Adds and notification done to the client. INSUFFICIENCY NOT PAID: Option remains Flex. Future

annual dividends will buy as much term insurance as possible. No further insufficiency bills are sent.

3 PPFT

BILL AND ANNUAL STATEMENT: PPFT premium not separate on bill. Annual Statement values assume PPFT premium is paid.

PREMIUM: Level for all years. Must pay for the first 10 years but then may stop after 10th year and still keep dividend option of Flex. Available on any mode but MUST BE on anniversary. When on Vanish, Adds surrendered to pay PPFT premium amount in the first 10 years but after 10th year PPFT premium is no longer billed and adds surrendered to pay base premium. When on Waiver, Waiver will pay the PPFT premium for the first 10 years but after the 10th year the client is billed for the PPFT premium.

PAYING PREMIUM: Pay on any P4 or PP screen when paying with the base premium.

PGLM "F T" column: Y - Excludes PPFT premium, Blank - both base and PPFT, P - Only PPFT premium, 6 - Only PPFT Special Monthly premium.

NONFORFEITURE: PPFT premium no paid in first 10 years then rider will terminate and option changes to adds. After 10th year premium will APL along with the base premium.

DIVIDEND OPTION: A or B. If changed in first 10 years the PPFT premium will continue to bill until next anniversary.

4 SURRENDER ADDS FOR SHORTFALL

This option will pay any insufficiency first with adds value then bill any balance needed. The cash value of adds surrendered to pay an insufficiency is referred to as the shortfall amount.

ADDING: Using DFCI screen tab to the SURR field and input an "S", press enter. OLD or NEW riders will automatically change to XXX riders when this is processed.

5 VANISH AND LEVEL OUTLAY

AVAILABLE on any Flex Term policy issued after July 1, 1992 providing the policy qualifies.

To qualify the agent must submit an illustration supporting the option for the life of the contract.

ADDING: Vanish use PRMF with an effective date. Level Outlay use APVC. If the rider is OLD or NEW the system will automatically change the rider to XXX.

FLEX TERM INSURANCE

Detailed Descriptions

Written by Dee Lamberton, last revision September 1995

1 TYPES OF FLEX TERM DIVIDEND OPTIONS

A aka

FLX2 aka

Level Flex

The annual dividend is used to buy a specified face amount of dividend term insurance until the insured reaches age 80. The specified face amount is known as the Flex "Term Amount". This amount can be found on the front, bottom left corner of the status.

Dividend additions are purchased with any excess annual dividend once the Term Amount is purchased.

At attained age 80, the Rider will change to the decreasing term option (Flex B) for an amount equal to the age 80 death benefit. This helps to minimize the effect of high term insurance costs at older ages.

B aka

FLX1 aka

Decreasing Flex

The decreasing Flex Term option uses the annual dividend to buy a combination face amount of Flex Term and/or dividend additions such that their sum plus any existing dividend additions equal a specified amount known as the Flex "Term Amount". Again the Term Amount is found on the front, bottom, left corner of the status.

When the Adds Face amount equals or exceeds the Term Amount then the annual dividend will buy only Adds, no Term Insurance is needed.

7 aka

The annual dividend is used to buy a combination face amount of Term and/or dividend additions such that their sum

