



This is “Appendix D”, appendix 4 from the book [Enterprise and Individual Risk Management \(index.html\)](#) (v. 1.0).

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Chapter 27


Appendix D

Sample Universal Life Insurance Policy Basic Plan Description

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Figure 27.1

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

	Insured	
	Age	
	Policy Number	67
	Policy Date	March 26, 2009
	Initial Basic Amount	\$50,000

This Policy is based on the Application and the payment of premiums, as specified in this Policy, 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 the 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 the Owner and State Farm Life Insurance Company. In the event You need to contact someone about this Policy for any reason, please contact Your State Farm agent. If You have additional questions, You may contact Us at Our Home Office or (970) 395-5330 or www.statefarm.com.

Tom M. Bruner Secretary *Edward R. Hunt Jr.* President

BASIC PLAN DESCRIPTION

Flexible premium adjustable life insurance. A death benefit is payable when the Insured dies. Flexible premiums are payable while the Insured is alive prior to the Policy Anniversary when the Insured is age 121. The Basic Plan is eligible for Annual Dividends.

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Figure 27.2

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Figure 27.3

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<p style="text-align: center;">IMPORTANT NOTICE</p> <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: http://www.tdi.state.tx.us E-mail: ConsumerProtection@tdi.state.tx.us</p> <p>PREMIUM OR CLAIM DISPUTES: 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>ATTACH THIS NOTICE TO YOUR POLICY: This notice is for information only and does not become a part or condition of the attached document.</p>	<p style="text-align: center;">AVISO IMPORTANTE</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: http://www.tdi.state.tx.us E-mail: ConsumerProtection@tdi.state.tx.us</p> <p>DISPUTAS SOBRE PRIMAS O RECLAMOS: 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>UNA ESTE AVISO A SU POLIZA: Este aviso es solo para proposito de informacion y no se convierte en parte o condicion del documento adjunto.</p>
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FORM 8636386.120070301

Figure 27.4

IMPORTANT INFORMATION

In the event You need to contact someone about this Policy for any reason, please contact Your State Farm agent. If You have additional questions, You may contact Us at www.statefarm.com or the phone number shown on page 1.

If You have been unable to contact or obtain satisfaction from your State Farm agent or Us, You may contact the insurance supervisory official where this Policy was issued. The phone numbers are shown below:

Alaska	907-269-7900	Maryland	410-468-2090	Rhode Island	401-222-5466
Colorado	303-894-7499	Massachusetts	617-521-7794	South Carolina	803-737-6131
Georgia	404-656-2056	Michigan	517-373-0220	Tennessee	615-741-6007
Hawaii	808-586-2790	Minnesota	651-296-5769	Texas	512-463-6464
Idaho	208-334-4250	Nebraska	402-471-2201	Utah	801-538-3800
Indiana	317-232-2385	New Hampshire	603-271-2261	Vermont	802-828-3301
Iowa	515-281-5523	North Carolina	919-733-3058	Virginia	804-371-9694
Kansas	785-296-3071	Ohio	614-644-2658	Washington	360-725-7000
Kentucky	502-564-6027	Oklahoma	405-521-2828	West Virginia	304-558-3354
Louisiana	800-259-5300	Pennsylvania	717-783-0442	Wisconsin	800-236-8517
Maine	207-624-8401	Puerto Rico	787-722-8686	Wyoming	307-777-7401

When contacting Your State Farm agent, Us, or the insurance supervisory official, please have the Policy Number for this Policy available.

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20090310

Figure 27.5

POLICY IDENTIFICATION

Insured _____ Age ____

Policy Number _____ Initial Basic Amount \$50,000

Policy Date March 26, 2009

Issue Date April 27, 2009

SCHEDULE OF BENEFITS

Universal Life Basic Plan:
 Death Benefit Option 1 (Basic Amount includes the Account Value)
 Basic Amount: \$50,000
 Class of Risk: Standard Male Non-Tobacco
 Basic Amount Minimum until the policy anniversary when the insured is age 55: \$50,000
 Basic Amount Minimum on and after the policy anniversary when the insured is age 55: \$25,000
 Minimum Amount of Increase: \$25,000
 Minimum Amount of Decrease: \$10,000
 Minimum Withdrawal: \$500

Riders:

Form Description	Insurance Amount	Benefit Period Ends	Monthly Charge Deductible
08251 Guaranteed Insurability Option Option Years: 2011, 2014, 2017, 2020, 2023, 2026, 2029, 2032, 2035.	\$25,000	In 2035	To 2035
08206 Waiver of Monthly Deduction Class of Risk: Standard Male Non-Tobacco		In 2046	To 2046

SCHEDULE OF PREMIUMS

Initial Premium: \$41.80
 Planned Premium: \$27.80
 Payment Period: Monthly

Beginning	Total Premiums For Policy Year
March 26, 2009	\$347.60
March 26, 2010	333.60

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Figure 27.6

Continued from Page 3

I N T E R E S T R A T E S

Guaranteed Interest Rate: 4%

C H A R G E S A N D F E E S

Deduction Date: 26th of each month

Maximum Premium Charge Percentage: 5%

Maximum Monthly Expense Charge in Policy Years 1-5: \$8.00
Maximum Monthly Expense Charge in Policy Years 6 and later: \$10.00

For the Initial Basic Amount, the Monthly Issue Charge in first 24 Policy Months starting on the Policy Date:
\$.10 per \$1000, subject to a maximum of \$50.00 per month.

For each increase in Basic Amount, the Monthly Issue Charge in first 24 Policy Months starting on the Effective Date of the increase:
\$.10 per \$1000, each subject to a maximum of \$50.00 per month.

A N N U A L D I V I D E N D S

This Policy is eligible for annual dividends; however, we do not expect to pay dividends on this Policy. Dividends are not guaranteed. See the Dividend Provision on page 7.

NOTE: The Planned Premium shown may not continue this Policy in force to the Policy Anniversary when the Insured is age 121 even if this amount is paid as scheduled. The period for which this Policy will continue will depend on (1) the amount, time, and frequency of premium payments, (2) changes in Premium Charge Percentage, (3) changes in the Basic Amount and Death Benefit Option, (4) changes in interest in excess of the Guaranteed Interest rate, (5) changes in Monthly deductions including Monthly Expense Charge and Monthly Issue Charge, and (6) withdrawals and Loans.

