

# Premium Increase Program (PIP) Rules

## Effective March 30, 2020

PIP enrollment is automatic and triggered by qualifying increases.

## What is a Qualifying Increase?

### For flexible premium products, it occurs when:

- A policy is in its first through fifteenth policy year, and
  - A policy's new Anticipated Annualized Premium (AAP) is at least \$300 more than the policy's current High Water Mark (HWM), and
  - If the increase results in the new AAP exceeding \$25,000, the increase amount up to \$25,000 will receive PIP recognition and the amount over will be excluded.
- **Note: there is no minimum time required between increases**

There are two ways for a flexible premium increase to be recognized:

- Four consecutive identical premiums are received that represent the increase, or
- An online increase notification form is completed and submitted via agent portal

### For a lump sum increase to occur:

An unscheduled lump sum contribution is made in policy years two through five.

## What is the High Water Mark?

The High Water Mark (HWM) is the amount of expected annualized premium on the policy. It is set at issue to equal the expected first year flow premium.

## HWM Increase

When a qualifying increase is recognized the HWM is increased by the annualized anticipated increase amount.

## HWM Reset

### Policies with no active PIP

Reset occurs on the policy anniversary and is set to the actual premium received in the prior 12 months.

### Policies with active PIP(s)

Reset occurs on the 12-month anniversary of the most recent PIP increase and is set to the actual premium received in the prior 12 months.

Note: The HWM will not be increased if a PIP is not recognized, even if the received premium was greater than the expected premium at an anniversary above.

## How are PIP Bonus Commissions Paid?

PIP bonus commissions only apply to increased premium anticipated/received after the first policy anniversary. Premiums received in first policy year receive normal first year commission only.

**Note: PIP bonus commission rates vary by product. See commission schedules dated March 2020 or later for further detail.**

## For Flexible Premium

When a qualifying increase is recognized, PIP will have the following effect on commissions beginning one full commission cycle later:

### Agents on "as earned" commissions

PIP bonus commission will be paid on an as earned basis, in addition to the renewal commission paid on all premium received.

### Agents on advance commissions

PIP will annualize the qualifying increase to calculate both the bonus commission and renewal commission on the qualifying increase. This PIP compensation will be advanced in full upon recognition of the increase. Renewal commission and PIP Bonus advanced at 100% of the increased amount. When applicable, the advance occurs, renewal commissions will be paid on the pre-increase renewal premium on an as earned basis.

### Licensed Only Agents (LOA)

All PIP benefits for a qualifying increase initiated by a LOA will be paid to the applicable organization per the organization's contract.

### For Lump Sum Premium

#### Agents on direct pay commissions

PIP bonus commission will be paid, in addition to the renewal commission paid on the lump sum.

### Licensed Only Agents (LOA Commissions)

All PIP commissions for a qualifying lump sum initiated by a LOA will be paid to the applicable organization per the organization's contract.

## How are PIP Incentive Credits awarded?

PIP incentive credits are awarded on the full increase amount when the PIP increase is recognized.

### For Flexible Premium

- If PIP is recognized via the Contribution Increase Screen on the agent portal, incentive credits are awarded when the PIP increase is processed
- If PIP is recognized via four consecutive premiums, incentive credits are awarded after 4th premium received

### For Lump Sum Premium

Incentive credits are awarded per the current rules for the incentive program – see incentive program rules sheet.

## PIP Audit

At the anniversary following the most recent recognized PIP increase, an audit on the increase will occur.

If, at the time of the PIP Audit the premiums National Life Group (NLG) collected do not equal the expected increase amount, previously awarded PIP incentive credits will be adjusted, and advanced PIP Bonus commissions will be charged back.

### Servicing Agent Changes

Servicing agents can receive PIP benefits for qualifying increases they initiate on policies where they were not the original writing agent, provided: (1) A servicing agent change form, signed by the policyowner, has been submitted to, and accepted, by National Life Group; and (2) The servicing agent change has been implemented in National Life's systems prior to a recognized qualifying increase.

Agent should not submit an increase until verification of any needed servicing agent change.

Notice: Servicing agent changes cannot be made on policies that had trail commissions elected.

## General Provisions

1. Eligible policies are all Life Insurance Company of the Southwest flexible premium fixed annuities except those which are:
  - Group unallocated annuities
  - Policies on trail commission that do not pay a renewal commission
  - Any other annuity deemed by National Life to be ineligible
2. A Lump Sum Increase qualifies for PIP if the premium is received in policy years 2-5. Premiums not considered a Qualifying Lump Sum Increase include:
  - Internal exchanges from another National Life Group insurer
  - Expected annualized contributions to all classes of IRAs
  - Expected contributions to pension, defined benefit

or 412(e)(3) plans

3. Determination of commission payment level
  - Original writing agent - in determining the renewal commission and/or PIP bonus commission on any increase by the original writing agent, National Life will use the agent's commission level at the time of issue of the applicable Policy.
  - Servicing agent - in determining the renewal commission and/ or PIP bonus commission on any increase by an agent other than the original writing agent, National Life will use the new agent's commission level at the time of such increase.
4. We will determine PIP results using National Life Group systems and reporting. They will be the only source used to determine if a qualifying increase has occurred, track incentive credits and calculate Bonus Commissions.
5. PIP is applicable to calendar year 2020 and such additional calendar years that the National Life Group gives notice that PIP is in effect. This program may be modified from time to time, agents will be given at least 5-day prior notice of any change.