

# Alamere Indexed Universal Life Product

V1.0

Document Part No. E55321-01

June 2014

## Table of Contents

<b>I.</b>	<b>REVISION HISTORY</b>	<b>5</b>
<b>II.</b>	<b>PRODUCT DESCRIPTION &amp; POLICY FORMS</b>	<b>6</b>
<b>A.</b>	<b>Overview</b>	<b>6</b>
<b>B.</b>	<b>Product Name</b>	<b>6</b>
<b>C.</b>	<b>Product Features</b>	<b>6</b>
<b>III.</b>	<b>BASIC FEATURES</b>	<b>6</b>
<b>A.</b>	<b>Issue Ages and Underwriting Classifications</b>	<b>6</b>
1.	Substandard Ratings	6
<b>B.</b>	<b>Death Benefit Options</b>	<b>7</b>
<b>C.</b>	<b>Number of Lives</b>	<b>7</b>
<b>D.</b>	<b>Maturity Date</b>	<b>7</b>
<b>E.</b>	<b>Policy Loans</b>	<b>7</b>
<b>F.</b>	<b>Grace Period and Lapse Provision</b>	<b>8</b>
<b>G.</b>	<b>Minimum Initial Premium</b>	<b>8</b>
<b>H.</b>	<b>Non Forfeiture Options</b>	<b>8</b>
<b>I.</b>	<b>Guarantees</b>	<b>9</b>
<b>J.</b>	<b>Policy Charges</b>	<b>9</b>
1.	Premium Expense Charge	9
2.	Administration Charge (Monthly)	9
3.	Surrender Charge	9
4.	Transaction Fee	9
5.	Cost of Insurance Charge	10
<b>K.</b>	<b>Minimum Initial Premium / Initial Deposit</b>	<b>10</b>
<b>L.</b>	<b>Premium Flexibility</b>	<b>10</b>
<b>M.</b>	<b>Free Look Period</b>	<b>10</b>
<b>N.</b>	<b>Unisex</b>	<b>10</b>
<b>O.</b>	<b>Partial Surrenders</b>	<b>10</b>
<b>P.</b>	<b>Backdating</b>	<b>11</b>

Q.	Payment Modes	11
IV.	ADDITIONAL FEATURES FOR LIFE INSURANCE PRODUCTS	11
A.	Interest Crediting Methodology	11
B.	Definition of Life Insurance Test	11
C.	Death Benefit	11
D.	Face Amount Increases	12
E.	Face Amount Decrease	12
F.	Settlement Options	12
V.	INVESTMENT STRATEGIES	12
A.	Interim Account	12
B.	Fixed Term Account	12
C.	Indexed Strategies	12
1.	Indexed Strategy I(point to point)	13
2.	Indexed Strategy II (point to average)	13
VI.	RIDERS AND BENEFITS	13
A.	Term Insurance Rider	13
B.	Waiver of Monthly Deductions Rider	14
C.	Long Term Care Rider	14
D.	Guaranteed Interest Account	15
VII.	CALCULATIONS AND RATES	15
A.	Commutation Functions	15
1.	Basis of Functions	15
B.	Cost of Insurance Rates	15
1.	Current Cost of Insurance Rates	15
2.	Unisex	16
3.	Substandard Calculations	16
4.	Calculation of Monthly Cost of Insurance Charges	16
5.	Waiver of Monthly Deductions Charges	16
6.	Long Term Care Rider Charges	16
C.	Cash Value Accumulation Option	16

<b>D.</b>	<b>Target Premiums</b>	<b>17</b>
<b>E.</b>	<b>Minimum Monthly Premiums</b>	<b>17</b>
<b>F.</b>	<b>Additional Formulae</b>	<b>17</b>
1.	Surrender Charges	17
2.	Minimum Premium Calculation	17

## I. Revision History

Date	Version	Section(s) Changed / Details

## II. Product Description & Policy Forms

### A. Overview

This is a flexible premium universal life product with an indexed feature. The policyholder has the opportunity to have the policy account value allocated between a fixed term fund and indexed accounts. The policy has multiple interest crediting strategies, including a fixed interest strategy and two indexed strategies.

