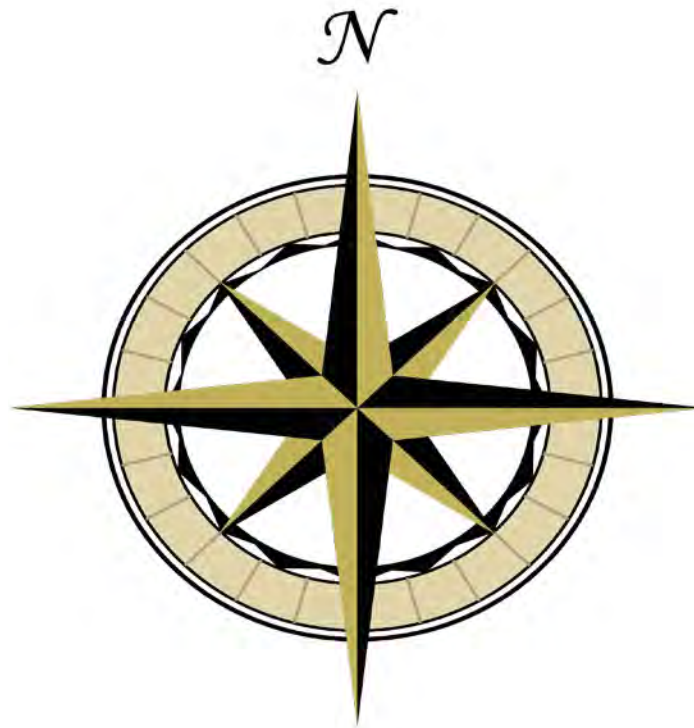


Compliance Manual

Navigating the
S ↔ A ↔ L ↔ E



of Fixed Insurance Products

For Agent/ Internal Use Only-Not For Use With The Public
National Life Group® is a trade name representing various affiliates
which offer a variety of financial service products.

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National Life Insurance Company (“National Life” and “NLIC”) and Life Insurance Company of the Southwest (“LSW”), are each herein referred to as “the Company.” National Life Group® and NLGroup® are registered trademarks of National Life Insurance Company.

Introduction:

Selling Appropriately, Legally, Ethically

Selling. That's what our business is about. If you and your associates in the field force don't make sales, you can't stay in business – and neither can the Company. Without sales by the insurance industry, millions of families and businesses would not be protected from financial loss due to premature death, or have adequate savings for retirement or other major life events.

The environment in which we work has changed dramatically over the last several decades. Better educated consumers, the proliferation of new and increasingly complex products, increased competition and increased scrutiny by regulatory bodies are impacting all of us. Let's look at what selling appropriately, legally and ethically means.

Appropriately. Appropriate selling means you recommend products and services that are suitable for a given prospect's or client's needs, financial objectives, ability to pay and risk tolerance.

Legally. Selling legally obviously means you strictly follow all the laws and regulations with which you must comply.

Ethically. Selling ethically goes beyond laws and regulations. It concerns "doing what is right." You can follow the letter of the law and still be unethical. One of the best ways to be sure you are ethical is to follow the Golden Rule – ask yourself, "If I were in a similar situation would I do what I am recommending the prospect or client do?"

This compliance manual was written to familiarize you with Company policies and procedures, the laws and regulations regarding high standards of market conduct, and how your role with policyowners goes beyond the law. You should review this booklet in detail. Should you have any questions, please call us. For your reference, we have included various contact numbers by subject matter for both National Life Insurance Company (NLIC or National Life) and Life Insurance Company of the Southwest (LSW) (together, the "Company"). Most current information can be found on the National Life Group web site.

Recommended Best Practices

The following “best practices” are either *required* by state or federal regulation – or are universally recognized as such throughout our industry:

- Place your policyowner’s needs ahead of all else.
- Continually educate your policyowners as well as yourself. This leads to a more trusting policyowner-agent relationship and it enhances your credibility.
- Tell policyowners what they need to know, not what you think they want to hear.
- Adhere to industry codes of ethics.
- When working with a policyowner or prospect, most states require that you identify yourself and tell the prospect that you are an insurance agent. If you are also a registered representative, you must mention that too, as well as identify your broker/dealer. Clearly identify your company and agency affiliations, leaving no doubt in the prospect’s mind as to who you are and the nature of your business. If you are an independent agent and represent several companies, you need not mention them by name until you make a product recommendation (note that such regulations vary in certain states, and that it is your responsibility to be aware of and abide by your state insurance regulations). At that point, you must disclose the company’s name and your relationship as an agent with the company.
- Tell the prospect that the product you are marketing is a life insurance or annuity product.
- First and foremost, the death benefit must be the primary focus of any strategy or communication regarding life insurance, and the client must have a demonstrable need for this benefit. Similarly, the primary focus of an annuity is to plan for retirement.
- Explain carefully and clearly the type of insurance coverage you are proposing.
- Explain any risks up front. Make sure the prospect is not surprised later.
- Fully disclose all limitations, exclusions or reductions of the product.
- Fully disclose guaranteed elements as well as the nonguaranteed elements of the policy or contract, making clear by illustration which values are guaranteed and which are not.
- Always disclose the existence and potential impact of surrender penalties and withdrawal charges and expenses, if applicable.
- Disclose that loans and withdrawals reduce the cash value and death benefit, and that in the event the policy lapses, any income taken may be taxable.
- Avoid using industry jargon, e.g., “IUL,” “VUL,” etc. Communicate simply and clearly. Do your utmost to make sure your policyowner understands the product and how it works.

- Use only terminology that is consistent with provisions in the contract or policy.
- Avoid terminology that could lead the prospect to form the wrong impression about the product. For example, never refer to life insurance as an “investment/investment plan,” “private pension plan,” “retirement plan,” “college plan,” “savings plan” or “tax free retirement plan.” Similarly, do not refer to an annuity as an “investment” or “mutual fund.”
- Never use the terms “deposit(s),” “savings” or “investment” when referring to premium payments, cash values or contract values.
- Make sure any comparisons you make are fair and complete.
- State regulations regarding how long-term care (LTC) insurance is sold are both very strict and very clear: a life insurance policy with a living benefits rider may NOT be described as being “superior,” or in any way comparable to LTC insurance. It is important to use only the pre-reviewed flyers that have been approved for public use when discussing living benefits riders. These pieces have been compliance-approved, filed in those states where necessary, and include all required disclosures.
- Never make false, deceptive, misleading or disparaging statements about competitors, products or companies.
- Always service what you sell.
- Ensure policyowner requests are processed as soon as reasonably possible.
- Advertising review – Be familiar with Company requirements for advance compliance approval of all advertising/sales material. See [Ad Review Process](#) on the web site, and the section on advertising in this compliance guide.
- Check the list of [Approved Designations](#) to ensure that any designation(s) you wish to use on marketing materials is approved for use by the Company.
- If your prospect or policyowner is elderly, take as much time as is necessary to make sure he or she fully understands the product and how it fits their needs. Consider involving another family member to help ensure full understanding.
- Read and understand applicable federal insurance laws and regulations and those of all states where you do business.
- Document in your policyowner file the need(s) uncovered during the sales process and indicate why the product sold reasonably fits the need(s).
- Maintain a log of all telephone calls, letters, etc. to document your level of service.
- To protect client confidentiality, secure all client files and private information, allowing access only to those with a demonstrable need to know. Do not keep any medical information on clients in your files.
- Make sure your emails are encrypted and your computer is locked.

Suitability

Insurance professionals with the most successful long-term careers and client relationships practice needs-based selling. They take the time and effort to obtain relevant information from customers to determine their insurance needs and financial objectives. Using fact finders will make it easier for you to obtain relevant information in a consistent manner. This will also assist you by better documenting what prospects and customers say about their current situation and their long-term goals so that you can serve their needs more effectively.

The essence of suitability is doing for prospects and customers what you would do for your own family. Do the recommendations you make assist them in meeting their insurance needs and financial objectives? Will the new product help meet their long term financial objectives?

Be aware that courts and regulators have often determined that even if the client is willing to purchase a product or service, an agent or advisor has a responsibility to act in the client's best interest.

It is equally important to keep up to date with the regulatory requirements that mandate suitable sales.

Annuity suitability

Most states have adopted the NAIC Suitability in Annuities Model Regulation, aimed at strengthening the suitability requirement for fixed annuity sales. While this regulation initially provided additional protections to seniors in the sale of annuity products, it has now been expanded to include all ages in most states that have adopted it.

