



This is “Appendix C”, appendix 3 from the book [Enterprise and Individual Risk Management \(index.html\)](#) (v. 1.0).

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# Chapter 26


## Appendix C

### Sample State Farm Whole Life Insurance Policy Basic Plan Description

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Figure 26.1

**STATE FARM LIFE INSURANCE COMPANY**  
HOME OFFICE, ONE STATE FARM PLAZA, BLOOMINGTON, ILLINOIS 61710

	Insured	.....
	Age	.....
	Policy Number	.....
	Policy Date	.....
	Basic Plan Amount	\$50,000
	Total Initial Amount	Re-Issued As Requested

This Policy is based on the Application and the payment of premiums to the Policy Anniversary shown under the heading Premiums Payable on page 3 while the Insured lives. State Farm Life Insurance Company will pay the Proceeds to the Beneficiary when due proof of the Insured's death is received.

**30-Day Right to Examine this Policy.** This Policy may be returned within 30 days of its receipt for a refund of all premiums paid. Return may be made to State Farm Life Insurance Company or one of Our agents. If returned, this Policy will be void from the Policy Date.

Read this Policy with care. This is a legal contract between You and State Farm Life Insurance Company.

*Tom M. Bruner* Secretary                      *Edward J. Ruel* President

**BASIC PLAN DESCRIPTION**  
Whole life insurance with premiums payable to the Policy Anniversary shown under Premiums Payable on page 3 while the Insured is alive. Insurance is payable when the Insured dies. The Basic Plan is eligible for annual dividends.

07000-43PAGE 120081005

Figure 26.2

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Figure 26.3

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IMPORTANT NOTICE	AVISO IMPORTANTE
<p>To obtain information or make a complaint:</p> <p>You may call State Farm's toll-free telephone number for information or to make a complaint at:</p> <p style="text-align: center;">1-800-252-1932</p> <p>You may contact the Texas Department of Insurance to obtain information on companies, coverages, rights or complaints at:</p> <p style="text-align: center;">1-800-252-3439</p> <p>You may write the Texas Department of Insurance:</p> <p>P.O. Box 149104 Austin, TX 78714-9104 Fax: (512) 475-1771 Web: <a href="http://www.tdi.state.tx.us">http://www.tdi.state.tx.us</a> E-mail: <a href="mailto:ConsumerProtection@tdi.state.tx.us">ConsumerProtection@tdi.state.tx.us</a></p> <p><b>PREMIUM OR CLAIM DISPUTES:</b> Should you have a dispute concerning your premium or about a claim, you should contact the company first. If the dispute is not resolved, you may contact the Texas Department of Insurance.</p> <p><b>ATTACH THIS NOTICE TO YOUR POLICY:</b> This notice is for information only and does not become a part or condition of the attached document.</p>	<p>Para obtener informacion o para someter una queja:</p> <p>Usted puede llamar al numero de telefono gratis de State Farm's para informacion o para someter una queja al:</p> <p style="text-align: center;">1-800-252-1932</p> <p>Puede comunicarse con el Departamento de Seguros de Texas para obtener informacion acerca de companias, coberturas, derechos o quejas al:</p> <p style="text-align: center;">1-800-252-3439</p> <p>Puede escribir al Departamento de Seguros de Texas:</p> <p>P.O. Box 149104 Austin, TX 78714-9104 Fax: (512) 475-1771 Web: <a href="http://www.tdi.state.tx.us">http://www.tdi.state.tx.us</a> E-mail: <a href="mailto:ConsumerProtection@tdi.state.tx.us">ConsumerProtection@tdi.state.tx.us</a></p> <p><b>DISPUTAS SOBRE PRIMAS O RECLAMOS:</b> Si tiene una disputa concerniente a su prima o a un reclamo, debe comunicarse con la compania primero. Si no se resuelve la disputa, puede entonces comunicarse con el departamento (TDI).</p> <p><b>UNA ESTE AVISO A SU POLIZA:</b> Este aviso es solo para proposito de informacion y no se convierte en parte o condicion del documento adjunto.</p>

FORM 863696.120070301

Figure 26.4

POLICY IDENTIFICATION

Insured		Age	
Policy Number	LF-	Basic Plan Amount	\$50,000
Policy Date	May 20, 2009	Total Initial Amount	Re-issued As Requested
Issue Date	May 27, 2009	Policy Class	1
Owner			

SCHEDULE OF BENEFITS

Form	Description	Initial Amount	Benefit Period Ends	Annual Premium	Premiums Payable
07000	Basic Plan (Whole Life Paid-up at Age 100) Class of Risk: Standard Female Non-Tobacco	\$50,000	With Life	\$565.50	To 2081
07200	Waiver of Premium Class of Risk: Standard Female Non-Tobacco Basic Plan		In 2041 * *Shown below for each life insurance benefit		To 2041
				\$12.00	

SCHEDULE OF PREMIUMS

Beginning	Annual	Semi-Annual	Quarterly	Monthly
May 20, 2009	\$577.50	\$295.69	\$149.58	\$50.25
May 20, 2041	565.50	289.54	146.47	49.20

If the premium paid is not the annual premium, the total amount of premium due each year is greater than the annual premium. Premiums other than the annual premium are increased to reflect the time value of money. Monthly premiums must be paid under one of the monthly payment plans made available.