	OYT aka Early Vanishing Premium (EVP)	amount of Term and/or dividend additions such that their sum plus any outstanding dividend additions equal a specified amount known as the Optional Benefit amount, "Term Amount". The Term Amount for EVP policies is found on the back of the status in the field labeled "DTO FREEZE". When the Adds Face amount equals or exceeds the Term Amount then the annual dividend will buy only Adds, no Term Insurance is needed.
2	FLEX TERM RIDER INDICATORS	Each Flex Term option also carries a rider indicator. This could be Old, New, XXX, or Super. The rider indicators distinguish what actions are taken on the Flex Term when certain processes occur (i.e. when adds are surrendered, or an insufficiency occurs). Listed below are performance explanations of each rider indicator.
	OLD	This was the first Flex Term offered. It was introduced on the market April 1, 1986. It is the least flexible rider indicator. A policy which has the Old rider indicator is identified by having a blank rider indicator field on the DFCI and on the back of the status. SURRENDERING ADDS Adds can not be surrendered for any purpose on this Flex Term rider. When adds are surrendered the dividend option automatically changes to Adds (3) during the file maintenance of the AX or AF transaction. An error status FXTRM is produced to let you know that the dividend option has been changed to adds due to this adds surrender transaction. A confirmation letter is sent to the owner explaining that the Flex Term has been cancelled due to the transaction. INSUFFICIENCY When an insufficiency occurs the owner receives a letter/bill (sent out 30 days before anniversary) for the insufficiency amount and a pamphlet giving other alternatives. If they **pay the insufficiency** then the option remains Flex. If the **insufficiency is not paid** then the Flex Term is

canceled effective with the next anniversary (the Flex Term purchased this year remains on the policy until the next anniversary). The system produces a B6F DFCHG error status 70 days after the anniversary. Cash Disbursements is responsible to manually change the dividend option to adds effective the following anniversary. If the status is not acted on for some reason and the option is not changed then the system automatically changes the option on the next anniversary to adds and produces a B6F QDEV1 status letting us know this occurred. NOTE: When the option is not changed at the time the DFCHG warning status is produced there is a chance for quoting errors since the option will display Flex until the next anniversary. Any illustrations run during this time will illustrate with a Flex Term dividend option, which is incorrect.

NEW

From 1986 through 1987, many policies were sold with the original face term rider, based on the 1986 dividend scale. In 1988 with the lower investment results, National Life was forced to decrease the dividend scale. This resulted in lower dividends which could not support the Flex Term policies which had been previously issued.

As a solution, the Company introduced the Rally program, effective January 1, 1988. The purpose of this program was to provide realistic options to Policyowners whose EVP and Flex Term dividend options were failing.

The alternative to Flex Term failure was the introduction of the "New" Flex Term rider. A policy which has the New rider is identified by having an "N" rider indicator field on the DFCI and on the back of the status.

SURRENDERING ADDS

Same as Old. Adds can not be surrendered for any purpose on this Flex Term rider. When adds are surrendered the dividend option automatically changes to Adds (3) during the file maintenance of the AX or AF transaction. An error status FXTRM is produced to let you know that the dividend option has been changed to adds due to this adds surrender transaction. A confirmation letter is sent to the owner explaining that the Flex Term has been cancelled due to the transaction.

INSUFFICIENCY

When an insufficiency occurs the owner receives a letter/bill (sent out 30 days before anniversary) for the insufficiency amount along with a pamphlet giving the owner further options.

If they **pay the insufficiency** then the option remains Flex.

If the **insufficiency is not paid** then the option remains Flex but no further insufficiency bills are sent and future annual dividends will buy as much Flex Term (up to the Term Amount) as possible.

XXX

The XXX rider was initially used for states that had not approved the NEW Flex Term rider (i.e. New York residents) then it was used for the same purpose once we came out with the SUP rider. Now in addition to unapproved state policies it is being used when OLD and NEW rider policies elect to have Vanish or Level Outlay put on their policies or elect to have adds surrender to pay any future insufficiency.

A policy which has the XXX rider is identified by having an "X" rider indicator field on the DFCI and on the back of the status.

SURRENDER ADDS

Adds can only be surrendered on these riders **if** the cash value of the adds is being used to pay a premium on the same policy. If adds are surrendered for any other purpose then the Flex Term must manually be canceled. (i.e. payment of loan interest, premium on another policy, cash, loan repayment....)

When adds are surrendered a warning status produces with a reason code FXSUR. If the adds were surrendered to pay a premium then just discard the status but if adds were surrendered for something else then the dividend option must be changed to adds and notification made to the client.

INSUFFICIENCY

When an insufficiency occurs the owner receives a letter/bill (sent out 30 days before anniversary) for the insufficiency amount along with a pamphlet giving the owner further options.