This Policy may not qualify as life insurance under federal tax law after the Policy Anniversary when the Insured is age 100 and may be subject to adverse tax consequences. A tax advisor should be consulted before the Owner chooses to continue this Policy after the Policy Anniversary when the Insured is age 100.

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Figure 27.7

SCHEDULE OF SURRENDER CHARGES

Beginning Policy			Surrender Charge	Beginning Policy			Surrender Charge
Year	Month	Year		Month	Year	Month	
1	1		\$5.00	2	8	\$100.00	
1	2		10.00	2	9	105.00	
1	3		15.00	2	10	110.00	
1	4		20.00	2	11	115.00	
1	5		25.00	2	12	120.00	
1	6		30.00	3	1	120.00	
1	7		35.00	4	1	120.00	
1	8		40.00	5	1	120.00	
1	9		45.00	6	1	120.00	
1	10		50.00	7	1	108.00	
1	11		55.00	8	1	96.00	
1	12		60.00	9	1	84.00	
2	1		65.00	10	1	72.00	
2	2		70.00	11	1	60.00	
2	3		75.00	12	1	48.00	
2	4		80.00	13	1	36.00	
2	5		85.00	14	1	24.00	
2	6		90.00	15	1	12.00	
2	7		95.00	16	1	0.00	

Additional surrender charges will apply for each increase in Basic Amount for 15 years starting on the effective date of the increase.

COST OF INSURANCE RATES AND MONTHLY CHARGES

Maximum Monthly Cost of Insurance Rates
Per \$1000

Class of Risk: Standard Male Non-Tobacco

Age	Rate	Age	Rate	Age	Rate	Age	Rate	Age	Rate
23	.0800	41	.1376	59	.7125	77	4.4247	95	27.0677
24	.0809	42	.1510	60	.7890	78	4.9534	96	29.0947
25	.0834	43	.1668	61	.8825	79	5.5501	97	31.3129
26	.0867	44	.1844	62	.9914	80	6.2211	98	33.7487
27	.0884	45	.2036	63	1.1105	81	6.9572	99	36.4325
28	.0867	46	.2228	64	1.2349	82	7.7445	100	39.0855
29	.0859	47	.2387	65	1.3645	83	8.6135	101	41.5109
30	.0850	48	.2512	66	1.4961	84	9.5913	102	44.1763
31	.0842	49	.2671	67	1.6339	85	10.6935	103	47.1103
32	.0850	50	.2880	68	1.7796	86	11.9242	104	50.3318
33	.0875	51	.3148	69	1.9435	87	13.2765	105	53.8699
34	.0892	52	.3475	70	2.1352	88	14.7403	106	57.8027
35	.0934	53	.3851	71	2.3686	89	16.3061	107	62.1940
36	.0976	54	.4329	72	2.6423	90	17.8976	108	67.1272
37	.1034	55	.4865	73	2.9318	91	19.4964	109	72.7010
38	.1109	56	.5419	74	3.2440	92	21.2072	110	79.0454
39	.1176	57	.5956	75	3.5855	93	23.0525	111-120	83.3333
40	.1268	58	.6494	76	3.9724	94	25.0443	121 & over	0.000

Continued on Next Page
Page 4

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Figure 27.8

COST OF INSURANCE RATES AND MONTHLY CHARGES
Continued from Page 4

The Maximum Monthly Cost of Insurance Rates are based on the Insured's age last birthday at the start of the Policy Year, sex, and tobacco use as shown above. The Commissioners 2001 Standard Ordinary Nonsmoker Ultimate Age Last Birthday Mortality Table applies. Modifications are made if the Class of Risk is other than Standard.

Monthly Charges Per \$1000 for Guaranteed Insurability Option

Age	Monthly Charge	Age	Monthly Charge	Age	Monthly Charge	Age	Monthly Charge
23	.06	30	.08	37	.13	44	.20
24	.07	31	.09	38	.14	45	.21
25	.07	32	.09	39	.15	46	.22
26	.07	33	.10	40	.16	47	.23
27	.07	34	.11	41	.17	48	.24
28	.07	35	.11	42	.18		
29	.08	36	.12	43	.19		

Monthly charges for this Rider are based on the Insured's age last birthday at the start of the Policy Year.

Monthly Charges Per \$1 of Monthly Deductions for Waiver of Monthly Deduction

Class of Risk: Standard Male Non-Tobacco

Age	Monthly Charge	Age	Monthly Charge	Age	Monthly Charge	Age	Monthly Charge
23	.0192	33	.0312	43	.0644	53	.1598
24	.0202	34	.0340	44	.0682	54	.1790
25	.0212	35	.0375	45	.0739	55	.2060
26	.0216	36	.0410	46	.0805	56	.2288
27	.0222	37	.0445	47	.0900	57	.2534
28	.0232	38	.0480	48	.1015	58	.2843
29	.0243	39	.0515	49	.1129	59	.3589
30	.0254	40	.0550	50	.1231		
31	.0269	41	.0585	51	.1336		
32	.0289	42	.0618	52	.1448		

Monthly charges per \$1 of monthly deduction are based on the Insured's age last birthday at the start of the Policy Year.

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Figure 27.9

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DEFINITIONS

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

You and Your refer to the Owner.

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

Basic Amount. The Initial Basic Amount plus any Basic Amount Increases less any Basic Amount Decreases shown on page 3.

Basic Amount Minimum. Shown on page 3.

Benefit Period Ends. For any Rider, 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 Surrender Value. The Cash Value less any Loan and accrued Loan Interest. This amount will not be less than zero.

Cash Value. The Account Value less any Surrender Charge. If this Policy is surrendered within 31 days after a Policy Anniversary, this amount will not decrease within that period except for any Withdrawals.

Class of Risk. The underwriting class of the person insured. A Class of Risk will be determined for the Initial Basic Amount and each Basic Amount Increase.