Form 07000 Page 3 20090577

Figure 26.5

SCHEDULE OF INSURANCE AND VALUES						
- Insurance Amount - On Insured	May 20,	End of Policy Year	-----Guaranteed Values-----			
			Cash Value Dollars	Paid Up Insurance Dollars	Extended Term Ins Yrs Days	
\$50,000	2009					
50,000	2010	1	.00	0	0 0	
50,000	2011	2	.00	0	0 0	
50,000	2012	3	263.00	1,650	6 215	
50,000	2013	4	630.00	3,750	13 195	
50,000	2014	5	1,009.50	5,750	18 58	
50,000	2015	6	1,401.50	7,700	21 78	
50,000	2016	7	1,806.50	9,600	23 156	
50,000	2017	8	2,224.00	11,400	25 60	
50,000	2018	9	2,655.00	13,100	26 213	
50,000	2019	10	3,100.50	14,800	27 278	
50,000	2020	11	3,561.50	16,400	28 269	
50,000	2021	12	4,038.50	17,950	29 195	
50,000	2022	13	4,531.50	19,500	30 64	
50,000	2023	14	5,041.00	20,950	30 247	
50,000	2024	15	5,567.00	22,350	31 23	
50,000	2025	16	6,109.50	23,650	31 125	
50,000	2026	17	6,668.00	24,950	31 196	
50,000	2027	18	7,243.00	26,200	31 241	
50,000	2028	19	7,833.00	27,400	31 262	
50,000	2029	20	8,438.50	28,550	31 262	
50,000	2030	21	9,025.50	29,550	31 212	
50,000	2031	22	9,625.50	30,500	31 144	
50,000	2032	23	10,239.00	31,400	31 59	
50,000	2033	24	10,864.00	32,300	30 324	
50,000	2034	25	11,501.00	33,100	30 212	
50,000	2035	26	12,150.00	33,900	30 90	
50,000	2036	27	12,810.00	34,650	29 323	
50,000	2037	28	13,481.50	35,400	29 185	
50,000	2038	29	14,162.50	36,100	29 38	
50,000	2039	30	14,854.00	36,750	28 251	
50,000	2040	31	15,556.50	37,400	28 90	
50,000	2041	32	16,271.00	38,000	27 287	
50,000	2042	33	16,997.50	38,600	27 114	
50,000	2043	34	17,736.00	39,150	26 300	
50,000	2044	35	18,487.00	39,700	26 118	
50,000	2045	36	19,250.50	40,200	25 296	
50,000	2046	37	20,026.50	40,750	25 112	
50,000	2047	38	20,814.00	41,200	24 290	
50,000	2048	39	21,612.50	41,700	24 105	
50,000	2049	40	22,421.50	42,100	23 285	

Form 07000

Continued on Next Page  
Page 4

20090527

Figure 26.6

SCHEDULE OF INSURANCE AND VALUES

Continued from Page 4

- Insurance Amount -	-----Guaranteed Values-----				
On	End of	Cash	Paid Up	Extended	
Insured	Policy	Value	Insurance	Term Ins	
	Year	Dollars	Dollars	Yrs Days	
	May 20,				
50,000	2041	Age 60	16,271.00	38,000	27 287
50,000	2043	Age 62	17,736.00	39,150	26 300
50,000	2046	Age 65	20,026.50	40,750	25 112
50,000	2051	Age 70	24,067.50	42,950	22 275

Guaranteed values at the end of any policy year presume payment of all specified premiums to the end of such policy year. The interest rate for guaranteed values and single premiums is 4.0% a year. The mortality table used is the 2001 CSO mortality table.

Form 07000
Page 4 Continued
20090527

Figure 26.7





Figure 26.8

**IMPORTANT THINGS TO CONSIDER**

1. Review your own insurance needs and circumstances. Choose the kind of policy that has benefits that most closely fit your needs. Ask an agent or company to help you.
2. Be sure that you can handle premium payments. Can you afford the initial premium? If the premium increases later and you still need insurance, can you still afford it?
3. Don't sign an insurance application until you review it carefully to be sure all the answers are complete and accurate.
4. Don't buy life insurance unless you intend to stick with your plan. It may be very costly if you quit during the early years of the policy.
5. Don't drop one policy and buy another without a thorough study of the new policy and the one you have now. Replacing your insurance may be costly.
6. Read your policy carefully. Ask your agent or company about anything that is not clear to you.
7. Review your life insurance program with your agent or company every few years to keep up with changes in your income and your needs.

**Buying Life Insurance**

When you buy life insurance, you want coverage that fits your needs.

First, decide how much you need—and for how long—and what you can afford to pay. Keep in mind the major reason you buy life insurance is to cover the financial effects of unexpected or untimely death. Life insurance can also be one of many ways you plan for the future.

Next, learn what kinds of policies will meet your needs and pick the one that best suits you.

Then, choose the combination of policy premium and benefits that emphasizes protection in case of early death, or benefits in case of long life, or a combination of both.

It makes good sense to ask a life insurance agent or company to help you. An agent can help you review your insurance needs and give you information about the available policies. If one kind of policy doesn't seem to fit your needs, ask about others.

This guide provides only basic information. You can get more facts from a life insurance agent or company or from your public library.

**What About the Policy You Have Now?**

If you are thinking about dropping a life insurance policy, here are some things you should consider:

- If you decide to replace your policy, don't cancel your old policy until you have received the new one. You then have a minimum period to review your new policy and decide if it is what you wanted.
- It may be costly to replace a policy. Much of what you paid in the early years of the policy you have now, paid for the company's cost of selling and issuing the policy. You may pay this type of cost again if you buy a new policy.
- Ask your tax advisor if dropping your policy could affect your income taxes.
- If you are older or your health has changed, premiums for the new policy will often be higher. You will not be able to buy a new policy if you are not insurable.

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Figure 26.10

**Term Insurance** covers you for a term of one or more years. It pays a death benefit only if you die in that term. Term insurance generally offers the largest insurance protection for your premium dollar. It generally does not build up cash value.

You can renew most term insurance policies for one or more terms even if your health has changed. Each time you renew the policy for a new term, premiums may be higher. Ask what the premiums will be if you continue to renew the policy. Also ask if you will lose the right to renew the policy at some age. For a higher premium, some companies will give you the right to keep the policy in force for a guaranteed period at the same price each year. At the end of that time you may need to pass a physical examination to continue coverage, and premiums may increase.

You may be able to trade many term insurance policies for a cash value policy during a conversion period—even if you are not in good health. Premiums for the new policy will be higher than you have been paying for the term insurance.