If they **pay the insufficiency** then the option remains Flex.

If the **insufficiency is not paid** then the option remains Flex but no further insufficiency bills are sent and future annual dividends will buy as much term as possible.

SUP

The Super rider was introduced on the market July 1, 1992 in conjunction with the new First to Die product (LP Plus).

The purpose of this rider was to provide a means of offering an increased death benefit while keeping premiums low and the capability of paying full or partial premiums from the surrender of dividend additions. This could be accomplished by purchasing an adds rider at issue to provide enough value to Vanish and still maintain the requested death benefit.

The SUP rider is the last rider indicator. Any newly issued Flex Term cases will have the SUP rider unless the state has not approved the Flex Rider. All PPFT policies have a SUP rider indicator, unless not state approved.

A policy which has the Super rider is identified by having an "S" rider indicator field on the DFCI and on the back of the status.

SURRENDERING ADDS

Adds can only be surrendered on these riders **if** the cash value of the adds is being used to pay a premium on the same policy. If adds are surrendered for any other purpose then the Flex Term must manually be canceled. (i.e. payment of loan interest, premium on another policy, cash, loan repayment....)

When adds are surrendered a warning status produces with a reason code FXSUR. If the adds were surrendered to pay a premium then just discard the status. If adds were surrendered for something else then the dividend option must be changed to adds and notification made to the client.

INSUFFICIENCY

When an insufficiency occurs the owner receives a letter/bill (sent out 30 days before anniversary) for the insufficiency amount along with a pamphlet giving the owner further options.

If they **pay the insufficiency** then the option remains Flex.

		If the **insufficiency is not paid** then the option remains Flex but no further insufficiency bills are sent and future annual dividends will buy as much term as possible.
3	PPFT Premium Paying Flex Term Rider	With declining interest rates, many policies with Flex Term riders were failing to meet the requested death benefit. As a result, if the policy cannot purchase the death benefit an insufficiency occurs. The Premium Paying Flex Term rider was designed to have a premium paid into the policy which, with the annual dividend, was used to buy Flex Term and Adds. In conjunction with this rider a provision was implemented to use dividend adds value to help pay for insufficiencies. This rider was introduced on the market February 2, 1994. With the introduction of this rider we no longer offered the Old rider on newly issued policies.
	Bill and Annual Statement	The PPFT premium is not shown separately on the billing. This premium amount is included in the base and other rider premium amounts. When billing for PPFT the system must assume that the Billed Annual Adds Rider face amount of adds have been paid for but the cash value of that Billed Annual Adds Rider must not be surrendered for shortfall. The values on the annual statement assumes the PPFT premium is paid.
	Premium	PREMIUM AMOUNT - The PPFT premium remains level in all years. These premiums may be stopped after the tenth premium and the Flex dividend option will continue in full force, providing there are sufficient dividends and Additions available to pay for the Term Amount. An insufficiency letter is sent when there are not sufficient values. LOADING - The PPFT premiums are loaded as follows: Yr 1: 100%, Yr 2-10: 10%; and Yr 11+: 3%. PREMIUM MODE - The PPFT premium can be paid on any premium mode, however it MUST BE billed on anniversary. VANISH - If a Vanishing premium is chosen before the tenth year (10th year of the PPFT rider), the surrender of Additions

year (10th year of the PPFT rider), the surrender of Additions to pay the premium will include the premium for the PPFT rider. After the 10th year the PPFT rider will no longer be billed for and the surrender of Additions will pay for the base premium and any other riders.

WAIVER - When a policy is on waiver during the first ten years (10 years of the PPFT rider, but not beyond age 65) the waiver will cover the PPFT premium and any insufficiency. After the 10th year the PPFT premium will be billed to the client.

Paying/Reversing Premiums	When paying the billed premium you can use the FRLM or FGLM screens this will pay the PPFT premium also. The PPFT premium account is 0173018.