Essentially, this regulation requires the agent to make reasonable efforts to obtain information such as tax status, financial status, investment objectives, etc., and based on this information, have reasonable grounds for believing that a recommendation is suitable. It also requires insurers to establish a system to supervise recommendations and to set forth standards and procedures for recommendations to annuity customers.

The Company implemented an enhanced suitability review process on January 1, 2010. Refer to [Navigating a Smooth Ride through Annuity Suitability](#) on the website.

Fixed indexed product suitability & disclosure

Because of their complexity, sales practices for indexed products must be given special consideration. Not only must their features, functions, fees, benefits and limitations be fully disclosed to the customer, it is crucial that you use appropriate words and phrases during the sales process. Otherwise you risk giving the prospect the impression that he or she is buying a registered product, which is not the case with the indexed products the Company offers.

Indexed annuity products

Indexed annuity products should be given special consideration. Most indexed annuities are fixed annuities with the added feature of an interest rate crediting

mechanism that is based on an outside index over which the Company has no control.

These products, and their interest-crediting methods, are sometimes complex and should be fully explained to the customer. To help you in this regard, the Company has created a product summary/disclosure statement that has been carefully designed to explain how these products work, using customer-friendly terminology. It is attached to each application.

Note that in pension plan cases in which the plan may be listed as the owner of the contracts for multiple employees, you should have each individual employee sign the disclosure statement to help ensure full understanding and document proper disclosure.

Note also that suitability reports will periodically be reviewed to identify trends or patterns of behavior by an agent that may need improvement. Your contract with the Company requires that you conform to the rules of the Company for which you conduct your business. All agents are expected to know and follow the procedures, laws and regulations affecting their business

Qualified Plan suitability:

When selling fixed or variable annuity products within a qualified plan setting, additional suitability issues may arise that require extra due diligence on the part of the agent. The following highlights issues that should be considered and evaluated before a recommendation of an annuity in a qualified plan is made:

- Annuities already possess a tax deferral element. Has the dual tax deferral nature of the product (when held within a qualified plan) been disclosed and explained to the prospect or customer? Does the customer recognize that the tax deferral features of an annuity are irrelevant when the annuity is held within a qualified plan?
- Are there higher costs/fees associated with an annuity in a qualified plan? What are these fees? Have they been disclosed? Have alternative products been suggested?
- Annuities provide certain features not available in other products (e.g., death benefit, living benefits, lifetime income, etc.). Does the customer need and/or want these features in their qualified plan?
- Does the prospect/customer understand the surrender penalties/withdrawal charges associated with the contract?
- Does the prospect/customer qualify for cost saving breakpoints by utilizing mutual funds vs. annuities?

If annuities are recommended as part of a pension plan, it is important to ensure that the annuity features are consistent with the Plan Document. For example:

- Does the Plan Document allow for loans where the annuity product does not allow for loans?
- Does the Plan Document require that different types of products be offered (e.g. annuities and mutual funds)?

Before products are recommended in a Plan setting, the agent should become familiar with the provisions of the Plan Document and ensure that the products recommended to the plan are compatible.

Advertising & Sales Material

The regulatory definition of “advertising” is broader than most people believe. Advertising is any material designed to create public interest in insurance and annuities, or in an insurer, or in you, or to influence anyone to purchase, increase, modify, reinstate, borrow on, surrender, replace or retain an insurance or annuity product.

Examples of advertising materials include, but are not limited to:

- Business cards and letterhead.
- Printed or published materials, including form letters and direct mail.
- Newspaper, radio, television, computer and billboard ads.
- Descriptive literature – including brochures, circulars, leaflets
- Prepared sales talks/presentations/seminars.
- Telephone solicitations, sales scripts.
- Illustrations, proposals.
- Newsletters, press releases, articles and reprints.
- Web sites or web site listings or presences of any type for an agency, individual or dba (“doing business as”) entity.
- Group emails used in the sales or recruiting process. See [Recruiting and Prospecting E-mails](#) on the website.

Assume that anything you produce, present or use to attract clients, regardless of whether it is delivered orally, in print or electronically (email, web, etc.), is considered “advertising.” All such materials must be reviewed and approved in writing by the appropriate Company compliance department prior to first use. (Note also that most public school districts in which National Life Group is an approved vendor, require preapproval of any advertising materials used in the district by agents.)

In addition, it is a regulatory requirement that the Company maintain files of all advertising used by its agents. These files are open to regulatory inspection at all times. You should also retain a copy of all approvals in your advertising file.

For securities-related communications, please refer to the *ESI Written Supervisory Procedures* for requirements governing communications with the public.

Social Media & Networking websites

A social media site is an interactive website that allows users to connect within a virtual community and share content, thoughts, ideas, pictures, etc. From a compliance perspective, social media is a highly visible form of advertising that requires review and approval of profiles and content, monitoring, and retention to

satisfy regulatory and supervisory requirements. National Life Group's guidelines for social media use are contained in the National Life Group Compliance Policy On The Use of Social Networking Sites (SNS).

Because of the rapidly changing nature of social media, it is recommended that the policy be referred to frequently to help keep abreast of the latest platforms available, and requirements for their use. **Important:** Social networking sites may not be used for business purposes unless approved by the appropriate Company compliance department.

Personal social media: While personal social media sites are allowed, they must be kept *separate* from business related sites, and may contain no business-related content or be used for business purposes in any manner. "Business purpose" is defined as any communication on social media that is used for recognition, recruiting, marketing or sales, or whose content is in any way business-related. Hence, such content would include (but is not limited to) any information that relates to your financial services business, including discussions of financial strategies or markets, insurance or investments, recognition and awards, recruiting and/or agency/agent events, to name but a few.

HearSay Social® has been selected as the authorized provider of a social media management tool for use by the Company to, in part, help ensure regulatory obligations are met.

- All Registered Representatives and Investment Adviser Representatives who maintain social networking sites for business purposes must establish and maintain an account within the Hearsay Social tool used by the Company.
 1. **The Hearsay® Compliance package** allows for the use of InMail and electronic review of proposed profile changes. This package does not allow the posting of business-related content. The annual fee for this package is covered by your ESI affiliation fee.

The Hearsay® Marketing package provides marketing tools and the ability to post business-related content from the pre-approved Content Library. Features of the Compliance package are also included. There is an additional annual fee associated with the Marketing package.

- Insurance Agents who are not Registered Representatives of Equity Services, Inc., but want the ability to post pre-approved business related content on their account, must first subscribe to the Hearsay® Marketing package. There is an annual fee associated with this service.

More information can be found in the [National Life Group Compliance Policy On The Use of Social Networking Sites \(SNS\)](#).

Email solicitations

Email. Unsolicited commercial emails are prohibited under the federal CAN-SPAM Act. Each separate email in violation of the Act is subject to penalties of up to \$16,000.

Emails may *only* be sent to:

- Existing Clients

- Prospects who reside in states where you are licensed
- Licensed financial professionals (insurance agents and securities professionals) for recruiting purposes

You must also check all appropriate **Do Not Contact** lists to ensure that the email addresses you are sending to do not appear on them. It is your responsibility to make certain that:

- The email address does not appear on *National Life Group's Do Not Email list*. You must scrub your list using our new email scrubbing tool prior to sending the email out. The tool and instructions for use can be found on the Company website under [My Business>Staying Compliant>Market Conduct and Compliance>Telemarketing and Email Solicitation](#)
- The email address does not appear on any state-sponsored “*Do Not Email*” list. Note that you are responsible for ascertaining if your state has such a list.

Unsubscribe requests. Because clients must also have the ability to opt-out of receiving unsolicited emails, your email must include the following disclosure and “Opt-out” language:

*This is an advertisement.
To be removed from future mailings, please enter your email address here:
www.nationallifegroup.com/unsub*

Finally, due to anti-SPAM restrictions, you must limit the number of recipients to 20 for each email. Note that you may send the same email multiple times, but to no more than 20 recipients per email.

For more information see [Recruiting and Prospecting E-mails](#) on the agent portal of the web site.

Telephone, email, fax – **Do Not Contact** rules

No one likes being interrupted by telemarketers or inundated by unsolicited marketing emails. Such contact cannot only be counterproductive – it can also be *illegal*.

You should review the following rules and regulations before contacting any prospect or referral.

Telephone: The National Do Not Call Registry was established in October 2003. Significant fines (up to \$11,000 per violation) are imposed on persons who violate its rules. Extensive information regarding the [National Do Not Call Registry](#), as well as information about state Do Not Call lists, is available in the [Market Conduct and Compliance](#) area of the agent’s portal on the Company website.

Email: See *Email Solicitations* above.

Fax: Rules regarding fax advertisements are simple: unsolicited faxes are prohibited.