**Cash Value Life Insurance** is a type of insurance where the premiums charged are higher at the beginning than they would be for the same amount of term insurance. The part of the premium that is not used for the cost of insurance is invested by the company and builds up a cash value that may be used in a variety of ways. You may borrow against a policy's cash value by taking a policy loan. If you don't pay back the loan and the interest on it, the amount you owe will be subtracted from the benefits when you die, or from the cash value if you stop paying premiums and take out the remaining cash value. You can also use your cash value to keep insurance protection for a limited time or to buy a reduced amount without having to pay more premiums. You also can use the cash value to increase your income in retirement or to help pay for needs such as a child's tuition without canceling the policy. However, to build up this cash value, you must pay higher premiums in the earlier years of the policy. Cash value life insurance may be one of several types; whole life, universal life and variable life are all types of cash value insurance.

**Whole Life Insurance** covers you for as long as you live if your premiums are paid. You generally pay the same amount in premiums for as long as you live. When you first take out the policy, premiums can be several times higher than you would pay initially for the same amount of term insurance. But they are smaller than the premiums you would eventually pay if you were to keep renewing a term policy until your later years.

Some whole life policies let you pay premiums for a shorter period such as 20 years, or until age 65. Premiums for these policies are higher since the premium payments are made during a shorter period.

**Universal Life Insurance** is a kind of flexible policy that lets you vary your premium payments. You can also adjust the face amount of your coverage. Increases may require proof that you qualify for the new death benefit. The premiums you pay (less expense charges) go into a policy account that earns interest. Charges are deducted from the account. If your yearly premium payment plus the interest your account earns is less than the charges, your account value will become lower. If it keeps dropping, eventually your coverage will end. To prevent that, you may need to start making premium payments, or increase your premium payments, or lower your death benefits. Even if there is enough in your account to pay the premiums, continuing to pay premiums yourself means that you build up more cash value.

**Variable Life Insurance** is a kind of insurance where the death benefits and cash values depend on the investment performance of one or more separate accounts, which may be invested in mutual funds or other investments allowed under the policy. Be sure to get the prospectus from the company when buying this kind of policy and **STUDY IT CAREFULLY**. You will have higher death benefits and cash value if the underlying investments do well. Your benefits and cash value will be lower or may disappear if the investments you chose didn't do as well as you expected. You may pay an extra premium for a guaranteed death benefit.

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Figure 26.11

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DEFINITIONS
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**We, Us, and Our** refer to State Farm Life Insurance Company.

**You and Your** refer to the Owner.

**Application.** Includes any life insurance application, medical history, questionnaire, and other documents from You or any other person proposed for insurance which are made a part of this Policy.

**Basic Plan Amount.** The amount of insurance on the Insured provided by the Basic Plan shown on pages 1 and 3.

**Benefit Period Ends.** The coverage for the benefit extends to, but does not include, the Policy Anniversary in the year shown on page 3 under this heading.

**Cash Value.** Sum of the Cash Values provided by the Basic Plan and any Riders.

**Cash Surrender Value.** Cash Value plus the Cash Value of any Paid-up Additions plus any Dividend Credits less any Loan and accrued Loan Interest.

**Class of Risk.** The underwriting class of the person insured.

**Code.** The U.S. Internal Revenue Code, as amended from time to time.

**Dividend Credits.** Any Dividend Accumulation or any current dividend under Dividend Option 1 or 3.

**Dollars.** Any money We pay, or which is paid to Us, must be in United States dollars.

**Effective Date.** Coverage starts on this date.

**Initial Amount.** The amount of coverage on the Effective Date of each benefit shown on page 3 under this heading.

**Initial Payment.** The amount shown on page 3 You must pay before this Policy becomes effective.

**Insurance Amount.** The amount of life insurance provided by the Basic Plan and any Rider on the dates shown on page 4 under this heading.

**Issue Date.** The date this Policy is issued shown on page 3.

**Officer.** The president, a vice president, the secretary, or an assistant secretary of State Farm Life Insurance Company.

**Payee.** On the Insured's death, the Beneficiaries shown in the Application, unless changed. If You surrender this Policy while the Insured is alive, the persons that You have named to receive the Cash Surrender Value. A Payee can be other than a natural person only if We agree.

**Policy Class.** The classification of the Basic Plan shown on page 3 used to determine eligibility for Extended Term or Paid-up Insurance if this Policy lapses.

**Policy Date.** The Effective Date of this Policy shown on pages 1 and 3.

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Figure 26.12

DEFINITIONS (CONTINUED)		
<b>Policy Month, Year, or Anniversary.</b>	A policy month, year, or anniversary is measured from the Policy Date.	
<b>Premiums Payable.</b>	Premiums are payable until the Policy Anniversary shown on page 3 under this heading.	
<b>Proceeds.</b>	The sum of the insurance amounts payable under	
	(1) the Basic Plan,	
	(2) any Paid-up Additions, and	
	(3) any Rider on the Insured	
	plus any Dividend Credits, any dividend payable at the Insured's death, and any premium paid for part of the Payment Period beyond the Insured's date of death less any Loan, any accrued Loan Interest, and any part of a premium due.	
<b>Request.</b>	A written request signed by the person making the Request. Such Request must be received by Us and be on Our request form; or if such Request is not on Our request form, it must include the information required by Our request form.	
<b>Rider.</b>	Any benefit, other than the Basic Plan, made a part of this Policy.	
<b>Successor Owner.</b>	May be named in the Application or later by Request.	
<b>Total Initial Amount.</b>	The amount of life insurance on the Insured provided by the Basic Plan and any Rider on the Policy Date shown on pages 1 and 3.	
GENERAL PROVISIONS		
<b>The Contract.</b>	This Policy contains the Basic Plan, any amendments, endorsements, any Riders, and a copy of the Application. This Policy is the entire contract. We have relied on the statements in the Application in issuing this Policy. We reserve the right to investigate the truth and completeness of those statements. In the absence of fraud, those statements are representations and not warranties. Only material misstatements in the Application will be used to contest this Policy or deny a claim within the time period specified in the Incontestability provision.	
<b>Only an Officer has the right to change this Policy.</b>	No agent has the authority to change the Policy or to waive any of its terms. All endorsements, amendments, and Riders must be signed by an Officer to be valid.	
<b>We may modify this Policy after We notify You to assure continued qualification of this Policy as a life insurance contract under any section of, regulation or ruling under, the Code, as amended from time to time. If We modify this Policy, We will send You the appropriate endorsement to be placed with this Policy. Such endorsement is subject to regulatory approval. If any provision of this Policy conflicts with the law of a jurisdiction that governs this Policy, the provision is deemed to be amended to conform to such law.</b>		
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Figure 26.13