Code. The United States Internal Revenue Code, as amended from time to time.

Deduction Date. The Policy Date and each monthly anniversary of the Policy Date.

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 Basic Amount. The amount of coverage on the Insured provided by the Basic Plan on the Policy Date shown on page 3.

Initial Net Premium. The Initial Premium less any Premium Charge.

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

Insurance Amount. The amount of coverage on the Effective Date of each Rider shown under this heading on page 3. For the Insured, see the Death Benefit Options provision on page 9.

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

Monthly Charge Deductible. A monthly charge for any Rider is deducted as part of the Monthly Deduction until the Policy Anniversary in the year shown on page 3 under the heading Benefit Period Ends.

Net Premium Payment. Your premium payment less any Premium Charge.

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

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Figure 27.10

DEFINITIONS (CONTINUED)
<p>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.</p>
<p>Planned Premium. The premium amount shown on page 3 that You have chosen. This amount is for the payment period that You have chosen.</p>
<p>Policy Date. The Effective Date of this Policy shown on pages 1 and 3.</p>
<p>Policy Month, Year, or Anniversary. A policy month, year, or anniversary is measured from the Policy Date.</p>
<p>Proceeds. The amounts payable on the death of the Insured.</p>
<p>Request. 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.</p>
<p>Rider. Any benefit, other than the Basic Plan, made a part of this Policy.</p>
<p>Successor Owner. May be named in the Application or later by Request if You are not the Insured.</p>
GENERAL PROVISIONS
<p>The Contract. This Policy contains the Basic Plan, any amendments, endorsements, any Riders, and a copy of the Application. A copy of any Application for a change to this Policy will be sent to You to be placed with this Policy. Such Applications become part of this Policy. 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 statements in the Application will be used to rescind this Policy or deny a claim within the time period specified in the Incontestability provision.</p>
<p>Only an Officer has the right to change this Policy. No agent has the authority to change this Policy or to waive any of its terms. All endorsements, amendments, and Riders must be signed by an Officer to be valid.</p>
<p>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.</p>
<p>Transaction Delay. Any payment from the Account Value or for a Loan will usually be made within 7 days of receipt of the Request for payment. We may defer payment of any Cash Surrender Value, withdrawal, or Loan for up to 6 months from the date We receive Your Request. However, a withdrawal or a Loan to pay a premium on other policies with Us will not be deferred.</p>
<p>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.</p>
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Figure 27.11

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GENERAL PROVISIONS (CONTINUED)

Annual Report. Each year, We will send You a report. This report will show:

- (1) the Account Value, the Cash Surrender Value, any Loan and accrued Loan Interest, and the amount of the death benefit as of the date of the last report and this report and
- (2) any premiums paid, any deductions made, and any Withdrawals made since the last report.

Minimum Values. The Cash Values are at least as large as those required by the Interstate Insurance Product Regulation Commission, which has a statement of how these values are calculated. We base minimum Cash Values, Maximum Monthly Cost of Insurance Rates, and reserves on the Insured's age last birthday, sex and tobacco use, if applicable. The Guaranteed Interest Rate is shown on page 3. The mortality table used is shown on page 4. Modifications are made for each Class of Risk other than Standard.

Changes in Rates and Charges. Prior to the Policy Anniversary when the Insured is age 121, Monthly Cost of Insurance Rates, Monthly Charges for any additional insured's level term life insurance benefit rider, the Premium Charge Percentage, the Monthly Expense Charge, and the interest rate applicable to the Account Value can change at any time, subject to the limitations in this Policy. We will determine each based on future expectations as to investment earnings, mortality, expenses, and persistency.

Annual Dividends. We do not expect to pay dividends on this Policy; however, 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 prorated dividend prior to the end of a Policy Year.

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

- (1) Cash. We will pay it to You in cash.
- (2) Addition to Account Value. We will add it to the Account Value at the end of the Policy Year.

If You do not choose a Dividend Option on the Application or by Request 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 to dividends paid after We receive Your Request.

Projection of Benefits and Values. If you send Us a Request, we will provide You with a projection of death benefits, account values, and cash surrender values each year. An additional projection can be provided if You send Us a Request. We may charge no more than a \$25 fee for providing each additional projection.

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.

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Figure 27.12

GENERAL PROVISIONS (CONTINUED)
<p>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 the benefit payable had the Insured's age and sex been stated correctly. Such adjustment will be based on the ratio of the correct deduction for the Cost of Insurance or Monthly Charge for the most recent Deduction Date for that benefit to the deduction for the Cost of Insurance or Monthly Charge that was made. For the Basic Plan, the adjustment is made to the amount of insurance less the Account Value.</p> <p>Incontestability. We will not contest the Initial Basic Amount after the Basic Plan has been in force during the Insured's lifetime for 2 years from the Policy Date. We will not contest any Basic Amount Increase or reinstatement after it has been in force during the lifetime of the Insured for 2 years from the Effective Date of the Basic Amount Increase or reinstatement. We will not contest a Basic Amount Increase due to a change to Death Benefit Option 1. Any contest will be based on statements made in the Application that are material to the risk or the hazard assumed by Us. Each Rider has its own incontestability provision.</p> <p>Limited Death Benefit. If the Insured dies by suicide while sane or insane within 2 years from the Policy Date, the Initial Basic 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, any withdrawals from the Account Value, and any dividends paid on the Basic Plan. Any Basic Amount Increase or amount reinstated will not be paid if the Insured's death results from suicide while sane or insane within 2 years from the Effective Date of such Basic Amount Increase or reinstatement. The Proceeds of the Basic Amount Increase will be limited to the Monthly Deductions for the Basic Amount Increase. This does not apply to a Basic Amount Increase due to a change to Death Benefit Option 1. The Proceeds of a reinstated policy will be limited to the premiums paid on the Basic Plan since reinstatement less any Loan, accrued Loan Interest, any withdrawals from the Account Value, and any dividends paid on the Basic Plan. Each Rider has its own limited death benefit provision.</p> <p>Conformity with Interstate Insurance Product Regulation Commission Standards. This Policy was approved under the authority of the Interstate Insurance Product Regulation Commission and issued under the Commission standards. Any provision in this Policy that on the provision effective date is in conflict with Interstate Insurance Product Regulation Commission standards for this type of product is hereby amended to conform to the Interstate Insurance Product Regulation Commission standards for this type of product as of the provision's effective date.</p>
OWNERSHIP PROVISIONS
<p>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.</p> <p>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.</p>
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Figure 27.13

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DEATH BENEFIT AND DEATH BENEFIT OPTIONS PROVISIONS

Death Benefit. The amount of Death Benefit is an amount of insurance based on the Death Benefit Option shown on page 3 plus any insurance amounts payable under any Riders on the Insured and the part of the Cost of Insurance for the part of the Policy Month beyond the Insured's death less any Loan, accrued Loan Interest, and, if the Insured dies during the Grace Period, the Monthly Deductions from the start of the Grace Period.

