



# *Lincoln Conversion<sup>SM</sup> UL (2019)*

LIFE SOLUTIONS

Product Reference  
Guide

Life insurance issued by  
The Lincoln National Life  
Insurance Company, Fort  
Wayne, IN.

# Table of Contents

*Lincoln Conversion*<sup>SM</sup> UL (2019)

Category	Page
<b>Product Objective</b>	4
<b>Key Features</b>	
No-Lapse Premiums	4
Death Benefits	4
<b>Premiums</b>	
Target Premium	
Planned Premium	
Premium Deposit Fund	
<b>Charges, Fees and Deductions</b>	
Deductions from Premiums	
Charges and Fees	
<b>Policy Values and Loans</b>	
Interest Crediting	
Account Value	
Cash Surrender	
Loans	
<b>Chargeback Guidelines</b>	
<b>General Information – 7702A/7702</b>	
Modified Endowment Contracts (MEC) – 7702A	
Life Insurance Tax Qualification Tests – 7702	
Recapture Ceiling	
Guideline Premium Test (GPT)	
Cash Value Accumulation Test (CVAT)	
<b>Additional Information</b>	
Available Riders	
State Availability Grids	
Side-by-Side Comparison	

## Product Objective

Except in limited scenarios, this product will be the only conversion option available for products/riders introduced prior to April, 2007. Full product portfolio will be available when required by applicable policy language, Lincoln's relationship with the original issuer, or for consistency across smaller blocks. See Term Conversion Guidelines for additional details.

## Key Features

### No-Lapse Premiums

There is a five-year Minimum Premium Period. If, during the Minimum Premium Period, the surrender value is not sufficient to cover the monthly deduction, the policy will continue in force as long as the cumulative Minimum Premium requirement has been met. Otherwise, the policy will enter the Grace Period.

The cumulative Minimum Premium requirement is that the cumulative premiums paid must be at least as great as the cumulative Minimum Premium due. The cumulative premium paid is the sum of all premiums paid since issue, less any debt and withdrawals. The cumulative Minimum Premium due is the monthly Minimum Premium times the number of completed policy months.

Policy increases in the first five years will increase the Minimum Premium from the month of the increase through the end of the five year period.

### Death Benefits

*Lincoln Conversion*<sup>SM</sup> UL (2019) offers one death benefit option.

#### Option 1: Level

- The death benefit will be the greater of the Specified Amount or the Account Value x IRS Corridor Benefit.

## Premiums

*Lincoln Conversion*<sup>SM</sup> UL (2019) has flexible premiums as well as an adjustable death benefit which gives the client control over the design of their policy. Premium payments are flexible but there are some requirements and limitations.

### Target Premium

*Lincoln Conversion*<sup>SM</sup> UL (2019) has a target premium which is the maximum premium that will receive the full commission rate. There is a "rolling target" for commissions which means that the initial commission rate is paid on all premiums received in the first 5 policy years until premiums received reach the target premium.

### Planned Premium

The Planned Periodic Premium is the amount of premium that the policy owner intends to pay and the Premium Frequency is how often the Planned Periodic Premium will be paid. Both of these items are selected by the policy owner. Increases, decreases or changes in the frequency of premium payments may be made providing the payment meets guidelines set by the Internal Revenue Service. Additional premiums are any premiums made in addition to the planned premiums and are subject to the maximums imposed by the Internal Revenue Code.

The modes of premium payment allowed are as follows:

Mode:	Minimum modal premium:
Annual	\$200
Semi-Annual	\$100
Quarterly	\$50
Monthly Electronic Funds Transfer (EFT)	\$15 (\$10 if more than one policy is on the same bank draft)

There is no additional charge for modal billing, but be sure the illustration solve that is utilized assumes the appropriate, desired mode since the timing of the premium payments will impact the level of funding required due to the compounding of payments and interest over time.

### Premium Deposit Fund

The Premium Deposit Fund (PDF) allows the policy owner to provide in advance for payment of future premiums. This will help to avoid the policy from becoming a Modified Endowment Contract due to the 7702A premium limitations.

Minimum Deposit:	\$250
Maximum Deposit:	10 times annual premium

Interest is credited to the fund at a declared rate (1% guaranteed) and is taxable annually. Annual premiums are paid automatically from the Premium Deposit Fund into the policy. Deposits into the PDF are not commissionable but commissions will be paid when the money is transferred into the policy as premium. Loans are not permitted.