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**GENERAL PROVISIONS (CONTINUED)**

**Transaction Delay.** Any payment of the Cash Surrender Value or Loan will usually be made within 7 days of receipt of the Request for payment. We may defer payment of any Cash Surrender Value or Loan for up to 6 months from the date We receive Your Request. However, a Loan to pay a premium on other policies with Us will not be deferred.

If We defer any such payment for 30 days or more, We will pay interest in addition to such payment. Such interest accrues from the date the payment becomes payable to the date of payment at 2% per year or the interest rate and time required by law, if greater.

**Cash Surrender.** You may surrender this Policy at any time by Request. All coverage ceases on the date We receive the Request or later date if You so indicate in Your Request. We will pay You the Cash Surrender Value as of the date coverage ceases plus any premium paid for the Payment Period beyond that date. We may defer paying You the Cash Surrender Value for up to 6 months after receiving Your Request.

**Assignment.** You may assign this Policy or any interest in it. We will recognize an assignment only if it is in writing and filed with Us. We are not responsible for the validity or effect of any assignment. An assignment may limit the interest of any Beneficiary.

**Error in Age or Sex.** If the Insured's date of birth or sex is not as stated in the Application, We will adjust each benefit on the Insured to that which the premium paid would have bought at the correct age and sex. Such adjustment will be based on the premium rates in effect on the issue date of the benefit.

**Incontestability.** Except for nonpayment of premiums, We will not contest the Basic Plan after it has been in force during the Insured's lifetime for 2 years from the Policy Date.

Except for nonpayment of premiums, We will not contest any reinstatement after it has been in force during the lifetime of the Insured for 2 years from the Effective Date of the reinstatement.

Any contest of the Basic Plan or reinstatement will be limited to material misstatements contained in the Application for the Basic Plan or reinstatement.

Each Rider has its own incontestability provision.

**Limited Death Benefit.** If the Insured dies by suicide while sane or self-destruction while insane within 2 years from the Policy Date, the Basic Plan Amount will not be paid. The Proceeds in this case will be limited to the premiums paid on the Basic Plan less any Loan, accrued Loan Interest, and any dividends paid on the Basic Plan.

Each Rider has its own limited death benefit provision.

---

**OWNERSHIP PROVISIONS**

**Owner.** The Owner is as named in the Application, unless changed. You may exercise any policy provision only by Request and while the Insured is alive, subject to the rights of any assignee that We have on record and to the rights of any irrevocably designated Beneficiary. The Successor Owner will become the Owner of this Policy if You die while this Policy is in force.

**Change of Owner/Successor Owner.** You may change the Owner or Successor Owner by Request while the Insured is alive and this Policy is in force. The change will take effect the date You sign the Request, but the change will not affect any action We have taken before We receive the Request. A change of Owner or Successor Owner does not change the Beneficiary Designation.

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Figure 26.14

PREMIUM PROVISIONS
<p><b>Payment of Premiums.</b> You may pay premiums at Our Home Office or to one of Our agents. We will give You a receipt signed by one of Our Officers, if You request one.</p> <p>The first premium is due on the Policy Date. All other premiums are payable on or before their Due Dates. A Due Date is the first day of each Payment Period. A Payment Period may be 1 month, 3 months, 6 months, or 12 months, starting on the same date of the month as the Policy Date. If the Payment Period is 1 month, the monthly premium is due at the start of each 1-month Payment Period. If the Payment Period is 3 months, the quarterly premium is due at the start of each 3-month Payment Period. If the Payment Period is 6 months, the semi-annual premium is due at the start of each 6-month Payment Period. If the Payment Period is 12 months, the annual premium is due at the start of each 12-month Payment Period. If the Due Date does not appear in a calendar month's days, the Due Date will be the last day of that same month. You may change the Payment Period on any Due Date by paying the premium for the new period, but You cannot change the Payment Period if premiums are being waived.</p> <p><b>Grace Period.</b> Except for the first premium, 31 days are allowed for the payment of a premium after its Due Date. During this time, the policy benefits continue.</p> <p><b>Nonpayment of Premium.</b> If any premium has not been paid by the end of its Grace Period, the Accumulations to Avoid Lapse and, if chosen, the Automatic Premium Loan provisions will apply. If neither of these provisions apply, this Policy will lapse as of the Due Date of any unpaid premium. With such lapse, coverage ceases unless continued as Extended Term or Paid-up Insurance.</p> <p><b>Accumulations to Avoid Lapse.</b> If any premium has not been paid by the end of its Grace Period, any Dividend Accumulation will be used to pay all or part of that premium. The unpaid balance of that premium will be due the day after the end of the partial Payment Period. A new Grace Period will be allowed for the payment of this unpaid balance.</p> <p>We will send You a notice if any Dividend Accumulation is used to pay part of any premium. We will not use any Dividend Accumulation if You choose an available Guaranteed Values Provision within 90 days after the premium Due Date. Your choice will take effect as of the premium Due Date.</p> <p><b>Automatic Premium Loan.</b> This provision will apply if You chose it on the Application or later by Request. This provision will apply if there is enough Loan Value less any existing Loan and accrued Loan Interest to pay the unpaid premium for the current Payment Period and there are no Dividend Accumulations. Any premium or part of any premium that is not paid by the end of its Grace Period will be paid by Loan. Loan Interest will be charged from the due date of the unpaid premium. You may cancel this provision at any time by Request. We must receive Your Request to elect or cancel this provision before this Policy lapses.</p> <p><b>Reinstatement.</b> If You have not surrendered this Policy for cash, You may apply to reinstate it within 5 years after lapse. You must give Us proof of the Insured's insurability that is satisfactory to Us. You must pay all unpaid premiums with compound interest from their Due Dates. The interest rate is 6% a year. You must repay or restore any Loan at the time of lapse with compound interest, based on the Loan Interest Rates in effect during the period of lapse, to the date of reinstatement. The amount restored cannot be greater than the Loan Value on the date of reinstatement. Reinstatement will take effect on the date We approve the Insured's insurability.</p> <p><b>Premium Adjustment When the Insured Dies.</b> If the Insured dies during a Grace Period, any part of a premium due will be paid from the Proceeds. Any premium paid for the Payment Period beyond the Insured's death will be part of the Proceeds.</p>
<p style="display: flex; justify-content: space-between;"> <span>07000</span> <span>PAGE 8</span> <span>20050821</span> </p>

