

# Policy Change Guidelines

North American Company for Life and Health Insurance<sup>®</sup>

The following information can help you understand our guidelines and stay compliant with North American's conversion, internal exchange, and policy change procedures. Use the below links to quickly access information on each topic.

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## Conversion

Our term policy allows clients to convert it to an individual permanent life insurance policy available at the time of conversion, up to the same face amount, without the need for additional underwriting.

**Can accelerated death benefit endorsements (ADBE) be added at the time of the conversion (if available in my clients state)?**

- No underwriting is required to add the benefits if the term policy is in the fifth or less policy year
- Underwriting is required to add the benefits if the term policy has entered the sixth policy year
- Accelerated death benefit endorsements must be approved for use both on the new product and in the issue state

**The term policy has entered the sixth policy year, how do I request to add an Accelerated Death Benefit Endorsement?**

- The Internal Exchange application must be completed and the new policy is underwritten for the accelerated death benefits

**Can I transfer existing riders?**

- Yes, but the existing rider must be requested on the application
- Rider must also be available on the new product and meet any eligibility requirements

**What compensation is paid on a conversion?**

- New premium applied is fully commissionable

**Can I convert into an existing policy?**

- Yes
- Compensation is only paid on the increase in premium up to the new target premium

**When would underwriting be required on a conversion?**

- When increasing the death benefit
- When requesting a class change/rating change
- Adding riders/benefits to the policy

*NOTE: Any of the above requests would require the exchange application to be completed.*

### What if there is unused premium from the term policy?

- It will be applied as commissionable first year premium

### What product can an Option to Purchase Additional Insurance (OPA) convert into?

- Currently marketed whole life insurance product

## Internal exchange information

An exchange is defined as changing from one North American life policy to another North American policy with underwriting. Money coming from the internal exchange is considered “rollover” money and will be split into two categories to determine compensation.

### What is needed to request an exchange?

- Exchange paperwork, replacement forms, and the appropriate 1035 Form (if transferring funds)
- Illustration is required for indexed universal life (IUL) insurance products

### Is an internal exchange underwritten?

- Yes, requirements are based on the insured's attained age and the total coverage amount

### Is the target premium adjusted?

- Yes, depending on multiple factors:
  - Change in target from original policy
  - Policy year of existing policy
  - The chart below determines the percentage or target premium paid

| Policy year of existing policy – Percentage of target paid |     |     |     |     |     |      |
|--|-----|-----|-----|-----|-----|------|
| 1 - 5  | 6   | 7   | 8   | 9   | 10  | 11+  |
| 0%   | 50% | 60% | 70% | 80% | 90% | 100% |

- When exchanging multiple policies into one, the duration of the policies is averaged to determine the policy year used in the calculation

### Will the full cash value transfer to the new policy?

- Yes, if the surrender charge on the new policy is larger
- No, if the surrender charge on the new policy is smaller
  - The difference between the new and old surrender charge will be deducted from the value being transferred

### Is the rollover money commissionable?

- Commissions are based on policy year:

| Policy year of existing policy-Percentage of rollover premium/gain |     |     |     |     |      |
|--|-----|-----|-----|-----|------|
| 1 - 10   | 11  | 12  | 13  | 14  | 15+  |
| 0%   | 20% | 40% | 60% | 80% | 100% |

### Is external 1035 money commissionable?

- Yes, all external 1035 money is commissionable

### If the original policy lapsed, would this be an internal exchange?

- Yes, if the policy lapse date is within the past six months
- No, if the policy lapse date is more than six months

## How are internal exchanges handled between Midland National and North American Company?

- Surrender charges will not be waived on the original policy
- No adjustment to target premium will be made
- Compensation on the rollover/gain will be based on the policy year (see chart above)

## How do term to term exchanges pay for compensation?

- Refer to policy year for percentage of premium that would be commissionable
- If there is an increase in premium, then the increase portion would be commissionable

## Hypothetical examples of calculations

### Example 1:

Original policy is in Policy Year 8

Total Premiums Paid - \$189,000

Rollover Amount is \$132,914.82

*Percentage of Target Premium Commissionable -70%*

*New Target* - is \$26,954.28, based on the 70%, the Target will be adjusted to \$18,868.00.

*Rollover Premium/Gain* – Rollover amount is the value less than premiums paid. Therefore on this scenario there is no gain to pay commissions on for the rollover.