However when only paying the PPFT premium use the PGLM screen. This screen has a column "F T" that is used for reversing or paying only the PPFT premium. The Valid codes are:

Y = Excludes PPFT premium and pays/reverses just the base premium. This will let you clear applied dividend or B2X money.

Blank = Pay/Reverse both the base and the PPFT premium.

P = Pay/Reverse only the PPFT premium. Be sure to use an N for no change in the paid to date.

6 = Pay/Reverse only the PPFT premium for the Special Monthly premium amount. Again be sure to use an N for no change in the paid to date.

NOTE: A pro-rata premium payment is not allowed for the PPFT premium.

Note: The "F T" column is also used for rider premiums.

Non forfeiture	If the premium for the PPFT rider is not paid during the first 10 years, the PPFT rider will terminate and the dividend option will automatically change to Adds. After the 10th year the Flex term dividend option will remain on the policy and the PPFT premium will be paid in the same manner as the base premium (APL ...) and continue to be billed.

REDUCED PAID-UP - The system automatically deletes the PPFT flex trailers and changes the dividend option to Adds.

ETI - The system automatically deletes the PPFT flex trailers.

Rider Indicators	A policy which has the PPFT rider has an "S" rider indicator field on the DFCI and on the back of the status.
	The PPFT rider is not available for states that did not approve the PPFT rider (Wash, NY, & NJ).
	The surrender of Adds and insufficiency for the PPFT rider is handled in accordance with the rider indicator.
Dividend Option	The dividend option on a PPFT policy can be either Flex A (level) or Flex B (decreasing). As defined above with a Flex A option the annual dividend plus the annual premium of the Premium Paying Flex Term is used to buy Flex Term Insurance up to the Term Amount. Or with a Flex B option the annual dividend plus the annual premium of the Premium Paying Flex Term are used to buy Flex Term and/or dividend additions so that the Term Face and Total Adds Face on the policy equal the "Term Amount".
	CHANGING OPTION: A change in the dividend option during the first ten years, will stop the PPFT premium billing **on the next** anniversary. The system will change the billing code on the status to continue billing until the next anniversary. Then on the anniversary the system will automatically delete the PPFT trailers.
	If the option is changed in the first policy year there will be no dividend adjustment. This is a change from the other Flex options that we charged for the Flex coverage from issue to the date the option was changed. The system automatically changes the billing code so that no further bills for the PPFT premium will be sent.
Accounting Registers	The dividend register will show the total Term insurance and Adds purchased with the combination of the annual dividend and PPFT premium. There will be no accounting on the dividend register when the PPFT premium is paid.
	The dividend accounting will only be for the annual dividend.
	Since the dividend register does not separate the amount of insurance bought by the PPFT premium from the amount of insurance bought by the annual dividend, a status is produced (B8Z PFTRX) just before every anniversary and filed in the app. This status provides the breakdown for the PPFT premium and annual dividend.

4	INSUFFICIENCY OPTIONS	NOTE: If the state of execution is New York and the attained age is = or > 70 then no insufficiency is to be billed. NOTE: If the policy was purchased as part of a qualified Pension Plan the client should discuss these options with their plan administrator and/or legal and tax advisors. If Option 1 or 7 is chosen the Life Insurance Incidental Limits must be checked by the plan administrator. We also caution the use of Option 2 (policy loan) in a qualified Pension plan.
	PAY IN CASH	OPTION 1 PAY THE INSUFFICIENCY AS BILLED. The insufficiency payment is used to buy the balance of the Term insurance that is needed to maintain the full coverage for one more policy year (Term Amount). No rider changes are made to the policy when payments are received.
	PAY BY LOAN	OPTION 2 PAY THE INSUFFICIENCY THROUGH A POLICY LOAN. A loan is processed to pay the insufficiency amount which then buys the balance of the Term insurance that is needed to maintain the full coverage for one more policy year (Term Amount). No rider changes are made to the policy when payments are received.
	DON'T PAY AND BUY AS MUCH AS CAN (FLEX ONLY)	OPTION 3 PAY NOTHING AND LET THE DIVIDEND BUY AS MUCH TERM INSURANCE AS POSSIBLE EACH YEAR (AVAILABLE FOR FLEX TERM ONLY NOT EVP). This option is the default option, **NOT FOR OLD RIDERS**, if we do not hear from the owner or agency. When this option is selected, or by default, future dividends will buy as much term insurance as possible (up to the Term Amount). For Old rider indicators the rider indicator must be changed to a New rider indicator when this option is chosen. The other rider indicators will remain unchanged. The dividend failure fields remain unchanged. The S field remains "B" for billed, R field shows the rider indicator, the YR field shows the year that the insufficiency was not paid, with the amount that was not paid in the Amount field. This is left for informational purposes and also so that the system knows that an insufficiency went unpaid and that future dividends are to buy