Figure 26.15

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**DIVIDEND PROVISIONS**

**Annual Dividends.** We may apportion and pay dividends each year. Any such dividends will be paid only at the end of a Policy Year. There is no right to a partial or pro rated dividend prior to the end of a Policy Year. Such dividends will not be paid if all premiums due have not been paid or if the Basic Plan is in force as Extended Term Insurance.

**Dividend Options.** You may choose to have Your dividend used under one of these options:

1. **Premium Payment.** We will apply it toward payment of a premium then due.
2. **Paid-up Additions.** We will use it to buy a paid-up life insurance addition to the Basic Plan. Each addition is bought at the single premium rate for the Insured's sex and attained age at that time. We may also pay an annual dividend on these Paid-up Additions. You may surrender Paid-up Additions for their Cash Value at any time. The Cash Value of Paid-up Additions is based on the single premium rate for the Insured's sex and attained age on the date surrendered. If surrendered prior to the end of the Policy Year, there is no right to a partial or pro rated dividend. Paid-up Additions in force at the Insured's death will be part of the Proceeds.
3. **Dividend Accumulation.** We will hold it at interest. We will credit interest at a rate not less than 3% a year. Such interest will be paid only at the end of the Policy Year. You may withdraw all or part of the dividend accumulation at any time. If withdrawn prior to the end of the Policy Year, there is no right to a partial or pro rated credit of such interest. The dividend accumulation plus interest to the Insured's death will be part of the Proceeds.
4. **Cash.** We will pay it to You in cash.

If You do not choose a Dividend Option on the Application or the Dividend Option chosen is not available, We will use Dividend Option 2. You may change the Dividend Option by Request. The change will apply only to dividends paid after We receive Your Request.

**Dividend When the Insured Dies.** We may pay a dividend when the Insured dies. Such dividend will be a partial or pro rated amount based on the period from the start of a Policy Year to the Insured's death.

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Figure 26.16

GUARANTEED VALUES PROVISIONS
<p><b>Guaranteed Values.</b> The Guaranteed Values shown on page 4 are based on Your payment of all premiums when they are due. These values are as of the end of the Policy Years shown. They do not include the Cash Value of any Paid-up Additions and will be adjusted for any Dividend Credits or Loan on this Policy. If requested, We will furnish You with any values not shown.</p>
<p><b>Cash Value.</b> The Cash Value is the sum of the Cash Value of the Basic Plan and any Riders. Any Cash Values on the Basic Plan not shown on page 4 will be calculated as specified in the Basis of Computation provision. If any amount of premium is due and not paid, the Cash Value for the 90 days after that Due Date is the same as on such Due Date.</p>
<p>If the Basic Plan has been in force for more than 90 days as Extended Term or Paid-up Insurance, the Cash Value is the single premium for the insurance remaining. The Cash Value of such insurance will not decrease during the 31 days after a Policy Anniversary.</p>
<p><b>Extended Term and Paid-up Insurance.</b> If this Policy lapses and there is a Cash Surrender Value, We will continue the Basic Plan as Extended Term or Paid-up Insurance. Extended Term Insurance is available only if this Policy is in Policy Class 1 or 2. Extended Term Insurance will be used at the time of lapse unless You choose to continue this Policy as Paid-up Insurance or surrender this Policy. If this Policy is in Policy Class 3, Paid-up Insurance will be used at the time of lapse unless You surrender this Policy.</p>
<p>You may choose by Request to have the Basic Plan continued as Paid-up Insurance or, if this Policy is not in Policy Class 3, as Extended Term Insurance. To be effective on the Due Date of any unpaid premium, Your Request must be received by Us within 90 days after that date.</p>
<p>The amount of Extended Term Insurance will be the Basic Plan Amount plus the amount of any Paid-up Additions plus any Dividend Credits less any Loan and accrued Loan Interest. The amount will stay level. The extended term period will be determined by applying the Cash Surrender Value as a single premium at the Insured's sex and attained age on the Due Date of any unpaid premium. If there is more value than needed to provide Extended Term Insurance for life, We will promptly pay You the excess in one sum. Extended Term Insurance has no Loan Value and will receive no dividends.</p>
<p>The amount of Paid-up Insurance will be determined by applying the Cash Value plus the Cash Value of any Paid-up Additions less any Loan and accrued Loan Interest as a single premium at the Insured's sex and attained age on the Due Date of any unpaid premium. The amount will stay level. Paid-up Insurance has Loan Value and may be eligible for dividends. Any Dividend Accumulation at the time this Policy is continued as Paid-up Insurance will not be affected.</p>
<p><b>Basis of Computation.</b> The Guaranteed Values in this Policy are at least as large as those required by law in the state where it is delivered. The insurance authority there has a statement of how these values are determined.</p>
<p>The Guaranteed Values and single premiums are based on the Insured's age last birthday and sex. It is assumed that premiums are paid continuously and claims are paid immediately. The interest rate and the mortality table that We use are shown on page 4. The Cash Values for the Basic Plan for Policy Anniversaries not shown on page 4 are equal to the reserves which are calculated using the Commissioners Reserve Valuation Method. The Cash Value on any date between Policy Anniversaries is determined by interpolating between the Cash Value on the Policy Anniversary immediately before and after that date for the time period from the previous Policy Anniversary to that date.</p>
<p style="text-align: center;">07000 PAGE 10 20050821</p>

Figure 26.17

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**POLICY LOAN PROVISIONS**

**Loan.** You may borrow against this Policy by Request, unless the Basic Plan is in force as Extended Term Insurance. This Policy is the sole security for such Loan. We may defer a Loan for up to 6 months after receiving Your Request unless the Loan will be used to pay premiums on this or other policies with Us.

