

Date: January 20, 2011**Nº. 2011-05****Category:** Life Insurance**To:** Managing General Agents, Associate General Agents, Independent Advisors and National Accounts**Subject:** Retail Risk Rate and Product Changes

At the end of last year, you received a notice announcing our intention to increase rates on certain cost of insurance structures, starting with our universal life plans. In our last [Information Circular 2010-33](#), we mentioned the continued forecast of low interest rates driving yields on bonds and other guaranteed investment instruments to record lows. These investments form the basis of how we price life insurance products, especially those with guaranteed long-term features.

In an effort to improve the long-term viability of our retail risk line of business, we will be making the following changes to our Trilogy and Trilogy Plus products as well as some changes to all our product lines effective **February 14, 2011**. We are pleased to introduce significant improvements on both our life underwriting and critical illness underwriting requirements that will help to shorten the turnaround time as well as reduce the standard requirements on new business.

New Universal Life Rates

The level cost of insurance (COI) structure rates will experience a 6% increase on average. Some larger increases will occur at the very young (under 20) and more mature ages (over 75). Increases in our target market of ages 40-65 will experience less impact with increases ranging from 0% to 6%. The banding for the level COI structure will improve with Band 4 dropping from \$1,000,000 to \$500,000.

Current	Proposed
Band 1 - \$10,000 to \$99,999	Band 1 - \$10,000 to \$99,999
Band 2 - \$100,000 to \$249,999	Band 2 - \$100,000 to \$249,999
Band 3 - \$250,000 to \$999,999	Band 3 - \$250,000 to \$499,999
Band 4 - \$1,000,000 and over	Band 4 - \$500,000 and over

The ART85 cost of insurance structure rates will also experience a 6% increase on average. To help offset the increase, we will be introducing two new amount bands to minimize the increases for larger amounts of coverage.

Current	Proposed
Band 1 - \$10,000 to \$99,999	Band 1 - \$10,000 to \$99,999
Band 2 - \$100,000 and over	Band 2 - \$100,000 to \$249,999
	Band 3 - \$250,000 to \$499,999
	Band 4 - \$500,000 and over

Rates for Band 3 will target an average 5% increase and rates for Band 4 will target an average 4% increase over current rates.

Currently, there are no planned changes for the ART 100 COI structure. This also applies to the 10-year renewable term or 20-year renewable term COI structures, which both went through a rate reduction last year.

New Universal Life First Year Commission

In addition to these rate changes, our analysis has found that our regular Trilogy first year commission (FYC) was ahead of the market for our level and ART85 COI structures generating additional new business strain for these cost of insurance structures, already burdened by low returns on equity.

To keep the impact of rate increases down we will introduce a 5% reduction in the first year target premium commission for both Trilogy and Trilogy Plus.

Level and ART85 COI	Current	Proposed
Trilogy	65%	60%
Trilogy Plus	60%	55%

These changes will keep our commission levels in line with the market on these cost of insurance structures. We are very aware that a decrease to first year commission, even to come in line with other competitors, can be a very unpopular approach in our market.

The alternative we faced by leaving the commission rates as they were would have significantly increased the rates to your clients.

This change takes a balanced approach in meeting the needs of all stakeholders. We are asking customers, distribution partners and shareholders to share in the overall solution to addressing pricing issues.

New Universal Life Issue Ages

In keeping with our strategy to simplify our product portfolio and bring our products in line with the market, we will be introducing changes to the issue ages for all our Trilogy plans.

Issue Age Limits	Current	Proposed
Trilogy and Trilogy Plus	0 to 85	0 to 80

To accommodate the age ratings on clients at the oldest ages, we will continue to allow individuals an age rating up to a maximum insurance age of 85.

Guaranteed Minimum Rate Change on Universal Life

Due to the impact of continued record low interest rates, we are making the following change to the minimum rate guarantee on the 20-year Guaranteed Interest Option.

Guaranteed Interest Option	Current	Proposed
20 Year GIO	2.875%	2.5%

Currently, there are no planned changes for the 10-year Guaranteed Interest Option.

Changes and Enhancements for All Risk Products

The following changes impact all risk products, not just our universal life plans. Please note some changes will be effective **February 14, 2011** while others may be already in effect or come in effect at a later specified date.

Improvements to Underwriting

We are pleased to introduce significant changes on both our life underwriting and critical illness underwriting requirements that will improve the turnaround time as well as reduce the standard requirements on new business.

Our underwriting team has already begun the process of integrating these changes by not ordering routine attending physician's statements at certain ages and bands for both life and health products. Other changes will include cigar smokers qualifying as non-smokers. The old standard of smoking one per month is being switched to 12 per year, which may qualify applicants as non-smokers on life products.

More detailed changes will be coming shortly in an upcoming information release in February. Although these changes will not be immediately available on our next software release, more information will be made available highlighting how you and your clients can take advantage of these improved requirements.

Joint Last-to-Die Age Calculation

After a detailed competitive analysis by our internal team and our reinsurance partners, we found certain changes were required to keep our single equivalent age (SEA) calculations in line with the market..

The single equivalent age (SEA) will increase on average by 2 years for joint last-to-die and joint last paid-up on first death policies. Actual increases will vary by age with slightly higher increases on younger ages and lower on older ages.

Currently, there are no planned changes to our joint first-to-die calculation.

Transition Rules

- Applications received in Head Office on or after **February 14, 2011** will be set up under the new plan
- Applications pending issue as of **February 14, 2011** will be issued as applied for.

Please contact your local Empire Life sales office should you need assistance in submitting outstanding applications prior to the February 14th deadline.

Reference:

Peter Wouters, Director, Retail Risk Product Marketing and Director, Tax & Estate Planning