Death Benefit Options. There are two Death Benefit Options. If You do not choose an option, We will use Option 2. The Account Value on the date of death is used in determining the amount of insurance. If the Death Benefit Option is Option 2 on the Policy Anniversary when the Insured is age 121, the Death Benefit Option will automatically be changed to Option 1.

Option 1. The amount of insurance will be the greater of:

- (1) the Basic Amount plus Net Premium Payment received since the last Deduction Date plus interest earned on that Net Premium Payment or
- (2) a percentage of the Account Value based on the Insured's age at the start of the current Policy Year, as indicated in the table shown below.

Option 2. The amount of insurance will be the greater of:

- (1) the Basic Amount plus the Account Value or
- (2) a percentage of the Account Value based on the Insured's age at the start of the current Policy Year, as indicated in the table shown below.

Percentage of Account Value Table							
Age	Percentage	Age	Percentage	Age	Percentage	Age	Percentage
0-40	250%						
41	243%	51	178%	61	128%	71	113%
42	238%	52	171%	62	126%	72	111%
43	229%	53	164%	63	124%	73	109%
44	222%	54	157%	64	122%	74	107%
45	215%	55	150%	65	120%	75-80	105%
46	209%	56	143%	66	119%	91	104%
47	203%	57	142%	67	118%	92	103%
48	197%	58	138%	68	117%	93	102%
49	191%	59	134%	69	116%	94	101%
50	185%	60	130%	70	115%	95 & up	100%

The percentages in the table are those in effect on the Policy Date. We reserve the right to change the percentages if the table becomes inconsistent with any section of, regulation or ruling under, the Code, as amended from time to time.

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Figure 27.14

DEATH BENEFIT AND DEATH BENEFIT OPTIONS PROVISIONS (CONTINUED)

Change in Basic Amount. You may change the Basic Amount once each Policy Year by Request. The minimum amount of change is shown on page 3. For any change in Basic Amount, We will send You revised pages 3 and 4 to be placed with this Policy.

For a Basic Amount Increase, an Application must be completed, evidence of insurability satisfactory to Us must be furnished, and there must be enough Cash Surrender Value to make a Monthly Deduction which includes the Cost of Insurance for the Basic Amount Increase. No Basic Amount Increase will be allowed after the Policy Anniversary when the Insured is age 80. The revised pages 3 and 4 will show the amount of the Basic Amount Increase, its Effective Date, Maximum Monthly Cost of Insurance Rates for the Basic Amount Increase if the Class of Risk for the Basic Amount Increase is different, the additional Surrender Charges, and any change in Planned Premium.

For a Basic Amount Decrease, the Basic Amount remaining after the decrease cannot be less than the Basic Amount Minimum. We reserve the right to not accept a Request for a Basic Amount Decrease if such decrease could result in this Policy being disqualified as a life insurance contract under any section of, regulation or ruling under, the Code, as amended from time to time. Any decrease will first be used to reduce the most recent Basic Amount Increase. Then, the next most recent Basic Amount Increases will be reduced. Finally, the Initial Basic Amount will be reduced. The revised pages 3 and 4 will show the amount of decrease, its Effective Date, and any change in Planned Premium and Surrender Charges. The Basic Amount Decrease will take effect on the date We receive the Request.

Change of Death Benefit Option. You may change a Death Benefit Option once each Policy Year by Request prior to the Policy Anniversary when the Insured is age 121. The change will take effect the date We receive Your Request. For a change in Death Benefit Option, We will send You a revised page 3 to be placed with this Policy. The revised page will show the new Death Benefit Option and the Effective Date of the change.

If the change is to Death Benefit Option 1, the Basic Amount will be increased by the amount of Account Value on the Effective Date of the change. We reserve the right to not accept Your Request for a change to Death Benefit Option 1 if such change could result in this Policy being disqualified as a life insurance contract under any section of, regulation or ruling under, the Code, as amended from time to time.

If the change is to Death Benefit Option 2, the Basic Amount will be decreased by the Account Value on the Effective Date of the decrease.

PREMIUM PROVISIONS

Payment of Premiums. 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. The Initial Premium, shown on page 3, is due on the Policy Date. All other premiums may be paid in any amount and at any time prior to the Policy Anniversary when the Insured is age 121 if:

- (1) the amount is at least \$25;
- (2) in a Policy Year, the total premiums, excluding the Initial Premium, do not exceed without Our consent, the total Planned Premiums for a Policy Year; and
- (3) no premium or part of any premium paid would be rejected for tax purposes.

On and after the Policy Anniversary when the Insured is age 121, no premium will be accepted other than premiums required to keep this Policy in force under the Grace Period.

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Figure 27.15

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PREMIUM PROVISIONS (CONTINUED)

Premium Charge. The Premium Charge Percentage times the amount of the premium received is the Premium Charge. The actual premium charge percentage will be determined as described in the Changes in Rates and Charges provision. Such percentage cannot exceed the Maximum Premium Charge Percentage shown on page 3.

Rejection of Premium Payments for Tax Purposes. We reserve the right to reject any premium or part of any premium paid if such premium amount would result in this Policy being disqualified as a life insurance contract under any section of, regulation or ruling under, the Code, as amended from time to time. We will promptly return any rejected premium. No Premium Charge will be deducted from the rejected premium. No premium will be rejected if it is necessary to continue coverage.