insufficiency went unpaid and that future dividends are to buy as much Flex as it can and not rebill for an insufficiency.

In electing this the policy coverage may permanently be reduced since the dividend value may never be able to buy enough term insurance to cover the "Term Amount".

DON'T PAY AND CHANGE OPTION TO ADDS	OPTION 4 PAY NOTHING AND LET THE DIVIDEND BUY AS MUCH TERM INSURANCE AS POSSIBLE THIS YEAR, THEN AS MANY ADDITIONS AS POSSIBLE IN FUTURE YEARS. This option is the default option if we do not hear from the owner or agency. When this option is selected, or by default, future dividends will buy Paid Up Adds. Cash Disbursements is responsible for changing the dividend to Adds when this option is chosen. In electing this the policy coverage will permanently be reduced since Term Insurance can not be restored onto the policy.
REDUCE TERM FACE	OPTION 5 REDUCE THE FACE AMOUNT OF THE EVP OR FLEX TERM TO AN AMOUNT THAT IS SUPPORTABLE BY THE CURRENT DIVIDEND SCALE. This option will permanently reduce the total amount of coverage. The reduction of the "Term Amount" is processed in the Contract Change area. Depending on how much the client reduces this amount to and dividend scale changes will determine if the policy will ever have another insufficiency. No changes are made to the Flex dividend option.
REDUCE TERM FACE AND BUY NEW POLICY	OPTION 6 REDUCE THE FACE AMOUNT OF EVP OR FLEX TERM TO AN AMOUNT CURRENTLY SUPPORTED BY THE DIVIDEND SCALE AND CONVERT THE REDUCED AMOUNT. Selecting this option will reduce the amount of coverage on this policy to an amount that can be supported by the current dividend scale. And then buy a new permanent policy in an amount equal to the reduction of the original policy. The new insurance can be obtained with no medical requirements and would be issued with premiums based on current age. This option is also processed in the Contract

Change area.

	ADD SPAR	OPTION 7 ADD A SPAR SUFFICIENT TO MAKE THE CURRENT AMOUNT OF EVP OR FLEX TERM SUPPORTABLE. Depending on the amount of the SPAR it may eliminate the current as well as future insufficiencies. This option is processed in the Contract Change area.
	SURRENDER ADDS FOR SHORTFALL	OPTION SURRENDER ADDS FOR SHORTFALL. For any type of Flex Term indicators the owner can choose to have future insufficiencies paid first using any cash value of adds and then bill for any insufficiency after all the adds value is used. All PPFT policies are issued with this in place. Cash Disbursements is responsible for handling the election of this option. Using the DFCI screen tab to the SURR field and input an "S", press enter. If the rider indicator is Old or New the system will automatically change the rider indicator to XXX and the Flex Term will perform as the XXX rider from then on. If this change is processed prior to anniversary work then the system will surrender adds on the upcoming anniversary and delete or change the insufficiency amount. If the change is done after anniversary work then we will need to process an AX transaction, for the insufficiency amount, putting the money into suspense. Then contact Premium Billing so they can pay the insufficiency from the money we put into suspense. NOTE: This process will take dividend adds first then adds rider adds (SPAR adds). This is unlike any other surrender of adds which always takes adds rider adds first then dividend adds. The surrender of adds for shortfall will not surrender the adds purchased by that policy anniversary's Billed Adds Rider.
5	VANISH AND LEVEL OUTLAY (AV BV AP BP)	Vanish and Level Outlay is available on any Flex Term policies issued after July 1, 1992 providing the policy qualifies to vanish or partial vanish for "the life of the policy". Since there is no means of illustrating whether policies "qualify for life" on policies issued prior to July 1, 1992, full and partial vanish are not available on policies issued prior to that date.

