The American Home Life Insurance Company

PARider Made Easy

For Agent Use Only

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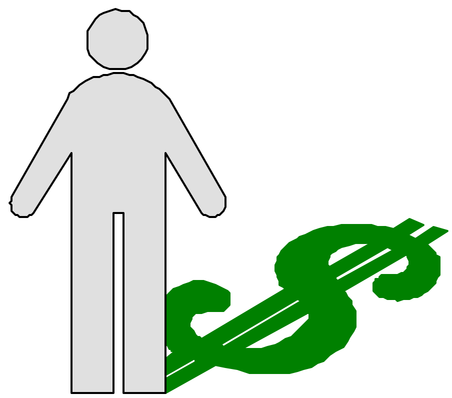
A Field Guide to the

Paid-Up Additions Rider



What is the PARider?

It is a life rider, which can be added to a permanent, participating life insurance policy. It comes in two forms: Single Premium (PAR-SP) and Level Premium (PAR-LP). One of each type of rider can be added to a qualified policy. Basic rules and guidelines are discussed elsewhere in this booklet. The single premium life insurance purchased under this rider will:

- Increase the policy's total death benefit.
- Increase the policy's total cash value.
- Develop additional death benefits and cash values with dividends used to buy more paid-up additions.

What are the Advantages?

- Increases the policy's total cash values.
- Permits the surrender of rider values (versus taking policy loans) to pay policy premiums or meet other expenses.
- Provides additional paid up life insurance, while enhancing policy values, which grow at a competitive rate of interest.

BASIC RULES & GUIDELINES

PAR-SP

Single premium form of PARider, using a lump sum, payable on the effective date of the policy or on any policy anniversary. Additional payments can be made to an existing PAR-SP, up to the maximum.

Minimum Premium: $100
Maximum Premium: 10 times base premium

PAR-LP
Recurring, level-premium form of PARider. PAR-LP premiums are payable at the same time and with the same frequency as premiums for the base policy. May be requested when you apply for the policy, or on any anniversary date. It may be increased or decreased, stopped and re-started. Any increase or re-start must be on a policy anniversary and is subject to underwriting.

Minimum: $120 annually ($10/M.A.)
Maximum: 2 times base premium

Eligible Base Plans
Any currently-issued permanent, participating plan, with guaranteed premiums. Plans with indeterminate premiums are not eligible for PARider.

Issue Ages
0 - 75

Substandard Issues
PARider can be issued on a special-class basis. No additional premiums will be charged. Instead, the amount of coverage purchased with each premium will be reduced. PARider will be issued standard thru Table 4. With each "table" the premium designated for the purchase of paid up additions is reduced by 5%.

Guaranteed Values and Interest
Cash values and paid-up insurance are based on the 1980 CSO Mortality Table, with interest guaranteed at 4.5%.

Dividends
Dividends are payable on PARider. They are based on the current scale. Dividends must be used to purchase paid-up additions. Remember: Dividends are NOT guaranteed.

Exchanges
A policyowner may exchange an existing AHL policy for a PARider plan. However, if cash values from an existing AHL plan are used for PARider premiums, no commission will be paid on the PARider premiums. That also applies to PARider premiums coming from policy loans. Existing exchange rules apply to the base plan.

- If an insured surrenders an old policy for a new policy with premiums equal to, or less than, the old policy, renewal commission only will be paid.
- If the new policy has a higher premium, first-year commission will be paid on the increase in premium. Renewal commissions will be paid on the balance of the premiums.

Refer to commission schedules in your contract for PARider commissions.

How to Apply
Applying for the PARider is easy; just follow the guidelines when filling out the application:

- Send illustrations (if you use them) with your applications.
- Recognize the difference between PAR-SP (single payment) and PAR-LP (level premium). Clearly specify which is being requested and how much premium is to be paid. (If the plan is PAR-LP, the mode will be the same as the base plan.)
- Use regular whole life application.
- Indicate PARider type (SP or LP) in the "Rider" block.

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- Use "Remarks" section for special instructions or comments.
- If PARider replaces another company's policy, follow the replacement regulations of your state and, whenever values are to be transferred, complete 10350 Exchange Forms to prevent taxation of the values.
- Be conscious of the conditional receipt limit ($250,000).
- Underwriting requirements are based on the net amount at risk at the end of five years. To make it easy, just look at the "TOTAL DEATH BENEFIT" for year 5 on an illustration. If you don't use illustrations, call the Home Office.
- Be conscious of other coverage in force with AHL.