Grace Period. A Grace Period is 61 days and starts on a Deduction Date as specified below. We will mail a notice to You and to any assignee of record at least 31 days prior to the end of the Grace Period. The notice will state:

- (1) this Policy will remain in force until the end of the Grace Period,
- (2) the date the Grace Period ends, and
- (3) this Policy will terminate and lapse without value unless the required amount is paid prior to that date.

Prior to the Policy Anniversary when the Insured is age 121, the Grace Period will start on any Deduction Date if the Cash Surrender Value is not enough to cover the Monthly Deduction on that Deduction Date. On and after the Policy Anniversary when the Insured is age 121, the Grace Period will start on any Deduction Date if the Account Value is less than the Loan plus accrued Loan Interest. If the Grace Period ends prior to the Policy Anniversary when the Insured is age 121, the required amount is a premium large enough to provide an increase in the Cash Surrender Value to cover the Monthly Deductions for the Grace Period and any increase in the Surrender Charges. If the Grace Period ends on or after the Policy Anniversary when the Insured is age 121, the required amount must be a payment large enough to cover the Loan plus accrued Loan Interest that is in excess of the Account Value at the end of the Grace Period. Any premium payment sent by U.S. mail with a postmark before the end of the Grace Period will be considered paid during the Grace Period.

Reinstatement. If this Policy is terminated at the end of the Grace Period, 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 an amount as specified below:

- (1) If reinstatement is applied for prior to the Policy Anniversary when the Insured is age 121, the premium must be large enough to provide an increase in the Policy Account Value over the amount We reinstate so that the Cash Surrender Value will cover the Monthly Deductions for the Grace Period and keep this Policy in force for 3 months following the date the reinstatement takes effect.
- (2) If reinstatement is applied for on or after the Policy Anniversary when the Insured is age 121, that amount must be large enough to cover the accrued Loan Interest in excess of the Account Value less the Loan on the date the reinstatement takes effect.

Reinstatement will take effect on the date We approve the Application for reinstatement. The amount of any Loan Amount on the date of lapse will be reinstated when reinstatement takes effect. No interest from the date of lapse to date of reinstatement is included in that amount. We will reinstate the amount of the Policy Account Value equal to the Policy Account Value on the date of lapse less any decrease in the amount of any Surrender Charge between the date of lapse and the date of reinstatement.

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Figure 27.16

GUARANTEED VALUES PROVISIONS
<p>Account Value. The Account Value on the Policy Date is the Initial Net Premium less the Monthly Deduction for the first Policy Month.</p> <p>The Account Value on any Deduction Date after the Policy Date is the Account Value on the prior Deduction Date:</p> <ol style="list-style-type: none"> (1) plus any Net Premium Payments received since the prior Deduction Date, (2) less the deduction for the Cost of Insurance and the Monthly Issue Charge for any Basic Amount Increase and the Monthly Charges for any Riders that became effective since the prior Deduction Date, (3) less any Withdrawals since the prior Deduction Date, (4) less the current Monthly Deduction, (5) plus any dividend paid and added to the Account Value on the current Deduction Date, and (6) plus any interest accrued since the prior Deduction Date. <p>The Account Value on any other date is the Account Value on the prior Deduction Date:</p> <ol style="list-style-type: none"> (1) plus any Net Premium Payments received since the prior Deduction Date, (2) less the deduction for the Cost of Insurance and the Monthly Issue Charge for any Basic Amount Increase and the Monthly Charges for any Riders that became effective since the prior Deduction Date, (3) less any Withdrawals since the prior Deduction Date, and (4) plus any interest accrued since the prior Deduction Date. <p>Monthly Deduction. This deduction is made on each Deduction Date prior to the Policy Anniversary when the Insured is age 121, whether or not premiums are paid, as long as the Cash Surrender Value is enough to cover that Monthly Deduction. Each Monthly Deduction includes:</p> <ol style="list-style-type: none"> (1) the Cost of Insurance, (2) the Monthly Charges for any Riders, (3) the Monthly Expense Charge, and (4) the Monthly Issue Charge, if applicable. <p>No Monthly Deduction will be made on or after the Policy Anniversary when the Insured is age 121.</p> <p>Cost of Insurance. This cost is calculated each Policy Month prior to the Policy Anniversary when the Insured is age 121. The cost is determined separately for the Initial Basic Amount and each Basic Amount Increase. The Cost of Insurance is the Monthly Cost of Insurance Rate times the difference between (1) and (2) where:</p> <ol style="list-style-type: none"> (1) is the amount of insurance attributable to the Initial Basic Amount of Insurance or Basic Amount Increase, as applicable, on the Deduction Date at the start of the month divided by 1.0032737, and (2) is the Account Value attributable to the Initial Basic Amount or Basic Amount Increase, as applicable, on the Deduction Date at the start of the month after the deduction of the part of the Monthly Deduction that does not include the Cost of Insurance and the Monthly Charge for any waiver of monthly deduction benefit rider. <p>Until the Account Value exceeds the Initial Basic Amount, the Account Value is part of the Initial Basic Amount. Once the Account Value exceeds that amount, if there have been any Basic Amount Increases, the excess will be part of the increases in the order in which the increases occurred.</p> <p>Monthly Cost of Insurance Rates. These rates for each Policy Year are based on the Insured's age on the Policy Anniversary, sex, and applicable Class of Risk. A Class of Risk will be determined for the Initial Basic Amount and for each Basic Amount Increase. The rates shown on page 4 are the Maximum Monthly Cost of Insurance Rates for the Initial Basic Amount. Maximum Monthly Cost of Insurance Rates will be provided for each Basic Amount Increase. The actual Monthly Cost of Insurance Rates will be determined as described in the Changes in Rates and Charges provision. Such rates cannot exceed the Maximum Monthly Cost of Insurance Rates and cannot be changed more than once a calendar year.</p>
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Figure 27.17

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GUARANTEED VALUES PROVISIONS (CONTINUED)

Monthly Expense Charge. The Maximum Monthly Expense Charge is shown on page 3. The actual Monthly Expense Charge will be determined as described in the Changes in Rates and Charges provision. The actual Monthly Expense Charge cannot exceed the maximum.