We require the Agent or Agency to submit the vanish or partial vanish illustration showing the policy qualifies for this option **for "the life of the policy"** along with the dividend change request. For checking the Vanish illustration look at the premium payment column and make sure it remains zero through the entire illustration and for Level Outlay verify it remains the Level Amount for the entire illustration.

NOTE: When processing the PRMF screen for Flex Vanish you must insert an effective date (next anniversary date). Unlike Adds Vanish 3V where you do not use an effective date.

For policies issued after July 1, 1992 in a state that did not approve the Super rider they were issued with either the Old or New rider. Vanish or Partial Vanish is available on these policies. When the option change is processed the rider indicator automatically changes to an XXX rider and rider pages are produced. Take the rider page to Contract Change area so they can determine whether the rider has been approved in the state you are dealing with. If the rider is approved, you will mail the rider page with the confirmation letter. If the rider is not state approved, Contract Change will control the rider until state approval is acquired.

NOTE: When a policy is on Flex Level Outlay, the anniversary file maintenance will check to see if there are sufficient adds to pay the entire years modal premiums (i.e. if on quarterly it checks to see if there are enough adds to cover all 4 quarters). This is unlike Adds Level Outlay which checks for sufficient adds to cover the billed premium only and does not check for future premiums due during that policy year.

6 "STATUS" FIELD DESCRIPTIONS

CURR DIV

The OPT 1 and OPT 2 fields are updated the night of an option change. The YEAR and AMOUNT fields are updated during anniversary processing.

OPT 1: This one character field will always display the current primary dividend option on the policy. For Flex policies this option would be A or B. An EVP policy would be 7.

OPT 2: This one character field will always display the current secondary dividend option on the policy. For Flex current secondary dividend option on the policy. For Flex policies this would only be blank, or a V when the policy is on Vanish or P when the policy is on Level Outlay.

YR: This two character field will display the last anniversary year.

AMOUNT: This field will display the amount of the last anniversary's annual dividend.

DTO

The LAST YEAR COST, LAST YEAR AMOUNT, CURRENT YEAR COST, and CURRENT YEAR AMOUNT fields are updated during anniversary processing. The TP, RT, SUB STD, DUR'N, and FREEZE AMOUNT fields do not change unless manually changed.

TP:

RT:

SUB STD: This field displays the rating of the DTO.

DUR'N:

FREEZE AMOUNT: This field is used to freeze the DTO face amount on policies. Not used for Flex policies. It is also used for EVP policies to show the specified face amount of term to be purchased by the dividend.

LAST YEAR COST: This field reflects the combined amounts of the annual dividend, NET PPFT premium, adds surrendered for shortfall and paid insufficiency that was used to buy the last anniversary's Term Insurance.

LAST YEAR AMOUNT: This field represents last year's face amount of term insurance bought with the annual dividend, NET PPFT premium, adds surrendered for shortfall and paid insufficiency.

CURRENT YEAR COST: This field reflects the combined amounts of the annual dividend, NET PPFT premium, adds surrendered for shortfall and paid (P or W) insufficiency that was used to buy the current Term Insurance. Any billed insufficiency is not included in this field, once the amount is paid then the field is increased by the insufficiency amount paid. At issue on PPFT policies this field is blank since there is a 100% load on the PPFT premium and for Flex policies is a 100% load on the PPFT premium and for Flex policies this field was blank since there was no charge at issue for this insurance.