Special Handling Guidelines

Cash Values from another company's policy may be transferred to our plan directly (so our customer is not taxed on the gain in the old policy). Values from a C.D. maturing in the near future may also be earmarked for the PARider. In both cases, the money for the PARider may not come to us until after the policy is underwritten and approved. Because PARider values are based on the assumption that premiums are paid annually, in advance, funds delayed for over 90 days will be reduced by an adjustment factor then in use by the company. Here are common situations, with descriptions of our handling procedures.

- Non-1035 Payments: If the base plan and rider can be approved, but money for the rider is not yet available, the base plan policy will be issued and mailed with a letter stating that the PARider has been approved but will not take force until we have received the money. Upon receipt, we will request return of the policy for reissue with the rider. The 90-day rule applies.
- 1035 Exchange (where the first policy premium is paid, but surrender funds are delayed): Policy will be issued without PAR-SP but with notification of approval (as in the first example). When the 1035 values are received, the PAR-SP will be added to the base plan and commission will be paid. The 90-day rule applies.
- 1035 Exchange (where premium for the base plan and a PAR-LP are paid, but PAR-SP is delayed): The procedure will be the same as the first two examples, but commissions for the base and PAR-LP will be paid.
- 1035 Exchange (where no premiums are received): We will handle as C.O.D. The delivery period for policies issued from C.O.D. applications is 30 days. If premium for the entire plan is received in 30 days, the case will be settled. If premiums for all but the PAR-SP are received, the base and PAR-LP (if any) will be settled. The addition of the PAR-SP will await 1035 values.

Underwriting: There is a 90-day rule for underwriting, as well. If values are delayed more than 90 days, or the money received is significantly higher than anticipated, additional evidence of insurability may be required. You will be notified by Underwriting.

Additions and Restarts

Additional payments to a PARider, including increases in PAR-LP premiums, can be accepted only on the policy anniverary. A PAR-LP which has been stopped can be restarted, but only on a policy anniversary. All additional payments, increases and restarts are subject to underwriting approval. We will issue an endorsement to reflect any additions or increases.

RESTRICTIONS AND LIMITATIONS

The following restrictions apply to the payment of PARider premiums:

- Premiums for the PARider may not be paid under the Automatic Premium Loan provision of the base policy.
- Premiums for the PARider will not be waived under any Waiver of Premium provision. If the policy has WP and premiums are being waived, PARider premiums will not be waived. They can be resumed at the conclusion of the insured's disability.

- Premiums for PARider will not be reduced by any policy dividend under any dividend option.
- Premiums for the PAR-LP may be reduced. When that happens, the lower premium becomes the rider's level premium for future purchases. Any request to restore the original PARider premium will be subject to underwriting approval.
- PAR-LP premiums must be on the same mode as the base policy. The mode factors are (MA) .0875, (Q) .265, and (SA) .52. The base policy MA premium is 1/12 annual plus $.50. The MA for PAR-LP is .0875 x annual PAR-LP premium.
- PAR-LP premiums are to be continuous. If stopped, they may be re-started but only on the policy anniversary and subject to underwriting approval. The insurance already purchased with PAR-LP premiums does not stop unless surrendered for its cash value.

PARIDER AND TAXATION

Introduction

IRS Code 7702A created Modified Endowment Conracts (MECs) and a test (7-Pay Test) to determine if a plan is a MEC. PARider plans can be MECs, and the tax consequences to your customer can be significant.

You do not have to be a tax expert to sell PARider. Our software will tell you if the plan you design is - or will become - a MEC. However, you should learn the terms, circumstances and consequences associated with MECs.

Definitions

TAMRA

The tax law enacted to eliminate the tax-free inside build-up of values in certain limited-pay life insurance contracts. It created MECs, established the 7-Pay Test, and defines material changes. All of these have a bearing on what values are taxable and what penalties must be paid.

M E C

A Modified Endowment Conract as defined by TAMRA. It can be thought of as a permanent life insurance policy funded with more money than would be necessary to "pay it up" in just seven years. A MEC has failed the 7-Pay Test.

7-Pay Test

The test to determine if a contract is a MEC. Under this test, the sum of the premiums paid into your client's policy over the first seven years cannot exceed the sum of premiums required for a model 7-Pay Life policy. AHL software performs the test for you.

Material Changes

These are changes to the life insurance plan which, under TAMRA guidelines, increase future benefits. A material change does not automatically render a MEC. It does begin a new seven year testing period and change the calculation of the 7-pay premium.