Advertising/Sales Material Review Process

Where to submit your advertising for review depends upon whether you are a Career/NLFC or “Independent” agent, and the products you choose to promote.

National Life Group Career and NLFC Agents

Agents/Registered Representatives should send all material for review to their agency's compliance, marketing or office manager (if applicable), who will submit the piece to the Advertising Review Unit (ARU) of the Market Conduct & Compliance Department of National Life Insurance Company (AdReview@nationallife.com).

- All materials must be accompanied by a completed [Compliance Review Request Form](#). Note that this form has been revised to incorporate information regarding seminars and other “public appearance” events. To facilitate review efficiency, please be certain to provide all information requested as appropriate to your submission. The form is available on the [Market Conduct and Compliance](#) portal of the National Life Group website.
- Once completed, please submit to your Office Manager or Compliance Coordinator for submission to the Advertising Review Unit (ARU) (AdReview@nationallife.com).

The ARU will either approve your copy “as is,” or may request that edits be made and the piece resubmitted.

Independent Agents

Please submit advertising and sales materials as follows:

- **Life insurance:** Complete the [Compliance Review Request Form](#) and submit it, along with the material for review, to AdReview@nationallife.com.
- **Annuity products:** Complete the [Compliance Review Request Form](#) and submit it, along with the material for review, to AdReview@nationallife.com. Please include **Annuity Advertising** in the subject line.

Important: Note that material submitted for review MAY NOT BE USED with the public until you have received *written* approval from the appropriate advertising review area – Addison, TX for fixed or indexed annuities; Montpelier, VT for all other material.

Periodic review requirements

Advertising approvals are generally granted for a period of one year – with certain exceptions.

Annual reviews are required for materials that are product-specific, or that reference certain things that may be transitory in nature such as tax laws, IRA contributions, etc.

Multi-year approvals are granted only when appropriate to product and sales strategy material that is not date sensitive. Many “generic” pieces produced by the Home Office receive multi-year approvals.

Single use approvals are granted when appropriate to the marketing endeavor or type of piece.

Perpetual reviews may be granted to items that are unlikely to change – stationery, purely generic product ads, telephone directory listings, etc. Pieces granted perpetual review status are exempt from annual review requirements so long as no “material changes” are made. Note that *only* telephone information is considered to be “non-

material.” This means that telephone numbers can be updated/changed on anything that has been granted perpetual review status without triggering a new review. *Changes to any other information will require a new review.*

Tracking Control (TC) number codes: The “TC” (“Tracking Control”) number assigned by the ARU to materials submitted for review, is followed by a “date-of-use” code in parenthesis that indicates when it was first approved for use. Hence, “TC12345(1013)” indicates that a piece was approved for first use in October 2013.

Recent date-of-use codes often include a suffix that indicates when the approval period expires. Adding the suffix “1” after the above code indicates that its approval is valid for one year, after which it will require re-review and approval. A date-of-use code followed by the suffix “3” indicates a 3-year approval period; a “P” suffix indicates “perpetual” approval status, subject to the conditions outlined under “Perpetual reviews” above. The absence of a suffix often indicates a one-time use.

Multi-Cultural/Foreign Language Communications

The Company is committed to growing their presence in multicultural markets – specifically providing support to the Hispanic, Chinese and Vietnamese markets.

There are special challenges involved when creating multicultural marketing and communications:

1. Communications must be fully and accurately translated.
2. The communication must not create a false expectation for the prospect or client that our products or contracts are available in their language.
3. All regulatory requirements for non-English marketing materials are met.

The following materials can be considered for translation:

- *Generic fixed insurance* sales materials.
- *Stationery, bios* and other similar agent materials.

The following materials cannot be translated:

- *Product-specific fixed insurance* sales materials (because we do not provide foreign language illustrations, applications or policies).
- *Securities-related* sales materials (because we do not provide foreign language prospectuses, investment applications, disclosure documents, etc.).

Foreign language translation and certification process

The process for translating permitted materials into a foreign language for *widely-disseminated* pieces is as follows:

1. Submit the English version for review through the standard advertising review process. The Advertising Review Unit (ARU) will determine if it can be translated, and provide any required disclosures. Be sure and indicate on the [Compliance Review Request Form](#) the language to be used.
2. ARU will return the material to the submitter with any required edits, indicating whether further review is required, or if the piece is ready for translation.

4. Once the piece has been translated and certified, the submitter sends the following to the ARU for final approval:
 - Final English piece
 - Final translated piece
 - Certificate of Translation accuracy
5. Note that the submitter is responsible for the translation process and associated costs.

Exception: *Single-use/limited distribution* pieces may be translated by the agent when appropriate. Note that the agent and the agent’s supervisor will be responsible for ensuring the accuracy of the translation. All other submission requirements, as outlined above, remain in effect.

IMPORTANT: See [Process for Creating Multi-Cultural Marketing Materials](#) for additional information including approved translation services.

Advertising Submission

The guidelines for submission are summarized below. In addition, the [Compliance Review Request Form](#), and details of Company advertising policies can be found on the agent portal of the National Life Group Career and Independent websites. If ever in doubt about advertising or sales literature, we encourage you to contact the numbers below.

Advertising Submission Directory

Nature of Advertisement (See definition of advertising, pg. 9)	Where to Send	Fax #	Phone #
<p>CAREER/NLFC – Advertisements, sales literature, and communications, whether “generic” or product-specific.</p> <p>Exception: material that <i>solely discusses annuities</i> should be submitted directly to LSW – see below.</p>	<p>Email is preferred – AdReview@nationallife.com</p> <p>Submit your advertising through your agency’s compliance, marketing or office manager.</p>	802-229-3123	802-229-3129

Advertising Submission Directory (cont'd.)

Nature of Advertisement (See definition of advertising, pg.9)	Where to Send	Fax #	Phone #
<p><u>INDEPENDENT</u> – Advertisements, sales literature and communications used with one or more members of the public that mention any National Life Group company (e.g., LSW, National Life Insurance Company, etc.) or product, or that are used in the sale of a National Life Group product.</p> <p>Exception: material that <u>solely discusses annuities</u> should be submitted directly to LSW – see below.</p>	<p>Submit your advertising through your agency's compliance, marketing or office manager.</p> <p>Advertising Review Unit-M530 National Life Insurance Co. One National Life Dr. Montpelier, VT 05604 AdReview@nationallife.com</p>	802-229-3123	802-229-3129
<p><u>ANNUITY MATERIAL</u> – Material that solely discusses National Life or LSW annuity products; generic annuity or 403(b) ads that may ultimately result in the sale of National Life or LSW annuity products; and advertising materials used in public school districts.</p> <p>(Note that material that discusses <u>both</u> life and annuity products should be sent to the National Life Ad Review Unit as indicated above.)</p>	<p>Marketing Dept. Life Insurance Company of the Southwest 15455 Dallas Parkway, Ste. 800 Addison, TX 75001 AdReview@nationallife.com Please include Annuity Advertising in the subject line</p>	214-638-9168	214-638-9284

Stationery

National Life Group Career/NLFC Agents

Pre-approved stationery templates are available on the [Marketing OnDemand](#) portal of the National Life website. Templates with appropriate disclosure information are available for NL associates. Once your information has been entered, your stationery will be automatically submitted for final compliance review and approval. Delivery and pricing information are available on the site.

Important: Securities registered personnel are required to display the disclosure appropriate to their registration level on ALL stationery, including any dba (“doing business as”) firm names under which they do business. Further, note that registered persons may not use “generic” agency stationery for any purpose whatsoever.

DBA (“doing business as”) stationery

Agents are responsible for filing dba names with their state agency as appropriate prior to use on behalf of National Life Group. (Certain states have restrictions.)

DBA names will be reviewed by the Advertising Review Unit (ARU) for compliance with applicable regulations. ARU will edit or provide appropriate disclosure language for dba materials as part of the review process. Submit this material to [AdReview](#) with a completed [Compliance Review Request Form](#).

Independent agents of LSW.

Please note that if you are an independent agent selling LSW products, you may not create your own LSW letterhead. All direct mail, servicing or other letters must be produced on your own personal or agency letterhead.

Titles

The nature of our business requires an extreme degree of transparency and accuracy in how we present our professional credentials to the public. Insurance agents almost universally want to portray themselves as “financial planners” or “financial advisors” because so much of what they do IS involved with the planning and advising of financial matters.

However, from an SEC and FINRA perspective, financial planning requires highly sophisticated knowledge, training and coordination of products and services. These qualifications go far beyond the training and education required of those who limit their offerings to fixed insurance products, variable insurance and mutual funds. Hence, use of titles that imply planning/advising/consulting services are restricted to investment adviser representatives.