### Example 2:

Original policy is in year 12

Total Premium \$189,000

Rollover Amount is \$200,000

*Percentage of Target Premium Commissionable* - 100% of premium received on new policy is commissionable up to the target premium, excess premium will receive renewal commission rate.

*New Target* - \$26,954.28

*Rollover Premium/Gain* – 40% of the rollover is commissionable, the amount of the rollover that is commissionable is \$189,000, which would equal \$75,600 (40% x \$189,000). There was a gain of \$11,000 (\$200,000 - \$189,000) which is 100% commissionable up to the target premium, and the remaining balance will be commissionable based on renewal commission rates.

## Guaranteed exchange privilege

The Custom Guarantee® UL products have a contractual provision that allows the owner the right to exchange the policy, without evidence of insurability and surrender charges, to one of our cash value accumulation indexed universal life policies available at the time of exchange.

- The cash surrender value on the new policy may not be greater than the cash surrender value on the policy being exchanged
- Not available for policy ages 76 and above or if there is an outstanding policy loan
- Complete the following applications: Request for Conversion or Guaranteed Exchange, Replacement form (state specific) and the Request to Exchange form
- The ADBE trio (Critical, Chronic, and Terminal Illness) or combo (Chronic and Terminal Illness) endorsement is only transferable on a full exchange if the original policy was issued with the accelerated death benefit endorsements or riders
- For a full exchange, the total cash value is transferred to the new policy. On a partial exchange, the cash value transferred is prorated to the new policy
- The cash value transferred is non-commissionable
- Commissions will be paid according to the table labeled "Percentage of Target Paid".

## Agent involvement

For any policy change initiated by an agent who was not the original agent on the policy, we will process the request without notifying the original agent.

## Miscellaneous Underwritten Changes

Below is a chart that provides the guidelines regarding miscellaneous underwritten changes to an inforce policy. Please refer to the Underwriting Guidelines for requirements on any of the changes listed below.

*NOTE: All miscellaneous non-underwritten changes are processed by our Customer Service team. This includes decreasing the death benefit, changing the death benefit option from increasing to level, removing a benefit or rider and exercising the Guaranteed Insurability Rider option on a Universal Life or Indexed Universal Life plan.*

| Process  | Target adjusted? | Important to note   |
|--|------------------|---|
| Add benefit or rider                                   | Yes              | <ul style="list-style-type: none"> <li>• Riders available based on product</li> </ul>   |
| Class or rate change                                   | Not Applicable   | <ul style="list-style-type: none"> <li>• Could impact MEC status</li> </ul>   |
| Changing death benefit option from level to increasing | Not Applicable   | <ul style="list-style-type: none"> <li>• Could impact MEC status</li> <li>• May have increased surrender charges</li> </ul>   |
| Increase in death benefit                              | Yes              | <ul style="list-style-type: none"> <li>• Premium amount must increase to be eligible for compensation up to new target premium</li> <li>• New surrender charges may apply</li> <li>• Lump sum payments require notification prior to processing to be commissionable</li> </ul> |

*MEC = Modified Endowment Contract: For most policies, withdrawals are free from federal income tax to the extent of the investment in the contract, and policy loans are also tax-free so long as the policy does not terminate before the death of the insured. However, if the policy is a Modified Endowment Contract (MEC), a withdrawal or policy loan may be taxable upon receipt. Further, unpaid loan interest on a MEC may be taxable. A MEC is a contract received in exchange for a MEC or for which premiums paid during a seven-year testing period exceed prescribed premium limits (7-pay premiums).*

*NOTE: Unplanned/Unscheduled premium on CVAT policies that have entered their corridor may require evidence of insurability before we can accept the premium due to the increased death benefit attributable to additional premium.*



Agents offering, marketing, or selling accelerated death benefits for chronic illness in California must be able to describe the differences between benefits provided under an accelerated death benefit for chronic illness and benefits provided under long-term care insurance to clients. You must provide clients with the ADBE Consumer Brochure for California that includes this comparison. Comparison is for solicitation purpose only, not for conversions.

Indexed Universal Life Insurance products are not an investment in the "market" or in the applicable index and are subjected to all policy fees and charges normally associated with most universal life insurance.

Custom Guarantee UL is issued on policy form series LS185 or state version including all applicable endorsements and riders, by North American Company for Life and Health Insurance, West Des Moines, IA. Products, features, riders, endorsements, or issues ages may not be available in all jurisdictions. Limitations or restrictions may apply.

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