North American Compensation Guidelines

An internal replacement occurs when the agent and policyholder determine that, after the first policy year, it is in the best interest of the client to replace their current policy with another policy issued by the same company or a company under the same ownership. For those clients with policies within a Sammons Financial Group (SFG) company, internal replacements may occur between North American Company, Midland National Life and any blocks of business assumed by these companies.

We have reviewed compensation guidelines on internal exchanges to ensure we are current with industry practices. After much input, deliberation and competitor review, we feel these guidelines provide a win/win/win solution for all parties. The guidelines place the client's needs first, yet recognize your role in developing and maintaining financial plans for your clients. Rather than creating a “one-size-fits-all” compensation adjustment solution, we have worked hard to tailor compensation to the situation.

Contact:	Please direct all of your exchange requests and questions to the Policy Change Team at Extension 32720.
Underwriting:	North American Company fully underwrites all exchanges. The underwriting requirements are based on the insured's attained age and total amount of insurance in force and applied for.
Surrender Charges:	The Insured may move his or her full contract fund from an existing policy over to the new Universal or Indexed Life type policies without incurring a surrender charge, *provided* that the new policy has a surrender charge that is equal to or greater than the existing policy's surrender charge.

Exchanges to Universal Life Products without an Increase in Face Amount

Option A
This option pays first-year compensation on the ongoing premium payments that are received within the first 12 months following the exchange up to the adjusted target premium. The amount of target premium on the new policy is determined by the length of time the original policy has been in force. Compensation is not paid on the amount transferred from the contract fund of the original policy. The adjusted target premium is calculated using the table below. Bonus is paid up to the adjusted target. No compensation will be paid on any money that is transferred from one policy to another, or on money that is loaned or withdrawn from existing policies to pay for another policy.

Policy Year (Original Policy)	**Percent of Target Used for First-Year Compensation**
1 - 5	0%
6	50%
7	60%
8	70%
9	80%
10	90%
The greater of year 11+ or the end of the surrender charge period	100%

Example: The prior policy has been in force for eight years. Based on the chart, the amount of target premium subject to first-year compensation would be 70% of the target premium on the new policy. If the full unadjusted target is $1,000, the new adjusted Target Premium is $700 ($1,000 x 70%= $700).

Option B
This option should generally be used when you do not anticipate ongoing premium payments but may also be a good option if the paid premium and target have increased. Option B pays a first-year excess compensation on the Net Surrender Value (Contract Fund minus Surrender Charge and loans equals Net Surrender Value) transferred to the new policy. If the original policy is in policy years 1-5, none of the net cash surrender value is subject to excess compensation. In policy years six and above, we pay the normal excess compensation.

If there is an **increase in premium**, we also pay a first year rate of compensation on the amount of the increase in premium up to the adjusted target premium. The adjusted target premium will be the difference between the old target premium (including any increases in target premium during the life of the policy due to policy changes) and the new target premium. Compensation on the increase in premium is also available if the original policy is exchanged in years 1-5.

Example: The original policy's annualized premium was $3,200 and the new policy's annualized premium is $7,000, resulting in an increase of $3,800. However, the target premium changed from $3,000 (original) to $5,000 (new) for an increase of $2,000. We will pay compensation on the increase in premium capped at the increase in target premium. The original policy has a contract fund of $5,000 and a surrender charge of $1,000. The entire $5,000 contract fund will be transferred, but only the $4,000 net surrender value will be subject to excess compensation. The result is $2,000 will be subject to first-year compensation and $9,000 ($1,800 Increase in Premium + $3,200 Original Annualized Premium +$4,000 Net Surrender Value) is subject to excess compensation.

Exchanges to Universal Life Products with an Increase in Face Amount

Option A
This option pays first-year compensation based on an adjusted target premium. The adjusted target premium is a percentage of the target premium for the original face amount, plus full target premium on the amount of the increase in face amount. The percentage of target premium on the original face amount is determined by the policy year of the original policy. We do not compensate on the amount transferred to the new policy from the original policy. No compensation will be paid on any money that is transferred from one policy to another, or on money that is loaned or withdrawn from existing policies to pay for another policy.

Policy Year (Original Policy)	**Percent of target premium subject to first-year compensation**	**Percent of target premium on the increase in face amount**
Year 1 - 5	0%	100%
Year 6	50%	100%
Year 7	60%	100%
Year 8	70%	100%
Year 9	80%	100%
Year 10	90%	100%
Year 11+ up to end of the surrender charge period	100%	100%

Example: The original policy is in policy year seven and has a face amount of $100,000 and a target premium of $1,000. The new policy will have a face amount of $200,000. The target premium for the increase in face amount ($100,000) is also $1,000. The result is an adjusted target premium of $600 plus $1,000 target premium for the increase in face amount.

Option B
This option should be used when you do not anticipate ongoing premium payments. Option B pays a first-year excess compensation on the Net Surrender Value (Contract Fund minus Surrender Charge and loans equals Net Surrender Value) transferred to the new policy. If the original policy is in policy years 1-5, none of the net cash surrender value is subject to excess compensation. In policy years six and above, we pay the normal excess compensation.
If there is an **increase in premium**, we also pay a first-year rate of compensation on the amount of the increase in premium up to the adjusted target premium. The adjusted target premium will be the difference between the old target premium (including any increases in target premium during the life of the policy due to policy changes) and the new target premium.