You may borrow the Loan Value less any existing Loan, accrued Loan Interest, and unpaid premiums. If Your unpaid Loan plus accrued Loan Interest exceeds the Cash Value of this Policy plus the Cash Value of any Paid-up Additions, We will send You a policy termination notice. This Policy will terminate 31 days after We have mailed that notice to You and to any assignee of record. If this occurs and is the result of a change in the Loan Interest Rate, this Policy will terminate at the later of the end of the Policy Year or 31 days after mailing of the notice. At policy termination, We will then pay You any Dividend Accumulation.

**Loan Value.** The Loan Value is the Cash Value of this Policy and the Cash Value of any Paid-up Additions on the next premium Due Date discounted at the Loan Interest Rate from the next Policy Anniversary to the date of the Loan. If premiums are no longer payable, the Loan Value will be the Cash Value of this Policy and the Cash Value of any Paid-up Additions on the next Policy Anniversary discounted at the Loan Interest Rate from that Policy Anniversary to the date of the Loan.

**Loan Interest Rate.** The Loan Interest Rate is an adjustable rate. We determine the rate each calendar quarter. Such rate will take effect the first day of January, April, July, and October after the date We determine it. Such rate will apply to any new and existing Loan under this Policy.

Any change in the rate will be subject to the following:

- (1) The rate will be lowered to be equal to or less than the legal maximum rate if such legal maximum is  $\frac{1}{2}\%$  or more a year lower than Our rate then in effect.
- (2) The rate may be increased by at least  $\frac{1}{8}\%$  a year if the legal maximum is  $\frac{1}{2}\%$  or more a year higher than Our rate then in effect. Such rate cannot exceed the legal maximum.

The legal maximum interest rate cannot exceed 15% a year nor the higher of the following:

- (1) The Moody's Corporate Bond Yield Average - Monthly Average Corporates as published by Moody's Investors Service, Inc. for the calendar month ending 2 months prior to the date the Loan Interest Rate is to go into effect; or
- (2) The interest rate used to calculate Cash Values under this Policy during the period for which the Loan Interest Rate is being determined plus 1% a year.

If the Moody's Corporate Bond Yield Average - Monthly Average Corporates is no longer published, the rate used in its place will be set by law or regulation of the insurance supervisory official in the jurisdiction where this Policy was delivered.

We will:

- (1) Notify You of the initial Loan Interest Rate at the time a Loan is made, unless it is an Automatic Premium Loan;
- (2) Notify You of the initial Loan Interest Rate as soon as practical after an Automatic Premium Loan is made; and
- (3) Give You advance notice of any increase in the Loan Interest Rate, if You have a Loan at that time.

We charge interest each day on any Loan. Loan Interest is due at the end of each Policy Year or at the time the Loan is repaid, if earlier. Loan Interest is added to the Loan if not paid when due.

**Loan Repayment.** You may repay all or part of a Loan at any time before the Insured dies or this Policy is surrendered. Any Loan that We deducted when the Basic Plan was placed on Extended Term or Paid-up Insurance may be repaid or restored only if the Basic Plan is reinstated.

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PAGE 11
20061005

Figure 26.18

PAYMENT OF BENEFITS PROVISIONS		
<p><b>Beneficiary Designation.</b> This is as shown in the Application, unless You have made a change by Request. It includes the name of the Beneficiary. If You name "estate" as a Beneficiary, it means the executors or administrators of the last survivor of You and all Beneficiaries. If You name "children" of a person as a Beneficiary, only children born to or legally adopted by that person will be included. We may rely on an affidavit as to the ages, names, and other facts about all Beneficiaries. We will incur no liability if We act on such affidavit.</p>		
<p><b>Change of Beneficiary Designation.</b> You may make a change by Request while the Insured is alive and this Policy is in force. The change will take effect on the date the Request is signed, but the change will not affect any action We have taken before We receive the Request.</p>		
<p><b>Order of Payment on the Insured's Death.</b> When the Insured dies, We will make payment in equal shares to the primary Beneficiaries living when payment is made. If the last primary dies, We will make payment in equal shares to the successor Beneficiaries living when payment is made. If, at any time, no Beneficiary is living, We will make a one sum payment to You, if living when payment is made. Otherwise, We will make a one sum payment to the estate of the last survivor of You and all Beneficiaries. You may change this order of payment by Request while the Insured is alive.</p>		
<p><b>Methods of Payment.</b> We will pay the Proceeds or the Cash Surrender Value under the One Sum Method unless You choose another method then available. If the Payee is other than a natural person, We will make payment under the One Sum Method.</p>		
<p>All payment intervals are measured from the date this Policy is surrendered or from the date the Insured dies.</p>		
<p>After the Insured's death, a Payee who has the right to make a withdrawal may change the method of payment. This Payee may also appoint a successor payee. The successor payee may be the Payee's estate.</p>		
<p>We must receive a Request for payment of the Proceeds and due proof of the Insured's death. Due proof of the Insured's death is evidence satisfactory to Us:</p>		
<ol style="list-style-type: none"><li>(1) to establish the date and fact of the Insured's death;</li><li>(2) to permit Us to determine whether Proceeds are payable; and</li><li>(3) such other items and information as may be necessary for Us to comply with laws and regulations related to payment of the claim or administration of the business of insurance.</li></ol>		
<p><b>Method 1 (One Sum Method).</b> We will pay the Cash Surrender Value or the Proceeds in one sum. Interest will be paid from the date of the Insured's death to the date of payment. The interest rate will be the greater of 2% a year or the interest rate required by law, if applicable.</p>		
<p><b>Method 2 (Other Method).</b> Payment by any other method may be made if We agree.</p>		
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Figure 26.19

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**WAIVER OF PREMIUM BENEFIT RIDER**

**General.** This Rider is part of this Policy. It is based on the Application for this Rider and the payment of premiums. The premiums for this Rider are shown on page 3. Only certain policy provisions are a part of this Rider. They are "Definitions," "Ownership," "Premium," "The Contract," "Assignment," and "Error in Age or Sex."