### B. Product Name

Alamere Indexed Universal Life (IUL)

### C. Product Features

Riders to be available with this product:

- Term Insurance Rider
- Waiver of Monthly Deductions Rider
- Long Term Care Rider

Policy Features:

- Living Benefit Agreement
- Guaranteed Interest Account

## III. Basic Features

### A. Issue Ages and Underwriting Classifications

The issue age will be calculated based on age nearest birthday.

Issue Ages: 0 – 90

Underwriting Classes

- Standard / Non Smoker
- Standard / Smoker
- Preferred / Non Smoker
- Preferred / Smoker
- Preferred Plus / Non Smoker

Qualified plans will not be available for this product.

#### 1. Substandard Ratings

Substandard tables available with this product are:

A	(125 %)
AA	(137.5 %)
B	(150 %)
BB	(162.5 %)
C	(175 %)
D	(200 %)
E	(225 %)
F	(250 %)
G	(275 %)
H	(300 %)
I	(325 %)
J	(350 %)

K	(375 %)
L	(400 %)
M	(425 %)
N	(450 %)
O	(475 %)
P	(500 %)

**Flat Extra Amounts**

Permanent Flat Extra amounts are allowed to a maximum of \$20.00 per thousand.

Temporary Flat Extra – one temporary flat extra amount may be specified. This may be instead of a permanent flat extra amount. There is a maximum of \$20.00 total in flat extra amounts per thousand allowed per policy year.

**Face Amount Limits**

Minimum face Amount - \$50,000

Maximum Face Amount - \$50,000,000

**B. Death Benefit Options**

Option 1 – Level

Option 2 – Increasing

Option 3 – Face amount plus the adjusted total premiums (the total premiums paid less any partial surrenders)

Option changes are permitted. Option changes will become effective on the Monthly Calculation Day following the day the request is approved. The current death benefit is not changed by an option change between Options 1 and 2; therefore the base face amount decreases by the account value in a level to increasing change, and the base face amount increases by the account value in an increasing to level change. For death benefit changes involving Option 3, the face adjustment is a function of the relative size of the account value to the sum of premiums less surrenders. The change will always result in the death benefit (independent of corridor influence) remaining unchanged.

**C. Number of Lives**

One life

**D. Maturity Date**

Age 120

The policy matures on the anniversary on which the insured reaches attained age 120. COI charges and administration charges will be assessed in all years.

Note: All Section 7702 and 7702a values will be based on an assumption of maturity at age 100.

**E. Policy Loans**

Policy loans are variable. They are in advance. Interest and credit accruals can be “settled” on anniversary or on each loan event.

Policy loans are permitted after the first policy year if the policy has a cash value. The maximum loan value is 100% of the cash value less the amount of any outstanding debt secured by the policy. Debt is defined as loans, and unpaid loan interest. Repayments of policy loan amounts cannot be made while the policy is in a grace period. Any outstanding debt will be paid from the policy values upon the death of the insured or the surrender of the policy.

The policy loan account will be created by taking money out of the fixed and indexed account values, in that order.

Loans under \$500 will not be permitted.

For the variable selection, the loan interest rate will be reset on each policy anniversary. If on a policy anniversary, the change in the loan interest rate is less than one-half a percentage point, the rate will not be changed.

For the variable selection, the loan credit rate is the rate earned by the impaired fund.

A preferred loan interest rate and preferred loan credit rate are set for use after the start of the preferred period. Only the first new loan each year receives preferred loan status.

Values currently used are:

- Fixed interest - 0.06 (for in advance always discount, e.g.  $0.06/(1 + 0.06)$ )
- Fixed Credit - 0.04
- Preferred interest - 0.051
- Preferred Credit - 0.05
- First preferred interest policy year - 6

## **F. Grace Period and Lapse Provision**

The policy terminates (subject to a 61-day Grace Period) when the non-loaned account value is insufficient to cover the monthly deductions.