The following guidelines should help speed you through the review process:

Approved agent titles for corporate, personal and dba (“doing business as”) stationery

Financial Professional

Financial Representative

Financial Services Representative

Agent
Insurance Agent
Associate

Note that on dba stationery you may also use titles that are appropriate to your function in that organization so long as the title does not mislead or imply professional expertise or ability beyond your licensing level. Appropriate titles would include “Marketing Director,” “President/Vice President,” etc.

Designations

Company policy permits agents to use ONLY those designations which are associated with the business of insurance and that have passed a critical review process. Evaluation criteria includes the accreditation and ethical standards of the sponsoring institution, quality of coursework and time needed to complete it, exam process protocol, continuing education requirements, code of ethics, process for designation revocation, relevancy to our business, potential for abuse, etc.

A complete listing of currently [Approved Designations](#) can be found on the National Life Group web site.

If you would like to submit a designation for review that does not appear on the current list, please contact the ARU, or LSW Corporate Services.

Seminar Special Review Requirements

Seminars can be effective marketing tools – but they have their own, slightly more complex, review requirements because they typically can involve a number of items subject to review and approval.

Be sure to allow sufficient time for compliance review.

*Note that the following MUST be provided prior to any review of Agent-sponsored “Seminar” material. **IMPORTANT: This material should be submitted at the same time.***

1. A copy of the completed [Compliance Review Request Form](#) with all information relevant to the event filled in. Be certain to indicate: who the event is for – (clients? prospects?) and who is paying for any dinner or other refreshments or food (the agent? Agency? Third party?).
2. A copy of the invitation, regardless of who is distributing it. (Example: a business group or school is sending an invitation to your event to its own mailing list; even though not sent *by* you, the invitation must be part of the submission).
3. A copy of the presentation (including script/PowerPoint etc.) to be made by you or a guest presenter if financial services-related. Alternatively, if already reviewed by this department, provide the TC number under which it was reviewed.
4. A copy of the FINRA letter for the presentation and any materials to be handed out at the dinner/event (if applicable).
5. A copy of any prepared remarks to be made by the agent.

6. Note that *only* agents who are members of the Preferred Producers Group (PPG) may submit custom-created seminar material.
7. Note that approved presentations may not be altered, extracted, amended or combined in order to create a new presentation. All presentations are reviewed and approved on their own merits in context with the concepts discussed and may not be changed.

Illustrations

The NAIC *Life Insurance Illustrations Model Regulation* has been adopted by most states. It contains provisions for how life insurance policy illustrations are to be delivered when utilized as part of an agent's sales process. The model regulation defines an illustration as any presentation with nonguaranteed elements shown over a period of years. Even numbers on a napkin can be considered an illustration.

The purpose of the model is "to provide rules for life insurance policy illustrations that will protect consumers and foster consumer education." A key provision requires a life insurance applicant to sign a statement confirming that he or she understands that the illustration is *not a promise or a guarantee*. Although designed to protect consumers, this also protects agents and companies selling individual life and annuity policies.

Section 6(B) of the model says: when using an illustration in the sale of a life insurance policy, an insurer or its producers or other authorized representatives will not:

- Represent the policy as anything other than a life insurance policy.
- Use or describe nonguaranteed elements in a manner that is misleading or has the capacity or tendency to mislead.
- State or imply that the payment or amount of nonguaranteed elements is guaranteed.
- Use an illustration that does not comply with the requirements of the regulation.
- Use an illustration that at any policy duration depicts policy performance more favorable to the policyowner than that produced by the illustrated scale of the insurer whose policy is being illustrated.
- Provide an applicant with an incomplete illustration or one that is not in the correct numerical order; renumbering or repagination is not permitted.
- Represent in any way that premium payments will not be required for each year of the policy in order to maintain the illustrated death benefits unless that is a fact.
- Use the term "vanish" or "vanishing premium" or a similar term that implies the policy becomes paid up to describe a plan for using dividends to pay a portion of future premiums.
- Use an illustration that is not "self-supported."

Section 8(A) of the model provides that a supplemental illustration may be provided so long as:

- It is appended to, accompanied by or preceded by a basic illustration that complies with this regulation;
- The non-guaranteed elements shown are no more favorable to the policy owner than the corresponding elements based on the scale used in the basic illustration;
- It contains the same statement required of a basic illustration that non-guaranteed elements are not guaranteed; and
- For a policy that has a contract premium, the contract premium underlying the supplemental illustration is equal to the contract premium shown in the basic illustration. For policies that do not require a contract premium, the premium outlay underlying the supplemental illustration shall be equal to the premium outlay shown in the basic illustration.

Section 8(B) of the model directs that the supplemental illustration shall include a notice referring to the basic illustration for guaranteed elements and other important information.

If an interest rate is shown that was used to determine the illustrated nonguaranteed elements, that interest rate must not be greater than the earned interest rate underlying the “disciplined” current scale. The disciplined current scale is defined in the model as “reasonably based on actual recent historical experience.”

Both the agent and the policyowner must sign the illustration. The signed illustration must be sent to the Home Office.

There are three illustration scenarios in which you may be involved, each of which has its own delivery requirements. They are outlined below:

Illustration used

If you’ve used an illustration as part of a life insurance policy sales process, and the policy applied for is as illustrated, a copy of that illustration must be submitted to National Life *at the time the policy application is made*. It should be dated and signed by both you (the agent) and the applicant/policyowner prior to its submission. A copy must be provided to the applicant/ policyowner.

No illustration used

If you’ve not used an illustration as part of your life insurance sales process – or if you have used an illustration, *but the policy subsequently applied for is other than as illustrated* – you must check the box on the second page of the life insurance application acknowledging that no illustration was used at the time of the sale.

In the event this policy is issued, National Life will include with the policy an illustration that conforms to the policy as issued. This illustration should be dated and signed by both you and the policyowner *no later than the time the policy is delivered*. A copy of the signed illustration must be provided to the policyowner and to National Life.

Policy issued other than as applied for

In the event the policy issued is other than as applied for, National Life will send you (the agent) a revised illustration that conforms to the policy as issued. The illustration will be labeled “Revised Illustration,” and will be sent with the policy. It should be dated and signed by both you and the applicant/policyowner no later than the time the policy is delivered. Again, a copy of the signed illustration must be provided to the policyowner and to National Life. Please remember that:

- Each agent is responsible for complying with the regulations concerning illustrations in the states in which they do business.
- Be aware that illustrations are the subject of increasing regulatory scrutiny and can be used against you in a complaint situation.
- When selling life insurance products, use only Company provided and approved illustration software.
- Under no circumstances should you modify, add or remove information from any illustration generated by Company software.

Policy Delivery

General provisions

Prompt, in-person delivery of the insurance policy or annuity contract (collectively “policy” hereafter) is a critical part in concluding the sale. It not only results in a greater placement rate, but also affords you the opportunity to meet again with your client, reinforce the purchase and answer any questions. It also helps you establish an on-going and lasting relationship with the client and enables you to confirm that the client actually received the policy (and therefore commenced the free-look period).

Important: If a client’s health changes in a way that might affect their insurability prior to policy delivery, the policy should not be delivered and you should contact the underwriter for instructions. Under no circumstances should policies be delivered when you have knowledge that a client’s health has changed after underwriting requirements were completed. Further, if you become aware of a client’s death prior to policy delivery, you must return the policy immediately to National Life or LSW.

Signature requirements

Paper/“hard copy” applications. The ability to certify the validity of signatures on policy-related documents is a critical requirement for transactions to be considered submitted in “Good Order.” In general, only “wet” signatures – those personally applied and (where required) witnessed – are acceptable on policy-related documents.

Electronic applications. Electronic applications (hereinafter referred to as “e-app”) offer a web-based method that allows an applicant to complete an application and/or form on-line and affix an electronic signature. National Life Group has a carefully designed e-app process to ensure the confidentiality of the data and verification of the parties.

E-app has been approved for certain products and/or forms. Agents may not use another e-app vendor or another method of obtaining an electronic signature (e.g., signature “pads”) for completing applications/forms.

Policies and/or forms may be delivered electronically in some states.

In-person delivery procedures

For the reasons stated above, it is the expectation of the Company that the policy will be *personally delivered* to the customer whenever possible.

Upon receipt of the policy from the Home Office/Agency, you should first verify that the policy was issued as requested. You should then schedule an appointment to personally deliver the policy, review its contents and obtain the necessary signatures on any amendments, illustrations, and the delivery receipt. If a spouse or partner is involved, he or she should be present at the meeting.