**Waiver of Premium Benefit.** We will waive each premium due under this Policy if the Insured becomes totally disabled while this Rider is in force and such Total Disability has existed for 6 continuous months during the lifetime of the Insured. We will waive each premium due under this Policy as long as the Total Disability continues. We will only waive premiums due on and after Total Disability starts. No premium will be waived which was due more than one year prior to the date We receive notice of claim. While premiums are waived, all benefits continue as though You had paid the premiums.

A recurrence of a Total Disability for which We had been waiving premiums will be deemed a continuation of the prior period of Total Disability if the recurrence:

- (1) results from the same injury or disease that caused the previous Total Disability;
- (2) starts within 6 months of the date the previous Total Disability ended; and
- (3) starts while this Rider is still in force.

Such recurrent Total Disability will not be subject to a new requirement that the Total Disability must first exist for 6 continuous months during the Insured's lifetime.

**Total Disability Defined.** Total Disability is a condition caused by injury or disease. During the first 24 months after Total Disability starts, this condition must prevent the Insured from performing substantially all of the work of the Insured's regular occupation. After the first 24 months after Total Disability starts, the condition must prevent the Insured from performing substantially all of the work in any occupation for which the Insured is, or becomes, reasonably qualified based upon education, training, or experience. The Insured's total and irrecoverable loss, caused by injury or disease, of any of the following will be considered Total Disability even if the Insured is able to work:

- (1) sight in both eyes.
- (2) use of both hands.
- (3) use of both feet.
- (4) use of one hand and one foot.

**Disabilities Not Covered.** We will not waive premiums if Total Disability:

- (1) starts before the Effective Date of this Rider unless such disability was disclosed in the Application,
- (2) starts before the Policy Anniversary when the Insured is age 5,
- (3) results from an intended self-injury, or
- (4) results from any act due to war whether or not the Insured is in the military service. "War" means declared or undeclared war or conflict involving the armed forces of one or more countries, governments, or international organizations.

**Notice and Proof of Total Disability.** We must receive notice of a claim and due proof of Total Disability while the Insured is alive and totally disabled and within 91 days after such total disability starts. If this is not done, You should submit such notice and proof as soon as reasonably possible. We may also require You to submit proof of the Insured's continuing Total Disability at reasonable intervals. You have at least 91 days after the date requested to submit such proof. If You do not submit proof when we require it, no further premiums will be waived. We will not require proof more than once a year after the Total Disability has lasted more than 2 years.

**Premium Payments.** If the Insured's Total Disability starts during a Grace Period, the unpaid premium must be paid before a claim will be approved. We may charge interest on that premium from the end of the Grace Period to the date paid at 6% a year. You must pay all premiums that come due until We approve the claim. We will refund any premium that You paid after Total Disability starts which is later waived. If the Insured dies before such refund is made, We will include that amount in the Proceeds.