Monthly Issue Charge. The Monthly Issue Charge is shown on page 3. A Monthly Issue Charge is determined separately for the Initial Basic Amount and each Basic Amount Increase.

Interest Credited. We guarantee to credit interest to the Account Value. The actual effective annual rate will be determined as described in the Changes in Rates and Charges provision. Such rate will not be less than the Guaranteed Interest Rate shown on page 3. The rate applied to the Account Value up to the amount of any Loan may differ from the rate applied to the Account Value in excess of the amount of the Loan.

On and after the Policy Anniversary when the Insured is age 121, the Guaranteed Interest Rate will be credited to the Account Value.

Surrender Charge. The Schedule of Surrender Charges is shown on page 4. For each Basic Amount Increase, additional Surrender Charges will apply. The revised page 4 will show a revised Schedule of Surrender Charges which includes those additional charges.

Upon reinstatement, the Surrender Charges will be adjusted for any Surrender Charge deducted at the time of lapse. The revised page 4 will show a schedule of the adjusted Surrender Charges.

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Figure 27.18

SURRENDER AND WITHDRAWAL PROVISIONS

Surrender. You may surrender this Policy at any time by Request. This Policy will terminate on the date We receive Your Request or later date if You so request it. We will pay You the Cash Surrender Value as of the date coverage ceases plus the Monthly Deduction for the part of the Policy Month beyond that date. See the Surrender Charge provision regarding the Surrender Charges applicable.

Withdrawals. You may withdraw part of the Cash Surrender Value by Request at any time while this Policy is in force. No more than 4 Withdrawals can be made in any Policy Year. The Minimum Withdrawal Amount is shown on page 3. The withdrawal is effective on the date We receive Your Request or a later date, if You so request it. As of that date, the Account Value is reduced by the amount of the withdrawal.

If You request a Basic Amount Decrease or a Change in Death Benefit Option at the same time You request a withdrawal, We will process the withdrawal before processing either the Basic Amount Decrease or the Change in Death Benefit Option.

If Death Benefit Option 1 is in effect, then the Basic Amount will be reduced by the amount of the withdrawal. The effective date of the reduction will be the date of the withdrawal. The reduction will be made as if a Basic Amount Decrease had been requested.

We reserve the right to reject Your Request for a withdrawal if Your Request would reduce the Basic Amount below the Basic Amount Minimum. We reserve the right to reject Your Request for a withdrawal if the withdrawal would result in this Policy being disqualified as a life insurance contract under any section of, ruling or regulation under, the Code, as amended from time to time.

POLICY LOAN PROVISIONS

Loan. You may borrow against this Policy at any time while this Policy is in force. This Policy is the sole security for such Loan. You may borrow the Loan Value less any existing Loan and accrued Loan Interest and Monthly Deductions for the next 2 months. If Your unpaid Loan plus accrued Loan Interest exceeds the Loan Value on any Deduction Date, the Grace Period provision will apply.

Loan Value. The Loan Value is the Cash Value of this Policy.

Loan Interest. Interest accrues and is payable each day at a rate of 8% a year in Policy Years 1-10, 7% a year in Policy Years 11-20, and 6.5% a year in Policy Years 21 and later. Any interest not paid is added to the Loan on each Policy Anniversary.

Loan Repayment. You may repay all or part of a Loan at any time before the Insured dies or this Policy is surrendered or terminated. Prior to the Policy Anniversary when the Insured is age 121, You must tell Us that a payment is for repayment or We will assume it is a premium payment. If this Policy has a Loan on or after the Policy Anniversary when the Insured is age 121, only a repayment of a Loan will be accepted.

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Figure 27.19

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PAYMENT OF BENEFITS PROVISIONS

Beneficiary Designation. 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.

Change of Beneficiary Designation. 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 Your Request is signed, but the change will not affect any action We have taken before We receive the Request. To change a named irrevocable Beneficiary, the Request must include a written statement from the irrevocable Beneficiary who is being changed.

Order of Payment on the Insured's Death. 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.

Methods of Payment. 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.

All payment intervals are measured from the date this Policy is surrendered or from the date the Insured dies.

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.

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:

- (1) to establish the date and fact of the Insured's death;
- (2) to permit Us to determine whether Proceeds are payable; and
- (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.

Method 1 (One Sum Method). 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 applicable to Proceeds left on deposit with Us.

Method 2 (Other Method). Payment by any other method may be made if We agree.

Interest on Delayed Payment of Proceeds. Additional interest at the rate of 10% a year will be credited to Proceeds if the payment of Proceeds is delayed more than 31 calendar days after the earliest of the following dates:

- (1) the date We receive due proof of the Insured's death;
- (2) the date We receive sufficient information to determine Our liability, the extent of the liability, and the appropriate Beneficiary legally entitled to the Proceeds; and
- (3) the date legal impediments to payment of the Proceeds that depend on the action of parties other than Us are resolved and sufficient evidence of the same is provided to Us. Legal impediments to payment include, but are not limited to, (a) the establishment of guardianships and conservatorships; (b) the appointment and qualification of trustees, executors and administrators; and (c) the submission of information required to satisfy state and federal reporting requirements.