As noted above, the delivery meeting is yet another opportunity to educate and serve your client. Consider it an opportunity to reinforce your client’s decision to buy. Go over the policy closely and point out its various parts. Explain in simple terms what each means. It is especially important to be certain that your client has no misunderstandings about the policy’s benefits and the needs it is designed to address.

At the meeting’s conclusion you’ll provide the following to your client:

- The insurance policy;
- A Life Insurance Buyer’s Guide; and
- A copy of the delivery receipt (if required by your particular state).

You’ll bring back the following:

- A signed illustration, if applicable;
- Signed amendments and other forms to the policy, if applicable; and
- The signed delivery receipt. (Note that LSW annuity contract delivery receipts are not required to be signed in all states. Please check your policy delivery package for details.)
- These items should be immediately forwarded to the Home Office.

Exceptions to in-person policy delivery

Only exceptional circumstances justify other than in-person delivery of a policy. Such circumstances would include (but are not limited to) a client located a significant distance away from the producer, when repeated efforts to arrange a client meeting have been unsuccessful, or as stated above under “Electronic applications.”

In such circumstances, the policy and accompanying documents should be sent to the client either by overnight delivery (with a confirmed signature), or by Certified Mail/Return Receipt. The client should be informed via “live” telephone (i.e., not a voice mail message) that the policy is being thus delivered.

What to include in the package. The package should include a cover letter from the producer with instructions for signing the various required documents, the policy and

accompanying documents, and provided by the Montpelier or Dallas Home Office in which the documents are to be returned.

What to do if the delivery receipt is not returned. If your client does not return the signed delivery receipt – and IF it was the ONLY item that was required to be returned – you should write the policy number on the confirmation and send it, along with a copy of your cover letter to the client, to the appropriate Home Office.

If there were other outstanding requirements at the time of delivery, you should continue to monitor the forms on delivery reports, and continue to pursue any unresolved issues.

Timing of policy delivery/failure of timely delivery.

Policies must be delivered to the client the earlier of; a) within 75 days of issuance by the Home Office, or b) the Acceptance Date recorded on the transmittal letter. If you are unable to meet this requirement, you should request an extension by notifying the Company in advance of the applicable expiration as defined above.

The importance of good record keeping.

It can sometimes be difficult for a producer to prove that he or she has provided full disclosure to a client. Leaving an illustration, a delivery letter and a Life Insurance Buyer's Guide with a client – *and keeping a record of this in the client's file* – will document that you provided full disclosure should you ever be called upon to do so. You should also keep a copy of the fact finder, the sales materials, and a log of all service provided to the client.

How to avoid policy rescission/commission charge backs:

Unless an exception has been granted by the Forms on Delivery Associate, the Company may proceed to rescind the policy with a resulting chargeback of all commissions IF the Home Office has not received ALL of the delivery requirements as of the required delivery date set forth above.

In addition, the Company reserves the right to charge the producer for any market fluctuations, affecting registered products during the “free look” provision following the required delivery date, that the Company is required to honor *due to the lack of a signed delivery receipt*.

See [Policy Issue Guidelines](#) for more information.

File Documentation

A well-documented client file is important for a number of reasons. First and foremost, it is your record of all actions and discussions with the client. Second, it will help support your sales process in the event a client makes a claim against you or the Company. Since customer complaints or threats of litigation may occur long after a policy is sold, a well-documented file will enable you to easily recreate the sale, and document the suitability of your recommendations and follow-up service.

Proper file documentation does not need to be a tedious process. Simply document the results of each meeting or conversation with a short paragraph or two for the file. It only takes a few minutes; once in the habit, you'll find it becomes virtually automatic.

Critical Items to maintain in your client files:

The following items are critical to documenting a sale, and should always be maintained in client files:

- **Correspondence.**
- **Copies of the signed Delivery Receipt.**
- **Advertising relating to the product sold.**
- **Fact Finder** – To document your client's financial situation and/or product suitability.
- **Case notes** – Including dates, times and method of client contacts (in person/by telephone), and brief summaries of all interactions.
- **Illustration/proposal upon which the sale was based.**

Items that should not be retained:

Certain documents should never be retained in the client file because of various regulations, compliance rules and confidentiality issues. They include:

- **Medical information** (other than part B of the application).
- **Inspection reports** (i.e. Equifax, ASB).
- **Original income tax forms.**
- **Any statements of a judgmental nature** about the client.
- **Signed blank forms.**
- **The original policy or contract.** (Keeping a photocopy is ok.)
- **Any other original forms.**

File Security and Retention:

File security

Your clients have placed their trust in you, and any information discussed with them should be treated as confidential. Keep your client files in a locked or secure area, and always put them away when not in use. Allow access only to others who have a demonstrable need for information.

File retention – fixed insurance

Note that if you sell fixed insurance products, your files are subject to inspection by state insurance department regulators. Be sure to:

- **Maintain active client files** for as long as the policy is reinstatable.
- **Maintain surrendered policy and death claims records** for six months.

Please contact your manager with any additional record keeping questions, or Market Conduct and Compliance.

File retention – variable insurance/securities

If you sell both securities products (e.g., registered and variable products) and fixed insurance products, your files are subject to inspection by federal securities regulators, state securities regulators and state insurance department regulators.

The Company recommends the following:

- Maintain separate file drawers or file areas for each type of business a customer has with the Company.
- Types of business can be broken down, by customer name, into “securities products” (such as stocks, mutual funds, bonds, etc.), “registered insurance products” (such as variable life or variable annuities) and “fixed insurance products” (such as whole life, term life, universal life or fixed annuities).
- Comply with the guidelines above for fixed products.
- Refer to the *ESI Written Supervisory Procedures* for additional information regarding securities/variable products.

Gifts and Rebating

- “Rebating” is defined as returning to the insured a portion of the premium, or the agent’s/broker’s commission on the premium, or use of other inducements, such as gifts, services or discounts, to place business with a specific insurer.
- Most state insurance laws prohibit rebates in connection with the sale of life insurance policies and annuity contracts. Typically the statutes provide that “*no insurer or agent shall pay, allow, give or offer to pay as an inducement with the purchase of any policy of life insurance or annuity contract, any valuable consideration or inducement whatsoever that is not specified in such policy or contract.*” This language clearly prohibits offering an insured an inducement or any valuable consideration that the insurance policy or annuity contract does not provide under its terms.
- *Rebating is illegal in most states and is **not allowed in any state** by National Life and LSW.*

Rebates include not only cash but personal services and items – gifts -- of value. This means that only gifts of nominal value may be given to prospects or clients, and that the prospect or client is under no obligation to listen to a sales presentation or buy a contract as a result of the gift. Each state sets limits on the value of gifts considered nominal. Check the regulations for the states in which you sell.

- *If a gift of nominal value is offered, it must be given to the prospect if they request it, regardless of whether or not they listen to a sales presentation.*

Replacements

It is the position of the Company that replacing an existing life insurance policy or annuity with a new one is usually not in a customer’s best interests. The Company

has developed policies and procedures which discourage producers from replacing existing business, except in those rare instances where it can be demonstrated that it is in the best interests of the customer and that such an action meets his or her stated needs and desires. Those procedures are summarized below.

Definition of replacement

The Company defines “replacement,” as any sale of a new life insurance policy or annuity contract that results in a surrender, lapse, termination, reduction of premiums or reduction in the amount or period of coverage from any existing life insurance or annuity contract. This definition may be different than the definition specified by your state. Please contact Market Conduct and Compliance if you would like more information regarding state-specific replacement regulations.

An **internal replacement** occurs when the sale of a new *proprietary* life insurance or annuity contract results in either the:

- Surrender of a proprietary life insurance or annuity contract.
- Lapse of a proprietary life insurance or annuity contract.
- Termination or reduction of premium of a proprietary life insurance or annuity contract.
- Reduction in the amount or period of coverage of a proprietary life insurance or annuity contract.

Note that replacing one National Life policy with another National Life policy is considered an internal replacement. Replacing a National Life policy with an LSW policy – or vice versa – is also considered an internal replacement.

An **external replacement** occurs when:

1. The sale of a new *non-proprietary* life insurance or annuity contract results in either the:
 - Surrender of a proprietary contract.
 - Lapse/termination or reduction of premium of a proprietary contract.
 - Reduction in the amount or period of coverage of a proprietary contract.
 - Or in borrowing from an existing proprietary contract.
2. The sale of a new *proprietary* life insurance or annuity contract results in the:
 - Surrender of an existing non-proprietary contract.
 - Lapse of an existing non-proprietary contract.
 - Termination or reduction of premium in an existing non-proprietary contract.
 - Reduction in the amount or period of coverage in an existing non-proprietary contract.
 - Or in borrowing from an existing non-proprietary contract.