During the 61-day Grace Period, a policy will be reinstated upon the payment of an amount, less the Premium Expense Charge, equal to three times the required monthly deduction plus the deficit amount that triggered grace.

## **G. Minimum Initial Premium**

The minimum initial premium (MIP) is the minimum premium payment required to issue the policy.

## **H. Non Forfeiture Options**

Non-forfeiture options offered to preserve insurance coverage:



Extended Term Insurance - uses the cash value to purchase term insurance equal to your current death benefit for a limited period of time. Once this period is over, insurance coverage ends.

Reduced Paid-Up Insurance - uses the cash value to purchase lifetime protection for a reduced amount of death benefit — usually less than your face amount of insurance. This benefit will never end while the insured is living.

## I. Guarantees

The guarantees for the product fixed interest strategy and interim fund are 3% interest and 2001 CSO (Gender Distinct, Smoker Distinct). The policy guaranteed interest account is 4% but only applies in the event of a full surrender or insured death.

## J. Policy Charges

### 1. Premium Expense Charge

The premium expense charge will be 5.5% of the premium paid in all policy years.

### 2. Administration Charge (Monthly)

Monthly per thousand administrative fee:

Policy Years 1 -10	\$0.06 per thousand of face amount
Policy Years 10 +	\$0.0

Each base face increase will create a new administrative fee based on per thousand of base increase amount:

Segment Years 1 -10	\$0.06 per thousand of face amount increase
Segment Years 10 +	\$0.0

### 3. Surrender Charge

The surrender charge period will be 10 years. The surrender charge is initially 1.75 times the issue charge and decreases each month proportionally subject to the maximums allowed under the Standard Nonforfeiture Law. With multiple base layers, surrender charges are processed on a last in, first out (LIFO) basis.

### 4. Transaction Fee

There is no Transaction Fee's

**5. Cost of Insurance Charge**

The base policy's monthly cost of insurance rates will be based on face amount, gender, risk classification and smoking status.

**K. Minimum Initial Premium / Initial Deposit**

The minimum acceptable payment is equal to one monthly minimum premium.

**L. Premium Flexibility**

This is a flexible premium product, within the minimum premium rules above, and the maximum premium rules imposed by the Internal Revenue Code for the policy to qualify as life insurance, there are no restrictions on the pattern of periodic (billed) premiums and one-time dump-ins.

**M. Free Look Period**

The policyholder has the right to cancel this policy within a limited time after the policy is delivered to them. The policy may be canceled before the later of:

1. 15 days after the policy is delivered to policyholder; or
2. 15 days after a Notice of Right to Cancel is delivered to policyholder; or
3. 30 days after Part 1 of the application is signed

There is also a 10 day Free Look following any base layer increases in face amount.

**N. Unisex**

Unisex rates will be available in Montana.

Current cost of insurance rates for unisex policies will be equal to an 80 (male) /20 (female) blend of the base current COI rates. Guaranteed rates for standard risks are equal to an 80 (male) /20 (female) blend of the 2001 CSO Table.

Female rates will be used for Waiver of Specified Premium.

Male rates will be used for Target Premiums.

**O. Partial Surrenders**

Partial Surrenders are permitted at any time. The minimum surrender amount is \$500. The partial surrender transaction fee is \$25. Both Account Value and Death Benefit decrease; therefore the base Face Amount decreases if the level death benefit option has been elected and the after surrender face amount is not in the corridor.

A partial surrender is not permitted if the base face remaining after the partial surrender is processed is less than the policy's minimum face amount.

A partial surrender charge will be assessed against the policy. A reduction in the policy's face amount due to a partial surrender will affect the existing policy values on a last in, first out (LIFO) basis.

**P. Backdating**

The usual rule of six months to save age will apply.

**Q. Payment Modes**

Available premium payment modes:

Annual  
Semi Annual  
Quarterly  
Monthly

All modes may be direct bill, no bill or Electronic Funds Transfer (EFT)

## **IV. Additional Features for Life Insurance Products**

**A. Interest Crediting Methodology**

The Guaranteed Rate for the Interim Fund and Fixed Investment Strategy is 3.00%. Four percent (4%) is the minimum rate used to calculate the policy's Guaranteed Interest Account. The policy guaranteed interest account only applies in the event of a full surrender or insured death.