CURRENT YEAR AMOUNT: This field represents the current year's face amount of term insurance bought with the annual dividend, NET PPFT premium, adds surrendered for shortfall and paid (P or W) insufficiency. Any billed insufficiency is not included in this field, once the amount is paid this field is increased by the face amount bought by the insufficiency payment. At issue this field will display the specified face amount of term insurance desired (Term Amount).

DIV FAIL

The S, YR and AMOUNT fields will update during the billing anniversary processing (30 days prior to the anniversary), when an insufficiency occurs. The S field is updated when an insufficiency payment is made. NOTE: If an insufficiency is not paid on a NEW, XXX or SUP rider no further insufficiency bills are sent.

S: This is a one character field showing the billing status of the last insufficiency on the policy.

Blank = No insufficiency has occurred on this policy.

V = Appears only between billing time and the anniversary when there is an insufficiency under $50.00 that is being waived.

W = Anniversary processing changes the V to a W. Indicates the last insufficiency was waived. In 1993 National Life waived all insufficiencies. From 1994 and forward any insufficiency of $50.00 or less is waived. This field will remain W until the next insufficiency occurs.

I = Appears only between billing time and the anniversary when there is an insufficiency that was billed.

B = Anniversary processing changes the I to a B. Insufficiency was billed and hasn't been or wasn't paid. This field will remain B if the insufficiency never gets paid and no future insufficiencies will be billed. The dividend will just buy as much as it can.

P = The last insufficiency was paid: This field will remain P until the next insufficiency occurs.

R: This is a one character field displaying the rider indicator on the policy. Blank = Old rider, N = New rider, X = XXX rider, and S = Super rider.

YR: This three character field displays the year that the last insufficiency occurred.

	AMOUNT: This field displays the amount of the last insufficiency.
MPR ADDS	The CURRENT ADDS and COST, and TOTAL ADDS fields are updated during anniversary processing.
	CURRENT ADDS: This field displays the face amount of adds purchased by the annual dividend and this years NET PPFT premium. NOTE: 1 - The annual dividend will first buy term insurance then adds; 2 - The PPFT premium will buy any additional term that is needed then adds.
	CURRENT COST: This field displays the cash value of the annual dividend plus the NET PPFT premium that was used to purchase the face of adds shown in the CURRENT ADDS field.
	CUR PLAN: This field displays the plan code associated with the rates for the dividend adds.
	TOTAL ADDS: This field displays the total face amount of dividend adds that are on the policy.
FLEX TERM	The ADDS SURR AMT and COST fields are updated during anniversary processing.
	ISSUE DATE: This field displays the issue date of the Flex Term, not always the issue date of the policy.
	TERM AMOUNT: This field displays the specified face amount of dividend insurance desired. The annual dividend on FLX2 policies is used to buy this Term Amount. The annual dividend on FLX1 policies is used to buy a combination face amount of Flex Term and/or dividend adds such that their sum equals this specified Term Amount.
	DIVIDEND ADJUSTMENT: This field is currently not being used. Prior to PPFT (February 1994) this field would display the cost of the Flex Term insurance from the issue date to the date the Flex Term option was cancelled within the first year. We had a charge for this insurance since they did not pay for the Flex Term insurance for the first year therefore, if they cancelled the Flex Term option in the first year we charged them. This amount was deducted from the first annual dividend. There is no longer a charge if the Flex Term is cancelled in the first year.
	TERM DATE: This field displays the date the Flex Term

TERM DATE: This field displays the date the Flex Term insurance was cancelled.

PREM IND: This is a one character field displaying the premium status of the PPFT premium.

O and R - non-premium paying Flex Term

M and K - premium paying Flex Term (PPFT)

SURR OYT IND: This is a one character field displaying an "S" or blank. An S is displayed if the policyowner has elected to surrender dividend adds to pay for any insufficiency prior to billing for the insufficiency. This surrender of adds is referred to as the shortfall amount. All PPFT policies automatically have the S and any non-premium paying Flex Term policy can elect this feature as an insufficiency option. When this field is blank adds will not be surrendered to pay for Flex Term.