IMPORTANT; Note further that if a policy is surrendered, lapses or is funded by a policy loan taken within four months before, or 13 months after the effective date of

the issuance of a new policy with the Company, *the new policy will be considered a replacement.*

Agent obligations

Agents whose clients may potentially engage in activity which could result in an internal or external replacement as defined above must take the following steps:

1. If a client is considering replacing an existing contract, they must be provided with appropriate information regarding the nature of the replacement to assist them in determining whether it fully meets their specific, stated needs.
2. Agents must be sure that clients considering replacing are made aware of the consequences of replacement activity – including but not limited to:
 - the likely assumption of new or duplicated expense and sales charges;
 - the loss of existing policy provisions and protections;
 - the potential loss of rights and benefits;
 - surrender charges incurred (if applicable); and
 - the potential for increased tax liability.

In the event a client makes the decision, after careful consideration, that a replacement is in their best interest, then the agent is responsible for completing the appropriate (state specific) replacement notice. For some qualified plans, prior approval from a plan administrator may be required.

Important: Undisclosed replacements are prohibited by the Company. If undisclosed replacements are discovered they will be referred to the Replacement Committee and possible disciplinary action may be taken.

Replacement activity

Cases involving replacement activity (both internal and external) are monitored by the Company's Conservation Unit, and when necessary, are reported to the Replacement Committee for possible action.

A complete copy of the Company [Position Statement and Guidelines for Replacements](#) is available at this link, from your manager or on the Market Conduct section of the agent portal on the Company website.

Note that agents are responsible for ensuring their own compliance with any non-competition or non-solicit obligations they may be subject to with another carrier or company, including prohibitions on soliciting existing customers of that carrier or company. The Company takes these obligations seriously and reserves the right to take all appropriate actions in the event of non-compliance, including termination of an agent.

Customer Complaints

The Company has an obligation to its customers to monitor agent conduct and to ensure they are serving their clients ethically, appropriately and beneficially. One of

the ways the Company does this is by fair and expeditious handling of policyowner complaints.

Complaints must be identified, evaluated and handled according to applicable laws and regulations.

A complaint is typically initiated by any written statement to a state's Department of Insurance, Department of Securities, or to a Company employee or representative by a policyowner or his or her attorney or representative. The main purpose of the statement will likely be to express a grievance about the Company, its subsidiaries, or its agent(s).

Complaints relating to insurance products sold through the Career and Independent Agent channels are handled by the Market Conduct and Compliance Department on either the Montpelier or Dallas campus as specified below. Often during research about the complaint, the agency or agent will be contacted. Agents will likely be required to provide a written statement addressing the allegations, and asked to provide sales materials leading up to the sale in question (if applicable). It is imperative that a response to these inquiries be received within 48 hours of the initial request by Market Conduct & Compliance. Failure to provide a response could result in termination.

All securities-related complaints are handled directly by the broker/dealer. Outside broker/dealer complaints are coordinated by the Market Conduct and Compliance Department in Montpelier.

Please note that all complaints received directly by an agent or agency should immediately be forwarded to Market Conduct and Compliance for handling. Once reported to the Company, agents should not respond directly to the customer, any customer representatives, or to regulators regarding the complaint. Any such inquiries must be forwarded and/or referred to Market Conduct and Compliance. Please see below for additional routing information.

Complaints are recorded and periodically reviewed to identify trends or patterns of behavior that may need to be addressed. Your contract with National Life and/or LSW requires that you conform to the rules of the Company when you conduct your business. If the Company identifies a reoccurring trend or a specific issue as a result of a complaint, you may be required to take additional training. All agents are expected to know and follow the laws and regulations affecting their business.

Please refer to [Complaint Handling for National Life and LSW Agents](#) for additional information.

Important: as an agent, you will be held accountable for the work of assistants and other staff you employ.

Reporting complaints

A policyowner or his or her representative may write a complaint directly to you as the agent of record. If the complaint expresses a grievance about the product, its performance or your involvement in the sales process, you must immediately notify your supervisor and forward the complaint to the appropriate home office department (see following).

Type of Policy	Where to Send Complaint	Fax #	Phone #	Email
National Life or LSW life insurance policy	Market Conduct & Compliance- M530 National Life Insurance Co. One National Life Dr. Montpelier, VT 05604	802-229-3123	802-229-7187	complaints@nationallife.com
LSW or National Life annuity contract	Market Conduct & Compliance- M530 National Life Insurance Co. One National Life Dr. Montpelier, VT 05604	214-638-9347	214-638-9379	LSWcomplaints@nationallife.com
Securities products sold through Equity Services, Inc.	Equity Services, Inc. Compliance Department-M480 Equity Services, Inc. One National Life Dr. Montpelier, VT 05604	802-229-7244	802-229-7437	complaints@nationallife.com
National Life variable policies sold through an outside broker/dealer.	Market Conduct & Compliance- M530 National Life Insurance Co. One National Life Dr. Montpelier, VT 05604	802-229-3123	802-229-7187	complaints@nationallife.com

Prohibited Acts

The business we're in has become increasingly complex. Small, seemingly inconsequential actions can have large consequences. The best defense is to know at all times the boundaries of appropriate conduct and your authority – which is strictly limited by law and by your Agent Contract. Following is a list of activities that insurance regulatory agencies and the Company considers to be illegal, unethical or against Company policy. *Note that the list is not intended to be all-inclusive.*

No agent is authorized, directly or indirectly to:

1. Violate the law in any manner whatsoever.
2. Contact or respond to any state, federal or industry regulatory agency or authority in any capacity whatsoever.
3. Purport to represent the Company in any manner whatsoever.

4. Respond directly to any state insurance department, or official thereof, or any government agency, either verbally or in writing without notifying us. Such matters must be referred to the home office.
5. Fail to report to Market Conduct and Compliance any notice of legal action or cease and desist order relating to your actions as a representative of the Company.
6. Place the Company under any legal obligation that is not within the authority granted by the Company in the Agent's Contract, or elsewhere in writing.
7. Bind the Company by any statement, promise or representation.
8. Agree with any applicant to any extra premiums for extra risks, or to collect any monies other than as provided in the Agent's Contract.
9. Affix stamps or labels on policies, policy envelopes or materials of the Company in such a way as to obliterate or alter in any way the printed matter thereon.
10. Fail to inform the policyowner of all significant and material conditions and requirements of a policy or contract.
11. Fail to disclose and explain the guaranteed and non-guaranteed aspects of any policy or contract or to guarantee any non-guaranteed values, such as dividends or dividend projections or projected interest rates.
12. Advertise or publicize the Company's name, products or services by using them in any manner without the prior written approval of the appropriate compliance department.
13. Sell or attempt to sell products or amounts of insurance which would not be appropriate or serve the best interest of the policyowner or client.
14. Provide advice regarding products for which the agent lacks licensing. Example: a life-only agent who is not registered to offer securities may not:
 - comment or provide advice on a client's investments or the stock market
 - suggest a client sell, surrender or replace any investment in order to purchase life insurance or annuities
15. "Twist," "churn" or use existing life insurance policy or annuity contract values (cash, loan values, or dividend values etc.) to purchase another insurance policy or annuity contract with the same insurer for the purpose of earning additional premiums, fees, commissions, or other compensation.
16. Manipulate a client's or policyowner's policies or accounts in order to circumvent state or Company replacement rules.
17. Solicit the sale of any product in any state where not properly licensed and appointed with the insurer.
18. Enter into an agreement or request a policyowner to take a loan or withdrawal on their behalf.

19. Engage in speculation of human life by soliciting or receiving an application, or delivering a policy, or by suggesting or assisting in any assignment or transfer of ownership of a policy where the policy is to be used for that purpose.
20. Sign the name of another person, such as an applicant, insured, policyowner, beneficiary, assignee or otherwise, whether or not such person consents. This includes affixing a client's e-signature to an application form.
21. Sign as a "witness" to any person's signature on any application or other paper relating to the Company's business (such as health certificates, amendments, questionnaires, etc.) unless that signature is written in the agent's presence.
22. Request or retain any blank forms signed by the applicant or client, such as applications, dividend change or loan forms under any circumstances.
23. Add, delete or change the answers given on any document after the insured/beneficiary/applicant/policyowner has signed the form attesting to its accuracy.
24. Conduct any unauthorized action on the client's or policyowner's account, including but not limited to loans, redemption, purchases or redirection of dividends.
25. Solicit loans from, or issue promissory notes to, a policyowner.
26. Change a policyowner's address of record with or without the policyowner's knowledge or consent.
27. Change a policyowner's address to the agent's address, unless an immediate family member.
28. Submit any application, questionnaire or other document that contains any information that you know, or have reason to believe, is not complete and accurate.
29. Allow the applicant or any other person to fill in Part B of a life insurance application or any part of an annuity application.
30. Deliver, without prior approval of the Chief Underwriter, any life insurance policy when you know or should know the insurability of the proposed insured has changed.
31. Sign an application if you were not present for the presentation and sale of the product.
32. Fail to deliver the policy on a timely basis or to keep custody of a policy, other than a policy on yourself (the agent) or a member of your immediate family, for a period longer than is necessary for analysis, record organization and review.
33. Retain in any file personal underwriting information on applicants or insureds (such as Attending Physician's Statement, examinations, blood tests, electrocardiograms or inspection reports).
34. Divulge to a third party without permission, information obtained through any professional dealings with policyowners or prospects.