The interest credited to the current account value differs based on the investment strategies selected. The current interest rate for the Interim Fund and Fixed Investment Strategy is declared roughly every 90 days but no more than weekly. The Indexed Interest Credit Accounts have a guaranteed interest of 0% but may earn interest credits as described below.

**B. Definition of Life Insurance Test**

The Guideline Premium Test or Cash Value Accumulation Test can be used. The choice needs to be made at issue. This is an irrevocable election made at issue.

**C. Death Benefit**

The Death Benefit under Option 1 is equal to the policy's face amount. Under Death Benefit Option 2 the Death Benefit is equal to the sum of the policy's face amount and the policy value. Under Death Benefit Option 3 the Death Benefit is equal to the policy's face amount plus the premiums paid, less any partial withdrawals. Statutory corridor limits may increase the death benefit if the cash value times the statutory corridor exceed the death benefit calculated without considering the statutory corridor.

**D. Face Amount Increases**

Increases in face amount may be requested after the first policy anniversary. The minimum face amount increase is \$25,000. Each face amount increase generates its own layer, with unique target premiums, minimum monthly premium, per thousand charge and surrender charges.

**E. Face Amount Decrease**

The base Face Amount may be decreased by partial surrenders .

**F. Settlement Options**

Any payment of proceeds under this policy will be paid in a lump.

**V. Investment Strategies**

**A. Interim Account**

Net premiums are paid into the Interim Account and interest is credited to this account on a daily basis at a rate declared by Alamere Life Insurance Company. The minimum annual rate credited will be 3%. On the transfer date, all the money in this account will be swept into the Fixed and / or Indexed Accounts based on the allocation percentages specified by the policyholder. The allocation percentages may be changed at any time but only apply after each bucket completes its next index credit.

**B. Fixed Term Account**

Each sweep to the fixed term account increments the Fixed Term Fund. The Fixed Term Account will earn interest at a daily rate declared by the company. This account will earn at least a guaranteed rate of 3.00%. Interest rates may change.

**C. Indexed Strategies**

This policy features two distinct indexed crediting strategies, Indexed Strategy I, which uses a point-to-point crediting method, and Indexed Strategy II, which uses a point to average crediting method.

Each transfer to an index strategy creates a distinct Indexed Account Segment with a segment length of twelve months. Index earnings are credited to each Indexed Segment on the annual segment anniversary. Index Earnings are not calculated or credited between segment anniversaries. Each Indexed Segment will have a Participation rate and an Index Earnings Cap, which are determined in advance for

each twelve-month period. At the end of the one year segment length, the value in that segment is automatically transferred to the Interim account.

The Index for these strategies will be the S&P Index, excluding dividends. The Annual Index Growth for an Index Segment is calculated on the segment anniversary based on the performance of the Index.

#### **1. Indexed Strategy I(point to point)**

For Indexed Strategy I, the Annual Index Growth is calculated as the percentage increase in the Index, if any, from one segment anniversary to the next segment anniversary.

#### **2. Indexed Strategy II (point to average)**

For Indexed Strategy II, the daily average value of the Index is calculated for the period covering one segment anniversary to the next segment anniversary. The Annual Index Growth is calculated as the percentage increase in the daily average value, if any, over the Index value on the preceding segment anniversary.

The Index Earnings for an Indexed Segment on the segment anniversary are calculated as the Annual Index Growth for the segment, multiplied by the segment's Participation Rate, adjusted so that it is no less than 0% and no greater than the segment's Index Earnings Cap multiplied by the applicable indexed segment value (which reflects deductions from partial surrenders and monthly charges and fixed loans taken during the period).

Partial surrenders processed during the segment anniversary and monthly deductions taken on a segment anniversary will not be included when calculating the Indexed Segment Value for the policy year just ended, but will be taken into consideration in calculating the next year's Indexed Segment Value.