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Figure 27.20

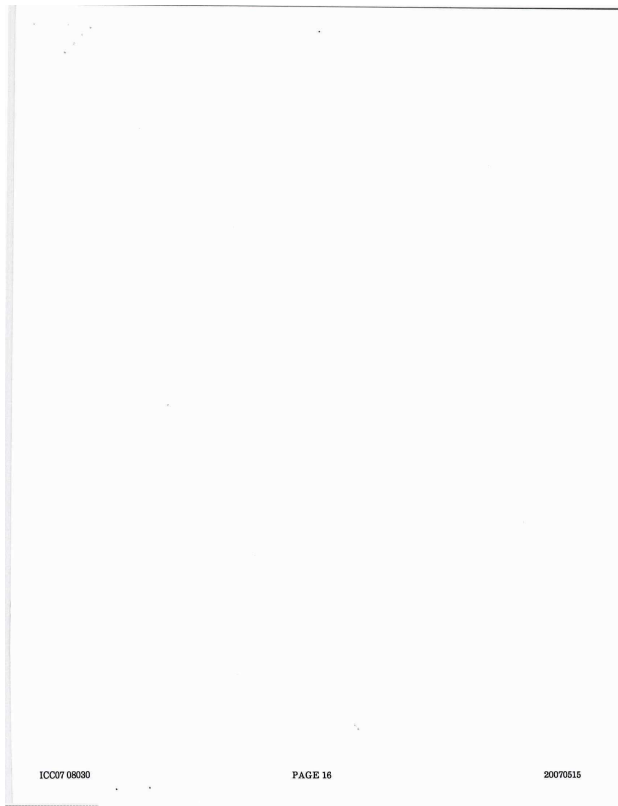


Figure 27.21

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GUARANTEED INSURABILITY OPTION BENEFIT RIDER

General. This Rider is part of this Policy. It is based on the Application for this Rider and the deduction of the Monthly Charges for this Rider. The Monthly Charges for this Rider are shown per \$1000 on page 4 of this Policy and are not subject to change. Only certain policy provisions are a part of this Rider. They are "Definitions," "Ownership," "Payment of Benefits," "Grace Period," "Reinstatement," "Monthly Deduction," "The Contract," "Assignment," and "Error in Age or Sex." The provisions of this Rider apply in lieu of any other Policy provisions to the contrary. This Rider does not increase the Cash Value or Loan Value of this Policy.

Guaranteed Insurability Option Benefit. Option Years for this Benefit are shown on page 3 of this Policy. An Option Date is the Policy Anniversary in an Option Year. On each Option Date before termination, You may increase the Basic Amount by Request. We must receive Your Request for the Basic Amount Increase within the 90-day period that ends on the Option Date. No evidence of insurability is required. The Basic Amount Increase will become effective on the Option Date if the Insured is alive on the Option Date.

The Basic Amount Increase will be subject to the following conditions on the Option Date:

- (1) The amount of Basic Amount Increase must be at least \$25,000 but can be no more than the amount for this Rider shown under the heading Insurance Amount on page 3 of this Policy.
- (2) The monthly cost of insurance rates for the Basic Amount Increase will be based on the Insured's attained age, sex, and standard class of risk then available.
- (3) All limitations that apply to this Policy on this Effective Date of this Rider will apply to the Basic Amount Increase. Any limitations that We place on such policies then being issued will apply to the Basic Amount Increase.
- (4) We will not contest the Basic Amount Increase after this Rider has been in force during the lifetime of the Insured for 2 years from the Effective Date of this Rider.
- (5) If the waiver of monthly deduction benefit is then a part of this Policy and a Monthly Deduction is then being waived, the Monthly Deduction for the Basic Amount Increase will be waived while the Insured's total disability continues.

There is a 90-day period of term life insurance on the Insured. It starts when a Named Event occurs. A Named Event is:

- (1) the Insured's marriage or legally-sanctioned civil union or domestic partnership,
- (2) a live birth of a child of the Insured, or
- (3) the effective date of a legal adoption of a child by the Insured.

The term life insurance provided is equal to the initial amount of this Rider. If a multiple birth occurs, this amount is multiplied by the number of live children born at that time. The amount will be paid when due proof is received that a Named Event occurred and the Insured died within the 90-day period and before this Rider terminated. The amount will be paid as part of the Proceeds.

Advance of Option Date. When such term insurance is in effect, the next available Option Date may be advanced to the day after the end of the 90-day period. The amount of the Basic Amount Increase can be no more than the amount of term insurance then provided. If a Basic Amount Increase becomes effective, the Option Date that is advanced will be canceled. To advance the Option Date, We must receive due proof that a Named Event occurred.

Termination. This Rider will terminate on the Policy Anniversary shown under the heading Benefit Period Ends shown on page 3 of this Policy. We will terminate this Rider before that date when this Policy is terminated by surrender or lapse.

You may terminate this Rider by Request. This Rider will terminate the date We receive Your Request. We will revise pages 3 and 4 of this Policy to show this change.

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Figure 27.22

GUARANTEED INSURABILITY OPTION BENEFIT RIDER (CONTINUED)

Incontestability. We will not contest this Rider after it has been in force during the lifetime of the Insured for 2 years from the Effective Date of this Rider.

Limited Death Benefit. If the Insured dies by suicide while sane or insane within 2 years from the Effective Date of this Rider, the Benefit will be limited to the charges paid for this Rider.

Effective Date of This Rider. This is the Policy Date unless a different date for this Rider is shown on page 3 of this Policy.

State Farm Life Insurance Company

Tom M. Bruner
Secretary

Edward J. ...
President

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Figure 27.23

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WAIVER OF MONTHLY DEDUCTION BENEFIT RIDER

General. This Rider is part of this Policy. It is based on the Application for this Rider and the deduction of the Monthly Charges for this Rider. Only certain policy provisions are a part of this Rider. They are "Definitions," "Ownership," "Death Benefit and Death Benefit Options," "Grace Period," "Reinstatement," "Monthly Deduction," "The Contract," "Assignment," and "Error in Age or Sex." The provisions of this Rider apply in lieu of any other Policy provisions to the contrary. This Rider does not increase Cash Value or Loan Value of this Policy.

Monthly Charge for This Rider. The Monthly Charge is (1) times (2) where:
 (1) is the total Monthly Deduction to which this benefit applies before the Monthly Charge for this Rider is added, and
 (2) is the Monthly Charge for this Rider per dollar of Monthly Deduction.
 The Monthly Charges per dollar of Monthly Deduction are shown on page 4.