35. Charge for services undertaken for or rendered to any applicant, policyowner or beneficiary or assignee that may be considered as normal or customary duties of life insurance agents. Such services include, but are not limited to, explaining the terms of a policy, claims and other similar services.
36. Have any policyowner billing notices sent directly to you (the agent).
37. Pay premiums on behalf of the policyowner.
38. Pay loans on a policyowner's policy.
39. Deposit premium payments into your business or personal account.
40. Pay premiums for a policyowner from your business or personal account.
41. Pay or offer to pay any amount or provide anything of value as an inducement to a person to buy a policy. This includes rebating a portion of the commission on a sale.
42. Require any person to purchase a life insurance or annuity policy in order to obtain employment with that agent or agency.
43. Request a personal loan from any client or policyowner (excluding immediate family members).
44. Enter into contracts with sub-agents for the solicitation of insurance or to share commissions with anyone not licensed and under contract with the Company.
45. Endorse, deposit, cash or otherwise negotiate any check drawn to the Company's order, or the order of any payee other than yourself (the agent).
46. Open any bank account in the Company's name, or to sign the Company's name in any circumstances, or to have any checks or promissory notes printed with the name National Life Insurance Company, Life Insurance Company of the Southwest or any other common variation of these company names.
47. Serve in any legal capacity for the insured/policyowner (i.e., power of attorney, guardian, executor/executrix, director, officer, agent for service of process) except for a member of your (the agent's) immediate family.
48. Serve as a trustee on a policy or qualified plan, except as a member of your (the agent's) immediate family.
49. Allow a policyowner (other than your immediate family members) to name you (the agent) as owner, assignee or beneficiary on any policy.
50. Allow a policyowner (other than your immediate family members – or those who have an "insurable interest" as defined by state law) to name your immediate family members as owner, assignee or beneficiary on any policy.
51. Use any illustrations not approved by the Company or to alter Company illustrations, application materials or contracts.
52. Misrepresent or disparage the financial stability or marketing practices of another company or any other representative.

53. Make any representations, either verbally, or through the use of a trade name, in such a way as to conceal the fact that you (the agent) sell life insurance and annuities.
54. Use a trade name that does not have the appropriate compliance department's approval when representing the Company.
55. Use a professional designation that has not been approved by the Compliance Department. See [Approved Designations](#) for more information.
56. Misrepresent either verbally or on any letterhead, business card or other form of correspondence, your (the agent's) degree of training, schooling or membership in any association, club or other organization.
57. Purchase a policy or advise others to purchase a policy, or to assign a policy to another agent, for the purpose of qualifying for a sales conference quota or achieving any production quota.

Consequences of non-compliance

If an agent violates state or federal rules, Company policy, or establishes a pattern of non-compliance, the Company may take one or more of the following actions:

- Train or re-train the agent.
- Closely monitor the agent's sales for a period of time.
- Adjust the agent's commissions or other compensation.
- Issue a verbal or written warning to the agent.
- Fine the agent.
- Terminate the agent's agreement with the Company.

Errors & Omission Coverage

National Life Group requires¹ that all Full Time Career agents (including Senior Agents), Not Full Time Agents in its Pre-Financed program, and all ESI Registered Representatives, purchase E&O through National Life Group's sponsored program. If you have any questions about this requirement, you should call National Life Group's insurance broker CalSurance at (866) 226-9308.

Violent Crime Control and Law Enforcement Act of 1994²

¹ Agents domiciled or with a primary place of business in New York are not required to purchase E&O through National Life Group's sponsored program, but their E&O must satisfy National Life Group's minimum requirements, as established each year. Please contact CalSurance at the number provided above for details.

²National Association of Insurance Commissioners (NAIC), 2002. *Guidelines for State Insurance Regulators to the Violent Crime Control and Law Enforcement Act of 1994: 18 United States Code Sections 1033 and 1034.* www.naic.org

On September 13, 1994, President Clinton signed the omnibus anti-crime bill titled the “Violent Crime Control and Law Enforcement Act of 1994” (Public Law 103-322, H.R. 3355) (the “Act”). The Act included Federal criminal and civil enforcement provisions aimed directly at white-collar and other insurance fraud.

The insurance fraud provisions of the Act are contained within two sections to Title 18 of the United States Code. Section 1033 is captioned “Crimes By and Affecting Persons Engaged in the Business of Insurance Whose Activities Affect Interstate Commerce.”

Section 1033(e)(1)(A) makes it a felony crime for a person to engage or participate in the business of insurance if that person has ever been convicted of a State or Federal felony crime involving dishonesty or a breach of trust (or of a crime under 18 U.S.C. Section 1033). The purpose of this subsection is to prohibit anyone convicted of a felony crime involving trustworthiness from conducting insurance activities.

Section 1033(e)(1)(B) makes it a felony crime for a company or person, who is engaged in the business of insurance, to willfully permit the participation of a person who is prohibited under Section 1033(e)(1)(A). Thus, the statute makes it illegal for an insurer, reinsurer, its officers, directors, employees, agents and brokers (or others) to willfully employ a person who has been convicted of a felony crime involving dishonesty or a breach of trust.

As to what constitutes “insurance activities,” the statute includes “all acts necessary or incidental to” the writing of insurance or the reinsuring of risks and the “activities of persons who act as, or are, officers, directors, agents, or employees of insurers or who are other persons authorized to act on behalf of such persons.”

If an individual is a “prohibited person” under this Act, the only way for that person to engage or participate in the business of insurance is to obtain the “written consent” of the appropriate insurance commissioner.

Although the Act excludes certain felonies, you must notify the Company if either one of the following has occurred:

- At the time you started with the Company you neglected to report on your employment application or contracting paperwork that you had been convicted of or plead guilty or no contest to any felony; or
- Since the time you started with the Company (whether through employment or appointment) you have been convicted of or plead guilty or no contest to any felony.

National Life Group contact information:

Contracts and Licensing, (800) 906-3310, option 3
NLFAContracting@nationallifeGroup.com.

USA Patriot Act and Anti-Money Laundering

The U.S. Government enacted The USA Patriot Act, which is aimed at countering terrorism by placing requirements on all financial services companies to ensure they do not conduct business with terrorists. The Act strengthens anti-money laundering (AML) laws, enhances penalties for violations and grants new enforcement and surveillance capabilities.

The USA Patriot Act has two key sections for life insurers. The first is § 326 – Verification and Identification – also referred to as “know your customer”. The Company must take steps to ensure that its insureds, policyowners and beneficiaries are not persons or companies listed on the U.S. Treasury’s Office of Foreign Asset Control (OFAC) “Specially Designated Nationals and Blocked Persons List”. The Company has developed procedures and purchased software specifically to ensure OFAC monitoring is fulfilled.

The second section of significance of the USA Patriot Act is § 352 – Anti-Money Laundering Programs. Under this section, companies are required to designate a compliance officer; establish written policies, procedures and controls; establish a system of ongoing employee and agent training, and; establish an independent audit function. The Company has written procedures in place and a committee designated for compliance review. Additionally, AML training is provided to new agents as well as biennially on an ongoing basis to existing agents.

What are my responsibilities as an agent?

Be sure you ask enough questions to know your prospect’s or customer’s situation and the source of his or her funds. Products with cash value components are at particular risk. The following is a list of “red flag” activities that may be indicative of a potential money-laundering situation:

- Patterns of surrender of policies during the free look period;
- Patterns of loans on policies, or multiple usage of cash equivalents for premium payments on a policy;
- Account with inflows of funds or other assets well beyond the known income or resources of the customer;
- A customer who exhibits a lack of concern for surrender charges;
- A customer who maintains multiple accounts or maintains accounts in the names of family members or corporate entities for no apparent business or other valid reason;
- Payment of a large amount broken into small amounts;
- A customer who wants to pay large premiums in cash and claims to not have a checking account;
- Little or no concern by a customer for the performance of an insurance product, but significant concern about the early termination features of the product.