ADDS SURR AMOUNT: This field displays the face value of adds surrendered for the shortfall during the current policy year that was not covered by the annual dividend and PPFT premium.

ADD SURR COST: This field displays the cash value of adds surrendered for the shortfall during the current policy year that was not covered by the annual dividend and PPFT premium.

PPFT

The OYT AMT, OYT COST, ADDS AMT, ADDS COST fields are updated during anniversary processing. All PPFT fields are deleted on the anniversary when the option is no longer Flex.

VERSION: This is a one character field which displays a "1" for PPFT policies.

TYPE: This is a one character field which displays: "L" for last to die policies, "F" for first to die policies, or "S" for single life policies.

SEX CLASS: This is a one character field which displays: "M" for male insured, "F" for female insured, or "U" for unisex insured.

SMOKE STATUS: This is a one character field which displays: "N" for non-smoker, "S" for smoker, "P" for displays: "N" for non-smoker, "S" for smoker, "P" for preferred, or blank for joint products.

PLANCODE: This field displays the plan code of the base policy.

ORIG FLX TRM AMT: This field represents the face amount of Flex Term that is being charged for. It is used by the system in calculating the PPFT premium.

REQ PREM PERIOD: This field which will always be 10 (10 years) on PPFT policies. Premiums are required for the first 10 years. After the tenth year they can choose not to pay the PPFT premium and still keep the Flex option.

OVER PREM PERIOD: This is a three character field showing the maximum premium period. Premiums are payable to the cease year.

COV PERIOD: Same as the OVER PREM PERIOD. PPFT coverage is available to the cease year.

CONVERSION PERIOD: This field will always be 10 (10 years) on PPFT policies.

GROSS PREM PER UNIT: This field provides the premium cost per thousand for the PPFT rider premium.

SUB TYPE: This is a one character field of either an "F" or "R".

SUB RATE: This field displays the rating associated to the PPFT rider. 250% will be 002.50.

SUB CEASE: This field will always be 10 (10 years) on PPFT policies.

BILL CODE: This is a one character field which displays the status of billings for the PPFT rider.

Space = No billing

B = Bill

T = Valid code during first 10 years, terminate billing but not until the next anniversary

Blank = Valid code during first 10 years, terminate billing immediately

F = Valid code after 10th year, terminate billing but not until

F = Valid code after 10th year, terminate billing but not until the next anniversary

Z = Valid code after 10th year, terminate billing immediately

CURR LOAD: This field displays the loading for the PPFT premium. Year 1 = 1.00 for 100% load, Years 2-10 = .10 for 10% load, and Year 11 on = .03 for 3% load.

OYT AMT DIVD: This field displays the face amount of Term purchased by the annual dividend.

OYT COST DIVD: This field displays the cash value amount of the annual dividend that bought the Term Insurance shown in the OYT AMT DIVD field.

ADDS AMT DIVD: This field displays the face amount of Adds purchased by the annual dividend.

ADDS COST DIVD: This field displays the cash value amount of the annual dividend that bought the Adds Insurance shown in the ADDS AMT DIVD.

OYT AMT FLX PREM: This field displays the face amount of Term insurance purchased by the NET PPFT premium.

GROSS FLEX PREM OYT: This field displays the GROSS PPFT premium used to buy the Term Insurance shown in OYT AMT FLX PREM.

NET FLEX PREM OYT: This field displays the NET PPFT premium used to buy the Term insurance shown in the OYT AMT FLEX PREM.

ADDS AMT FLEX PREM: This field will display the face amount of Adds purchased by the NET PPFT premium.

GROSS FLEX PREM ADDS: This field will display the GROSS PPFT premium amount that was used to buy the face of adds in the ADDS AMT FLEX PREM field.

NET FLEX PREM ADDS: This field will display the NET PPFT premium amount that was used to buy the face of adds in the ADDS AMT FLEX PREM field.

COMM CODE: This field is blank on all cases.