Waiver of Monthly Deduction Benefit. We will waive Monthly Deductions for this Policy as defined below 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 those Monthly Deductions until the Policy Anniversary when the Insured is age 65 as long as the Total Disability continues. If the Insured is totally disabled as defined below on the Policy Anniversary when the Insured is age 65, we will waive all future Monthly Deductions. We will only waive Monthly Deductions on Deduction Dates on and after Total Disability starts. Any Monthly Deductions made after the Total Disability starts will be added to the Account Value, with interest; however, no Monthly Deduction will be included which was deductible more than one year prior to the date We receive notice of the claim. If Death Benefit Option 1 is in effect, it will be automatically changed to Death Benefit Option 2. The change in Death Benefit Option will be effective the date We start to waive Monthly Deductions. On the Policy Anniversary when the Insured is age 121, the Death Benefit Option will be changed to Death Benefit Option 1.

Any increase in the Surrender Charges that would occur while the Total Disability continues will be waived.

A recurrence of a Total Disability for which We had been waiving Monthly Deductions 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.

While Monthly Deductions are waived, all benefits provided under this Policy continue in force.

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 irrevocable 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.

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Figure 27.25

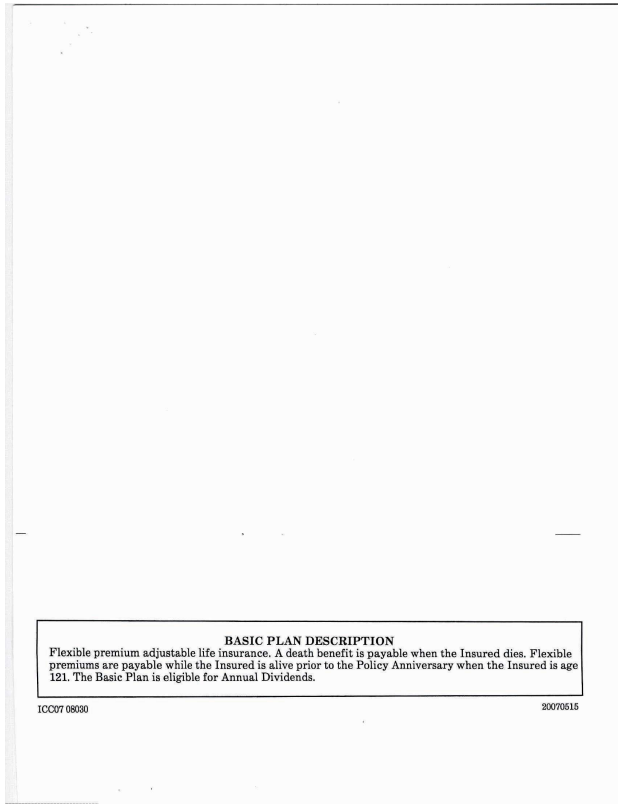


Figure 27.26

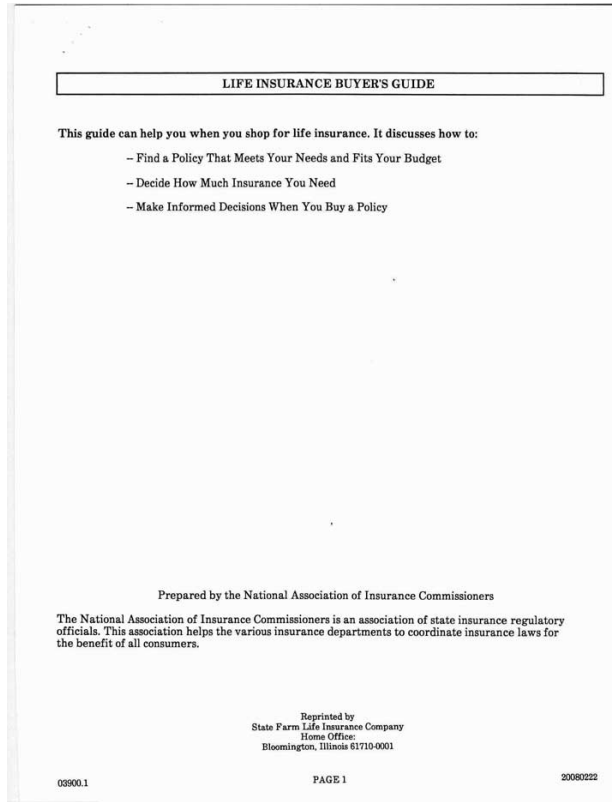


Figure 27.27

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 27.29

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.

Figure 27.30

Life Insurance Illustrations

You may be thinking of buying a policy where cash values, death benefits, dividends or premiums may vary based on events or situations the company does not guarantee (such as interest rates). If so, you may get an illustration from the agent or company that helps explain how the policy works. The illustration will show how the benefits that are not guaranteed will change as interest rates and other factors change. The illustration will show you what the company guarantees. It will also show you what could happen in the future. Remember that nobody knows what will happen in the future. You should be ready to adjust your financial plans if the cash value doesn't increase as quickly as shown in the illustration. You will be asked to sign a statement that says you understand that some of the numbers in the illustration are not guaranteed.

Finding a Good Value in Life Insurance

After you have decided which kind of life insurance is best for you, compare similar policies from different companies to find which one is likely to give you the best value for your money. A simple comparison of the premiums is not enough. There are other things to consider. For example:

- Do premiums or benefits vary from year to year?
- How much do the benefits build up in the policy?
- What part of the premiums or benefits is not guaranteed?
- What is the effect of interest on money paid and received at different times on the policy?

Remember that no one company offers the lowest cost at all ages for all kinds and amounts of insurance. You should also consider other factors:

- How quickly does the cash value grow? Some policies have low cash values in the early years that build quickly later on. Other policies have a more level cash value build-up. A year-by-year display of values and benefits can be very helpful. (The agent or company will give you a policy summary or an illustration that will show benefits and premiums for selected years.)
- Are there special policy features that particularly suit your needs?
- How are nonguaranteed values calculated? For example, interest rates are important in determining policy returns. In some companies increases reflect the average interest earnings on all of that company's policies regardless of when issued. In others, the return for policies issued in a recent year, or a group of years, reflects the interest earnings on that group of policies; in this case, amounts paid are likely to change more rapidly when interest rates change.

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Figure 27.31

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 purposes 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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Figure 27.32

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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