## **VI. Riders and Benefits**

### **A. Term Insurance Rider**

This rider may be elected at issue. It provides a level amount of coverage and may be specified as an amount or a percentage of the total base coverage.

#### **1. Rider Features**

- Issue Ages 0 – 80
- Minimum Amount - \$100,000
- Maximum Amount – four times the base face amount
- Coverage through age 100
- TIR may not be illustrated in combination with the Death Benefit Guarantee Rider

The Term Insurance Rider is treated as a Qualified Additional Benefit (QAB) for purposes of TAMRA premium calculations.

## **B. Waiver of Monthly Deductions Rider**

On disability of the primary insured before age 65, the monthly charges will be waived, as long as he/she remains disabled. This rider may be elected at issue or after issue with evidence of insurability.

The Waiver of Monthly Deductions Rider is treated as a Qualified Additional Benefit (QAB) for purposes of TAMRA premium calculations.

### **1. Rider Features**

- Issue Ages 0 – 60
- Maximum substandard rating table D (200%)
- This rider is not permitted if there are any flat extra amounts applied.

This Rider applies to all base segments.

This rider is mutually exclusive with the Waiver of Specified Premium Rider.

## **C. Long Term Care Rider**

This rider allows the insured access to a cash distribution from the policy for long term care needs. The insured must be receiving un-reimbursed qualified long term care services. The monthly benefit paid cannot exceed the cost of the long term care services. Amounts paid reduce the policy account values and death benefits on a last-in first-out (LIFO).

The Long Term Care Rider is NOT a Qualified Additional Benefit (QAB) for purposes of TAMRA premium calculations.

### **1. Rider Features**

- The available issue ages for this rider to be exercised are 0-85.
- There is a one time administrative fee at the time the rider benefit is paid. This fee is currently \$300, and is guaranteed not to exceed \$500.
- After each rider benefit is paid, the policy face amount, cash surrender value, account value, and any policy loans and unpaid loan interest will be reduced in proportion to the reduction in death benefit. The reduced policy will then remain in force. Subsequent premiums will be subject to the reduced guideline premium limit, if applicable.
- The maximum rider benefit is the lesser of:
  - \$1,000,000 aggregate for all the policies, or 80% of the policy face amount.
- The remaining policy face amount must be at least \$25,000.
- The benefit paid will equal the portion of the death benefit being advanced reduced by the sum of the following:

- The proportion of any policy debt, including any unpaid loan interest, and
- A onetime administrative fee.
- The conditions for payment are the following:
  - The policy must not have lapsed.
- The rider terminates on the earlier of:
  - Lapse or surrender of the policy to which it is attached
  - Written request to terminate the rider

#### **D. Guaranteed Interest Account**

This policy feature verifies that the policy has been credited with interest that is at least equal to 4% if surrendered. The Guaranteed Interest Account is calculated using the 4% interest rate and reflects all policy increases and decreases. It does not recognize policy loan transactions. This account is required to make the comparison at surrender, termination or death to ensure that the policy has been credited with interest that is at least equal to 4%. If the comparison indicates that the policy has not received interest credits equal to the 4% interest rate, the appropriate adjustment will be made before proceeds are distributed.

### **VII. Calculations and Rates**

#### **A. Commutation Functions**

##### **1. Basis of Functions**

Calculations of account values are based on the insurance functions that are derived from mortality. Insurance commutation functions are calculated by using actuarial formulae.

#### **B. Cost of Insurance Rates**

##### **Guaranteed Cost of Insurance Rates**

The guaranteed mortality rates are the 2001 CSO rates adjusted by any applicable substandard rating. The monthly costs of insurance rates are  $1/12^{\text{th}}$  of the annual mortality rates, to a maximum of \$1,000 per thousand. The substandard adjustment, if any, is based on the current mortality rates.

##### **1. Current Cost of Insurance Rates**

The current monthly costs of insurance rates are provided in tables. They are issue age, gender, risk class and smoker status distinct.