## Charges, Fees and Deductions

**Deductions from Premiums:** There is a premium load that is deducted from all premiums. The premium load for *Lincoln Conversion*<sup>SM</sup> UL (2019) is 10% in all years.

Rollover money on internal replacements will also be charged a 10% premium load.

**Charges and Fees:** In addition, the policy includes several ongoing charges and fees. They are:

- **Per Policy Expense Charge:** A guaranteed charge will be deducted monthly as follows:  
\$8 per month in all years (Current and Guaranteed)  
Policy changes do not affect this charge.
- **Per \$1000 of Specified Amount Charge:**  
5-year charge  
Will not change due to decrease in specified amount.  
Increases in specified amount will incur a new per thousand charge.
- **Monthly Cost of Insurance:** A charge per 1,000 of net amount at risk, and any rider costs, which vary by gender and underwriting class will be deducted from the value until the policy anniversary at Attained Age 121. The rates are based on the Ultimate 2017 CSO Tables.

- **Surrender Charges:** The cash surrender value equals the account value minus the applicable surrender charges and any outstanding loan balance. The surrender charges decrease as the policy year increases up to and including the 9<sup>th</sup> year and are zero thereafter.
- **Partial Surrender Charges:** There will be a partial surrender charge if there is a decrease in the Specified Amount. The partial surrender charge is prorated by face amount. These charges do apply to withdrawals that reduce the specified amount.
- **Withdrawal Charge:** Currently, there is no transaction fee for partial withdrawals that do not reduce the specified amount, but the charge is guaranteed to be no higher than \$25. Partial withdrawals may be made at any time and may not exceed the cash surrender value less \$500. The minimum for a partial withdrawal is \$500.00. The Specified Amount remaining in force after a partial withdrawal may not be less than \$1,000. Any request for a partial surrender that would reduce the Specified Amount below this minimum will not be allowed. The allowable withdrawal will be limited to the amount that would result in the minimum face amount.

## Policy Values and Loans

### Interest Crediting

The policy provides current interest crediting based on a portfolio methodology and not a new money rate. The current interest experience is applied to the policy owner's account value.

On unborrowed money, interest is credited at a guaranteed minimum annual rate of 1.0% in all years. Interest charged on borrowed funds is 1.0% in all years.

### Account Value

The account value receives new net premium payments and current interest credits. The account value is decreased by current expense charges, monthly charges, charges for supplementary coverage, loans and withdrawals.

### Cash Surrender

The cash surrender value is the amount of money available to a client upon full surrender of the policy. In the first 9 policy years, the cash surrender value equals the account value minus applicable surrender charges and any outstanding loans and loan interest. After the 9<sup>th</sup> policy year, if there have been no increases in the specified amount, the cash surrender value equals the account value, minus outstanding loans and loan interest.

### Loans

Loans reduce both the policy's cash value and death benefit. The total loan balance includes outstanding loans and any accrued but unpaid loan interest.

## Chargeback Guidelines

There is a rolling target for the first 5 policy years. Please refer to your commission schedule for complete compensation details.

Commission Recalls: Commissions will be recalled within the first two policy years for a face amount decrease and within the first year for a lapse/surrender/withdrawal based on the following percentages. When a policy is decreased, the recall pertains to the decreased portion of the policy rather than to the policy as a whole.

Face Decrease		Lapse/Surrender/Withdrawal	
Months	% of First Year Commissions Recalled	Months	% of First Year Commissions Recalled
1-6	100%	1-6	100%
7-12	75%	7-12	50%
13-24	50%		

See Term Conversion Guidelines for current compensation guidelines.

## General Information – 7702/7702A

### Modified Endowment Contracts (MEC) - 7702A

An additional funding consideration in universal life insurance is Modified Endowment Contract status. If a policy is classified as a MEC under IRS definitions, some of its favorable tax treatment is lost because it is too heavily funded. Generally, distributions from a MEC policy are taxable as income to the extent there is a gain in the contract. However, death benefits still remain non-taxable under a MEC situation. Clients who wish to access some of their cash accumulation should prevent the policy from becoming a MEC. To accomplish this, a client must limit premiums paid into the policy in the first seven years (and seven years following a material change) to the calculated 7-Pay premium which will be specified on their illustration.