If you suspect a potential problem and continue with the transaction without reporting it to the Company, you may be guilty of “willful blindness” or deliberate ignorance and

subject to legal action. If something seems suspicious, report it immediately to the Market Conduct & Compliance department.

Fulfilling AML training requirements is an additional responsibility. The training is provided by the Company. If you do not complete the training within the required time period the Company will be forced to terminate your contract.

Please refer to [NLIC/LSW AML Policies and Procedures](#).

Stranger-Owned Life Insurance (STOLI) or Investor-Owned Life Insurance (IOLI) programs

In accordance with the attached position statement dated January 13, 2006, National Life shall not participate as a product provider in any STOLI or IOLI scheme that involves, but is not limited to, the following characteristics contained in this [Policy Statement](#).

Privacy

The Gramm-Leach-Bliley Act (GLB)

The Gramm-Leach-Bliley (GLB) Financial Services Modernization Act, signed into law in November 1999, provides financial institution consumers with the most sweeping expansion of privacy safeguards in the nation's history. All financial institutions, including the Company, comply with the regulation's provisions.

Among them is the provision that all financial institutions provide annually to their customers a clear and conspicuous notice that accurately reflects its privacy policies and practices with respect to nonpublic personal information. The privacy policy of the Company is posted on the National Life Group website at www.nationallifegroup.com.

FAQs about GLB:

Which financial services institutions are affected?

The privacy requirements apply to all financial institutions including insurance companies, insurance agencies, broker-dealers, investment advisors, investment companies, banks, trust companies and related entities. Insurance agents and registered reps are also considered "financial institutions" under the law and are required to comply with the regulations individually.

What does GLB require of companies?

In general, GLB requires companies to develop their own privacy policies and disclose them in a Privacy Notice to individual customers at the point of sale and annually thereafter. The Privacy Notice must describe what kinds of personal information companies collect, where it comes from and to whom it is disclosed. According to model regulations supporting the law, companies may not disclose personal information to any unaffiliated third party unless the consumer has been given a chance to "opt out", that is, the consumer is given a way to tell the institution not to disclose information about them.

The Company has already complied with the notice requirement of the regulation and, because they do not share protected information with unaffiliated parties except as permitted by regulation, an offer of the “opt out” option for customers has not been necessary.

What does GLB require of agents?

Under GLB and related regulations, producers engaged in distribution of insurance and other financial products and services can be considered “financial institutions” and therefore subject to the law. That means producers who are independent contractors or independent entities (such as insurance agencies or broker-dealers) *may* have an obligation to provide their own privacy notice to customers and meet the other requirements of the law, depending on how their independent business is conducted.

However, to the extent a producer acts solely as an agent of companies that comply with GLB regulations, the Privacy Notices sent by those entities to its customers can be relied upon to satisfy GLB requirements – thereby relieving the producer of the responsibility to provide a separate privacy notice.

Note however, that if an agent wishes to disclose a consumer’s protected information to an entity other than the insurance company the agent is representing, the agent must give the consumer a copy of the agent’s *own* privacy notice – and an opportunity for the consumer to prohibit the disclosure of that information to nonaffiliated third parties – i.e., provide the customer an opportunity to “opt out.”

I write business with more than one company. Does this require any special action on my part?

You are subject to the law, but you are not required to comply with the notice and opt-out requirements of the regulation which support the law if:

- The companies for which you act as an agent comply with the notice and opt out requirements of the regulation; and
- You do not disclose protected information to any person other than that company or companies, or the affiliates of that company or companies.

In addition to selling insurance and securities products, I also conduct fee-for-service financial planning. Do I need to provide my customers with additional information?

If you have a relationship with your clients that is separate from your role as a Company representative, or that is separate from your representation of other companies that also comply with the law, you *will* have to comply separately.

For example, if you primarily sell the Company’s products, but also provide independent investment advisory services, and/or sell products or services of other financial institutions, you *may* need to provide a separate Privacy Notice to your customers.

The “test” is whether or not the relationship you have with your client is completely separate from the relationship you have with a GLB-compliant company. If it is separate, then you’ll need to separately comply with GLB and its related regulations.

You may want to consult with an attorney to develop a Privacy Notice that satisfies the specific requirements of the law.

If the Company finds a prospect uninsurable, I may sometimes take the customer's information and shop it with other carriers. May I continue to do this under the GLB rules?

Yes. GLB allows agents to share health information without specific authorization for normal insurance functions, such as claims administration, underwriting, reinsurance actuarial research and auditing.

Will I be required to leave additional information regarding our privacy policies with the customer at point of sale?

No. The Company's privacy statement is included with all new policy packages, along with the Life Insurance Buyer's Guide for policies issued by the Company.

What if a sale is not made, but I have still collected financial or health related information?

If you do not disclose protected information to any person other than the principal (company) or its affiliates, you are not required to comply with the Privacy Notice and opt out provisions of GLB.

Who do I contact if I have question about the Privacy rules?

Questions regarding privacy should be directed to the Market Conduct & Compliance Dept., (802) 229-3325.

Reporting Ethics Violations: EthicsLine 1-800-500-0333 or [online](#)

A number of acts can endanger the safety and/or reputation of the Company and its associates. These include theft; fraud and drug abuse, of course, but extend to any act that can impact the safety or reputation of the Company and its associates.

It is therefore the responsibility of every associate – whether in the field or home office – to report anything suspected of being potentially harmful to the Company or its associates.

To make such reporting both as convenient as possible – and completely anonymous – the Company has engaged the services of "EthicsLine," an outside organization that specializes in ethics-related monitoring and reporting.

"EthicsLine" is operated by Global Compliance Services. Users of their toll-free hotline (800-500-0333) and website (<https://nationallife.alertline.com>) are guaranteed anonymity.

Users of the service will be asked for specific details concerning the situation that prompted the contact (such as dates, times, people involved, witnesses, locations and other information needed for verification). EthicsLine will provide a case number should you wish to provide additional information at a later date. This number identifies the case report only, and not the person contacting EthicsLine. The process assures complete anonymity.

If you wish to speak to someone at the Company, a name will be provided to you. EthicsLine will send the information to the Company within one working day of its receipt. Users are also encouraged to contact the Company directly regarding any ethical situation involving themselves or another agent.

See the resource list in the appendix of this booklet for contact information.

Appendix

National Life Group website information

The following information is available on the agent portals of the Company website. The “Market Conduct & Compliance” page is continuously updated. We encourage you to refer to it on an ongoing basis:

<https://www.nationallifegroup.com/SecureApps/MyBusiness/StayingCompliant/Views/MarketCompliance.aspx>

Among the topics discussed:

- State by state copies of advertising and unfair trade practice regulations.
- Replacement policy.
- “Do Not Call” rules and access to the National Do Not Call list.
- Advertising Review Process.
- Advertising Review Checklist.
- Compliance Review Request Form.
- Anti-money laundering information.
- Policy delivery procedures.
- Fixed & traditional annuity suitability procedures.

Other web sites of interest

www.naic.org – Home page of the National Association of Insurance Commissioners. This site contains information about issues currently under consideration by the NAIC, informational consumer publications and links to every state department of insurance websites.

www.acli.com – Home page of the American Council of Life Insurers. General public site includes consumer information about life insurance and general consumer publications.

www.naifa.org – Sponsored by the National Association of Insurance and Financial Advisors, formerly known as the National Association of Life Underwriters, this site is for insurance professionals but also contains consumer information about life insurance and agents.

www.lifehappens.org – Educational site offering information on life, health, and disability income insurance; sponsored by the Life and Health Insurance Foundation for Education.

www.finra.org – Official web site of the Financial Industry Regulatory Authority (FINRA) (formerly the regulatory division of National Association of Securities Dealers [NASD]), the financial industry self-regulatory body. Provides information on virtually all issues related to registered products, licensing, advertising regulations, disciplinary actions, etc.

www.sec.gov – Official web site of the regulatory agency of the U.S. government. The SEC oversees the key participants in the securities world, including securities exchanges, securities brokers and dealers, investment advisors, mutual funds, state securities regulators, and various private sector organizations.

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National Life Insurance Company Home Office: One National Life Drive, Montpelier, Vermont 05604 • Telephone: (802) 229-3333 • www.nationallifegroup.com
LSW Home Office: 15455 Dallas Parkway, Suite 800, Addison, Texas 75001 • Telephone: (800) 228-4579 • www.lifeofsouthwest.com

Centralized Mailing Address: One National Life Drive, Montpelier, VT 05604