## **2. Unisex**

The current cost of insurance rates for unisex policies will be equal to 80% of the appropriate male rate plus 20% of the appropriate female rate. Guaranteed rates for standard risks are equal to 80% of the appropriate male rate plus 20% of the appropriate female rate of the 2001 CSO Table (smoker distinct rates).

## **3. Substandard Calculations**

Substandard cost of insurance rates will be calculated for compliance testing by using a multiple of the substandard guaranteed rates as extra charges.

Note that the standard cost of insurance plus the substandard cost of insurance is capped at \$1 per \$1 of coverage. The maximum monthly rate is .0833333.

Flat extra charges are applied separately from the cost of insurance rates, assessed as a separate monthly charge per thousand of policy base face amount layer to which they are attached.

## **4. Calculation of Monthly Cost of Insurance Charges**

The cost of insurance charge is taken out at the beginning of each monthly anniversary. The base COI rate is taken based on last-in, first-out (LIFO) base layer processing or pro-rate depending on policy switch.

## **5. Waiver of Monthly Deductions Charges**

This deduction is an incremental percent applied to base charges.

$\text{Monthly COI}_y = \text{Base COI Charges} \times \text{Attained Age Percent}$  (result is rounded to two decimal places). If this rider is invoked, the same charges that are waived on the base policy will be waived in the DBGGR mechanics. This rider premium contributes to both the TAMRA and DEFRA limit.

## **6. Long Term Care Rider Charges**

There is no charge for this rider.

There is a onetime administrative fee at the time the rider benefit is paid. This fee is currently \$300, and is guaranteed not to exceed \$500

After the rider benefit is paid, the policy face amount, cash surrender value, account value, and any policy loans and unpaid loan interest will be reduced in proportion to the reduction in death benefit. The reduced policy will then remain in force.

## **C. Cash Value Accumulation Option**

Net Single Premiums used to determine if the policy qualifies as life insurance based on the cash value accumulation test as defined in IRC 7702(b) are calculated each policy year. Under the Cash Value Accumulation Option, any premium that results in



an increase in the Net Amount at Risk of more than \$10,000 will be returned pending underwriter and case manager review.

$$\text{NSP}(t) = \frac{(M_{12 \times t}^{(12)} + D^{(12)}_{\text{Maturity}+1})}{D_{12 \times t}^{(12)}}$$

The net single premium is constant over the entire policy year. The corridor factor in year  $t$  equals:

Corridor Factor ( $t$ ) =  $1000/\text{NSP}(t)$  ; rounded to two decimal places.

#### **D. Target Premiums**

The target premiums for the base product are table driven. The tabular values vary by issue age and gender. Target premiums are calculated for the waiver riders, based on the cost of the benefit.

#### **E. Minimum Monthly Premiums**

The initial minimum monthly premiums for this product are calculated based on the base segment or rider segment monthly charge divided by  $(1 - \text{Premium Charge})$ . The base segment minimum monthly premium includes the first year monthly issue charge.

#### **F. Additional Formulae**

##### **1. Surrender Charges**

Partial surrenders that reduce the face amount and face amount reductions may have surrender charges taken based on the beginning of the current policy month surrender charge then in effect. There is a switch to determine whether there is an effect or not and an additional switch to determine whether the remaining surrender charges are reduced pro-rata or dollar for dollar if a surrender charge is taken.

The surrender charge period is ten years. The surrender charge in the first month 175% of the each base segment layer's Issue Charge. The charge will grade down to zero.

The Maximum Nonforfeiture Surrender Charge will be calculated each month using commutation functions. The policy surrender charge in effect for each base layer will be checked against the Maximum Nonforfeiture Surrender Charge and the minimum of the two will apply as the policy surrender charge.

##### **2. Minimum Premium Calculation**

- Calculate the monthly base policy charges in the first year, based upon current mortality and current credited interest rate, and the

administrative charges (assume the net amount at risk equals the Face Amount).

- Add to this result the cost for all the riders
- Divide this result by 1 minus the premium charge