### Life Insurance Tax Qualification Tests – 7702 Recapture Ceiling

The tax code includes rules that prevent the tax deferred treatment of life insurance from being abused. Two of the main tests include the Guideline Premium Test, which compares premium to death benefit, and the Cash Value Accumulation Test (CVAT), which compares cash value to death benefit. See descriptions below.

Historically, when partial withdrawals were taken from a contract, any amount up to the premiums paid to date, also known as basis, was non-taxable. This is known as the FIFO treatment (basis is withdrawn first, then any income/gain).

Rules which came into effect on January 1, 1985 changed the way partial withdrawals were to be taxed. Under the new rules, taxable income may be forced out of the policy when a partial withdrawal meets all of the following conditions:

- The change reduces the future benefits under the contract.
- The change occurs within 15 years of the policy issue date.
- Cash is distributed from the contract as a result of the change.
- The Recapture Ceiling calculation is positive.
- There is a gain in the contract.

When the withdrawal meets these conditions it will receive the LIFO treatment (any income/gain is withdrawn first, then basis), and any gain up to the Recapture Ceiling would be taxable.

(continued)

In an effort to make clients aware of how different funding patterns might impact the tax advantage status of their policy's death benefit and how premiums could change the tax treatment of distributions, Lincoln uses the Cash Value Accumulation Test and the Recapture Ceiling Test. This should not be used in place of professional tax advice, but rather to draw attention to possible pitfalls.

The Recapture Ceiling (RC) Test is only applied during the first 15 years following policy issue and only when a withdrawal creates a gain in the policy. There is a two-year look back period (from point of withdrawal request) during which previous withdrawals must be included in the calculation. There are two separate calculations that could apply depending upon whether the policy is in Years 1-5 or Years 6-15. If the withdrawal fails this test, the entire withdrawal is treated as a loan to avoid a taxable event.

#### **DEFRA Type: Guideline Premium Test**

In order to meet the IRS definition of life insurance, the contract must pass either the Guideline Premium/Corridor Test or the Cash Value Accumulation Test (see below). The flexible premium on universal life insurance allows the client to experiment with different funding levels. At times, you may encounter guideline premium limits which are set by the IRS to ensure that policies meet the definition of life insurance. The maximum total premium allowed in a policy is the greater of the guideline single premium or the sum of the guideline level premiums already paid. If the rule is violated, the policy is not acceptable to the IRS as life insurance and the earnings become taxable to the policy owner as income. Lincoln will not accept any premium that violates the guidelines and if the policy becomes out of compliance (due to policy changes) the excess premium will be refunded to the policy owner. The policy owner must choose at issue which test will be used to determine tax qualification and may not change after issue. Death Benefit Option III is now available with CVAT.

#### **Cash Value Accumulation Test (CVAT)**

A contract meets the cash value accumulation test if the cash surrender value does not exceed the net single premium which would have to be paid at such time to fund future benefits under the contract. The policy owner must choose at issue which test will be used to determine tax qualification and may not change after issue.

## Additional Information

### Available Riders

**Rider features are subject to state availability. Limitations and exclusions may apply. See State Availability Grid and state-specific New Business Disclosures for more details.**

**[Click here](#)** to see the latest Rider Reference Guide for additional details on the individual riders.

Accelerated Benefit Rider (with Critical Illness coverage) – J-387

Accelerated Benefit Rider (with no Critical Illness coverage) – J-388

Disability Waiver of Monthly Deductions Benefit Rider – J371

Overloan Protection Rider – LR616

### State Availability Grids

**[Click here](#)** to see the latest state availability grids for this product and riders.

### Side-by-Side Comparison

**[Click here](#)** to see the latest comparison of *Lincoln Conversion*<sup>SM</sup> UL.

Not a deposit
Not FDIC-insured
Not insured by any federal government agency
Not guaranteed by any bank or savings association
May go down in value

©2020 Lincoln National Corporation

[LincolnFinancial.com](http://LincolnFinancial.com)

Lincoln Financial Group is the marketing name for Lincoln National Corporation and its affiliates.

Affiliates are separately responsible for their own financial and contractual obligations.

LCN-XXXXXX-XXXXXX



Disclosure 10 pt

Disclosure 8 pt

**[Audience Disclosure]**