Example: The original policy has a contract fund of $5,000 and a surrender charge of $1,000. The entire $5,000 contract fund will be transferred, but only the $4,000 new surrender value will be subject to excel compensation. The new Target Premium is $9,000. The original Target Premium was $2,000 which results in a new adjusted Target Premium of $7,000. The New Annualized Premium is $10,000 minus the

original annualized premium of $4,000 equals the increase in premium of $6,000. First-year compensation is paid on the lesser of the new adjusted target premium or the increase in annualized premium. In this case the amount subject to first-year compensation will be $6,000.

The balance of the annualized and the net surrender value will be subject to excess compensation. In this example $8,000 will be subject to excess compensation ($4,000 of annualized premium and $4,000 of the net surrender value transferred)

If there is an **increase in target premium and the policy is at the end of the surrender charge period,** we will pay a first year rate on 50% of the rollover amount up to the increase in target premium. The increase in target premium will be the difference between the old target premium (including any increases in target premium during the life of the policy due to policy changes) and the new target premium.

Example: The target premium on the original policy was $3,000. The target premium on the new policy is $5,000 an increase of $2,000. We will pay first year compensation on 50% of the rollover amount, capped at the increase in target premium. The original policy has a contract fund of $10,000. The entire contract fund will be transferred to the new policy. $2,000 will be paid at the first year compensation rate; the balance will receive excess compensation.

Exchanges from Term to Term

We adjust the new policy's first-year compensation rate based on the policy year of the original policy.

Policy Year (Original Policy)	**Percentage of First-Year Compensation Rate**
Years 1-5	First year on any increase in premium
Year 6	50% + First year on any increase in premium
Year 7	60% + First year on any increase in premium
Year 8	70% + First year on any increase in premium
Year 9	80% + First year on any increase in premium
Years 10-14	90% + First year on any increase in premium
Year 15 or the end of the level premium period, whichever comes first	100%

Example: The agent writes a policy that normally would have a 95% first-year compensation rate. The original policy was in policy year six, resulting in a factor of 50% based on the table above. The first-year compensation rate for the new policy will be 47.5%.

The original term exchange option of minus 60% first year compensation in any year and possible renewal compensation (depending on the number of years existing policy has been in force) is still available upon request.

Exchanges from UL to Term will follow the above schedule providing the surrender charge period is still in effect on the Universal Life policy. If the Universal Life policy is past the surrender charge period for all changes, first year compensation will be paid.

Exchanges from a Term to a UL policy administered by North American will have the target premium adjusted by the amount of the annualized term premium.

Multiple Term Policies Exchanged to One Term Policy and For Increases in Face Amount

- Term one - $200,000 and is in the 11 duration = 90% of commission
- Term two - $300,000 and is in the 08 duration = 70% of commission
- There is an increase in face amount of $250,000=100% of commission
- Total amount of insurance $750,000

- $200,000 x 90% = $180,000 divided by $750,000 = 24%
- $300,000 x 70% = $210,000 divided by $750,000 = 28%
- $250,000 x 100% = $250,000 divided by $750,000 = 33%

- 24+28+33 = 85% new percent of commission

Example of using a 95% rate of commission
95% x 85% = 80.75 (new commission rate for agent)

Commission Guidelines for Other Policy Changes

Increases in coverage and addition of riders on Universal Life type policies – Compensation will be paid on the increase in the scheduled premium up to the increase portion of the target premium.

No compensation will be paid on **money transferred** from one policy to another or money loaned or withdrawn from an existing policy to pay for the same policy or another policy.

If the surrender value is paid out to the Policyowner:

- A lump sum of money is received in the first policy year for an amount up to the surrender value it will be assumed that the money came from the surrender value and no compensation will be paid.
- No compensation will be paid on premium received = to the surrender value.

If you are using an **existing annuity** policy to pay for an existing or newly issued policy. Compensation on the money transferred will be paid if, the annuity is outside of the surrender charge period or if the premium is paid from a penalty free withdrawal.

If a **supplemental benefit** is added after issue no additional compensation is paid.

If a new policy is issued 6 months before or 6 months after a new policy is issued, the target premium on the new policy will be adjusted based on our existing exchange guidelines.

Converting a term policy combined with transferring the contract fund of an existing UL/IUL. The portion of the face amount on the new converted policy that is equal to the policy that is being terminated and contract fund transferred will received an adjusted target premium. Any remaining face amount will receive full target.

Example 1 Converted policy less then policy exchanging:
Term policy - $100,000
New Converted policy - $300,000
UL policy moving contract fund and waiving surrender charge- $300,000

The policy being exchanged (waiving surrender charge providing the new surrender charge is the same or greater than the existing) is $300,000 and the new converted policy is $100,000. The full face amount would have an adjusted target based on exchange guidelines, the amount being exchanged (replacing) is more than the new converted policy.

Example 2 Converted policy is more than policy exchanging:
Term - $300,000
New Converted policy - $300,000
UL policy moving contract fund and waiving surrender charge- $100,000

The policy being exchanged (waiving surrender charge providing the new surrender charge is the same or greater than the existing) is $100,000 and the new converted policy is $300,000. $100,000 of the face amount would have an adjusted target based on exchange guidelines and $200,000 (amount not being exchanged/replaced) would receive 100% of target.

- The money being rolled over is subject to exchange commission option B commission guidelines.
- The money transferred to the new converted policy can be applied as 1035 or a lump sum.