The following are material changes:

- Policy exchanges
- Addition of riders
- Policy or rider increases
- Death benefit option changes
- Removal of extra premiums (ratings)
- Certain reinstatements
- Conversions

Distributions

This is where trouble can arise. If a plan is a MEC, the transactions listed below produce income to the owner, which is taxable until all of the "gain" (over what has been paid into the plan) has been paid out. An additional penalty of 10% of the taxable income will be assessed.

These are "Distributions":

- Policy loans, including those used to pay premiums.
- Dividends or interest earnings used to pay policy loan interest or principal.
- Cash surrenders.
- Assignment of a contract to secure a loan.
- Surrender of paid-up additions to pay premiums (in an established MEC).

More on MECs

Modified Endowment Contracts are not necessarily good or bad. For example, there are circumstances under which a distribution will not be taxed. It is helpful to understand that MECs have these features:

- Death benefits paid from a MEC are tax-free.
- Cash value growth within a MEC is tax-deferred (until a distribution is made).
- MEC distributions are not subject to the penalty tax if any of the following conditions exist:

  after the owner is 59½,

  if the owner is disabled, and

  if benefits are taken as a life annuity.
- The owner of a MEC may back-out, by reducing premium, within 60 days of issue.
- Dividends and additions used to pay premiums are not considered a distribution.
- A MEC assigned to pay burial plans or prearranged funeral expenses will not be taxed as a distribution, under certain specific circumstances. (Refer to Home Office for details.)

Some Problems with MECs

There are potentially serious problems related to MECs:

- Distributions are subject to taxation as income plus a 10% penalty.
- Once a MEC is established, the plan of insurance is permanently tainted as a MEC.
- A distribution made within two years of the time a plan becomes a MEC is subject to taxation and penalty, as if it is a MEC.

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SOFTWARE AND SALES MATERIAL

Software
The computer is a valuable aid to programming the PARider. It can be sold without computer illustrations, but an issued PARider plan must be delivered with an illustration. Those who prepare their own illustrations find WL/PARider software to be user-friendly and very flexible.

Compatibility
Software will run on any computer with MS DOS, 640K memory, and Windows applications 3.1, 95 and 98. It is not compatible with Apple and McIntosh computers.

Size
Available on 3½"diskette.

Availability
Software and Sales Materials may be requested from the Marketing Dept. at Home Office.

Features
- Main menu for storing 24 illustrations
- Data input screen will adjust face amounts to specified premiums
- PARider program options for:
  * Paying future premiums
  * Fund accumulation
  * 1035 Exchanges
  * User-defined premiums and withdrawals
- Print option for durations to 100
- Simplified and expanded illustration formats
- Sales assistance page
- Underwriting requirements page
- Term rider illustrations

Sales Materials
The PARider comes with a variety of sales materials to help you use the product with confidence. The following items are available and can be obtained by contacting the Marketing Department:

- Illustration software
- Disclosure Statement Regarding MECs (U-PAR-1)
- Paid Up Life Insurance Benefit Authorization (U-PAR-2)
- Request for Special Premium/Cash Withdrawal (PAR-1 10/91)

SALES IDEAS

Who Will Buy the PARider?

Although the PARider requires additional money to increase the total values and paid up insurance of the program, its appeal is not limited to the affluent. It is attractive to all insurance buyers who have problems that can be solved with an insurance product. It can be used in executive bonus plans, estate planning, and pension-maximization. It can be used in college funding and mortgage cancellation. It can also be used in the most basic premium-purchase plans, where some growth in values and extra death benefits are needed.

PARider Programs

It is important to carefully identify your customer's needs and propose an insurance program that will best satisfy those needs. There are, however, some general sales concepts that are popular among insurance planners:

- Mortgage Cancellation
- College Funding
- Pension Maximization
- Structured Life Transfers (1035 Exchanges)
- Executive Bonus

The Plan for Your Client?

The PARider has features that are called, "interest-sensitive". It is most important to understand these features and explain them to your clients. Our projections of values and death benefits rely on dividends and excess interest, which are not guaranteed. We have satisfied all state requirements for warning our applicants about fluctuations in interest, but it remains possible for these warnings to be misunderstood or ignored.

PARider can be a strong product in your portfolio. It has been shown to have excellent market appeal and is used in a wide variety of sales programs. We make it available to you with the high quality support service you can expect from **American Home Life.**