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Figure 26.21

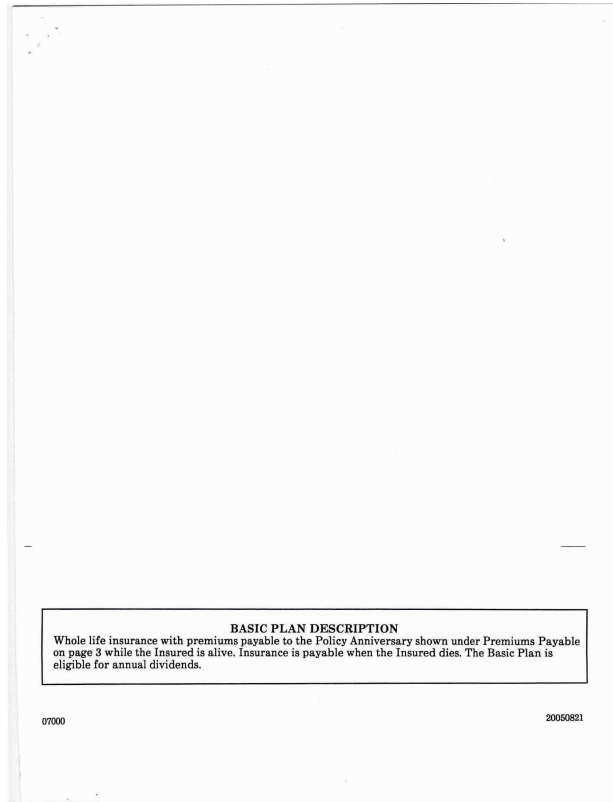


Figure 26.22

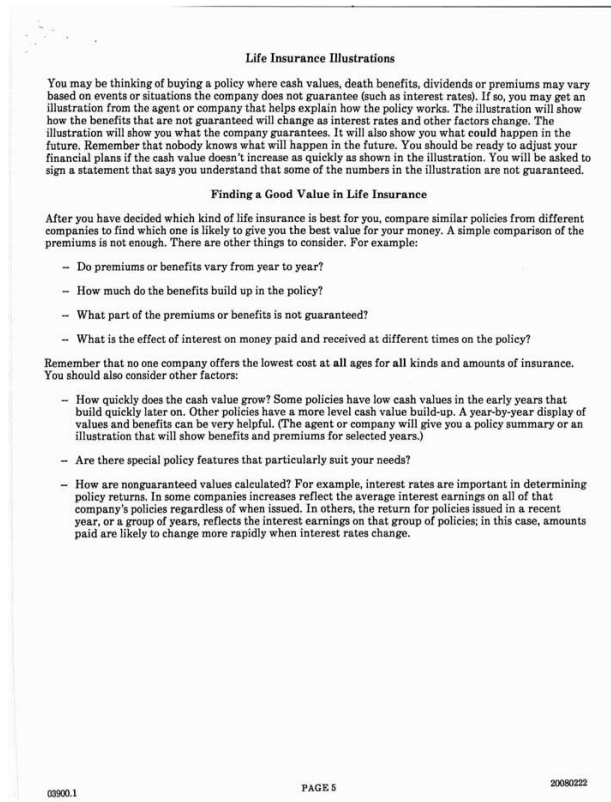


Figure 26.23

**IMPORTANT TAX INFORMATION CONCERNING YOUR LIFE INSURANCE POLICY**

Money that is deemed removed ("distributed") from or grows within some life insurance policies may be taxed. The following briefly describes examples of how this could occur. Your tax advisor must determine the taxation of your specific situation.

**What is a "distribution" from the policy?**

The term distribution is used in the tax laws to describe the deemed withdrawal of values from the policy. Typical withdrawals include: withdrawals of cash value, loans, assignments of contract values to another person, or crediting of a dividend, unless it is used to purchase additional insurance or to pay a premium.

**How are policies normally taxed?**

Generally, death benefits are not subject to income tax. Values inside the policy grow tax-free. Loans are tax-free until you surrender the policy or allow it to lapse. Other distributions are tax-free until all premiums are returned, and distributions above that amount are taxed as "gain."

**What is "gain"?**

Gain simply means your policy has a larger value than the total amount of premiums you have paid, net of some amounts such as premiums that have been returned through dividends. The gain is the difference between the value of your policy and the premiums paid. For example, if a policy has a value of \$1,000.00 and premiums of \$800.00 have been paid, the gain is \$200.00. It is only the \$200.00 gain that would be subject to tax.

**When might my policy be taxed differently?**

Certain actions that you take may result in various situations where your policy may be taxed differently, including but not limited to the following:

- Pay premium above the limits specified in the tax laws
- Change the amount of insurance, including paid-up additions, such as through partial withdrawals
- Add, cancel, or change rider coverage or amounts

Also certain distributions are taxable - but only to the extent of the gain in your policy. Any gain is considered to be the first - rather than the last - amount withdrawn; so, any distribution is taxed until the amount of the gain is reached. After that, the remainder of the distribution is not taxed.

If the distribution occurs before age 59½, the IRS may impose a 10% additional tax on the amount of the distribution that is taxable.

In extreme situations, the policy may be disqualified as "life insurance" for tax purposes. That means the policy's internal cash value growth could be taxable.

**How will I know for certain how my policy is taxed?**

Prior to taking actions such as those listed above, you may wish to contact your tax advisor to find out for certain how your policy will be taxed. In some cases the tax consequences of these actions may be irreversible.

**Policyholder Information Service**

State Farm Life Insurance Company  
Home Office:  
Bloomington, Illinois 61710-0001

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Figure 26.24

STATE FARM LIFE INSURANCE COMPANY

**IMPORTANT INFORMATION ABOUT COVERAGE UNDER THE TEXAS LIFE, ACCIDENT, HEALTH AND HOSPITAL SERVICE INSURANCE GUARANTY ASSOCIATION**

Texas law establishes a system, administered by the Texas Life, Accident, Health and Hospital Service Insurance Guaranty Association (the "Association"), to protect Texas Policyholders if their life or health insurance company fails. Only the policyholders of insurance companies which are members of the Association are eligible for this protection, which is subject to the terms, limitations, and conditions of the Association law. The law is found in the Texas Insurance Code, Chapter 463.)

**It is possible that the Association may not cover your policy in full or in part due to statutory limitations.**

**Eligibility for Protection by the Association**

When a member insurance company is found to be insolvent and placed under an order of liquidation by a court or designated as impaired by the Texas Commissioner of Insurance, the Association provides coverage to policyholders who are:

- Residents of Texas at that time (irrespective of the policyholder's residency at policy issue)
- Residents of other states, ONLY if the following conditions are met:
  1. The policyholder has a policy with a company based in Texas;
  2. The policyholder's state of residence has a similar guaranty association; and
  3. The policyholder is not eligible for coverage by the guaranty association of the policyholder's state of residence.

**Limits of Protection by the Association**

**Accident, Accident and Health, or Health Insurance:**

- For each individual covered under one or more policies: up to a total of \$500,000 for basic hospital, medical-surgical, and major medical insurance, \$300,000 for disability or long term care insurance, and \$200,000 for other types of health insurance.

**Life Insurance:**

- Net cash surrender value or net cash withdrawal up to a total of \$100,000 under one or more policies on any one life; or
- Death benefits up to a total of \$300,000 under one or more policies on any one life; or
- Total benefits up to a total of \$5,000,000 to any owner of multiple non-group life policies.

**Individual Annuities:**

- Present value of benefits up to a total of \$100,000 under one or more contracts on any one life.

**Group Annuities:**

- Present value of allocated benefits up to a total of \$100,000 on any one life; or
- Present value of unallocated benefits up to a total of \$5,000,000 for one contractholder regardless of the number of contracts.

**Aggregate Limit:**

- \$300,000 on any one life with the exception of \$500,000 health insurance limit, the \$5,000,000 multiple owner life insurance limit, and the \$5,000,000 unallocated group annuity limit.

**Insurance companies and agents are prohibited by law from using the existence of the Association for the purpose of sales, solicitation, or inducement to purchase any form of insurance. When you are selecting an insurance company, you should not rely on Association coverage.**

Texas Life, Accident, Health, and Hospital Service Insurance Guaranty Association 6504 Bridge Point Parkway, Suite 450 Austin, Texas 78730 800-982-6362 www.txlifega.org	Texas Department of Insurance P.O. Box 149104 Austin, Texas 78714-9104 800-252-3439 www.tdi.state.tx.us
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