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To U.S. Financial Life Insurance Company General Agents & Producers

From Stephen K. Shaw, Vice President and General Counsel

Date August 11, 2006

RE Employer Owned Life Insurance (“EOLI”)

New Procedures for Employer Owned Life Insurance (EOLI)

Pending federal tax legislation, that is expected to be enacted on August 17, 2006, will impose adverse tax consequences on employers who own life insurance on their employees unless certain requirements, including new notice and consent requirements, are satisfied. The following describes the procedures for obtaining an EOLI policy from USFL:

Effective immediately for all EOLI policies that are issued after the effective date of the legislation, it is required that producers:

1. Provide the employer with the document entitled *Disclosure for Employer-Owned Life Insurance Policies* (this document includes a sample Employee Notice and Consent Form) (USFL form EOLI2), and
2. Obtain and submit to USFL a signed *Acknowledgement of Disclosure for Employer-Owned Life Insurance Policies* (USFL form EOLI1) from the employer. According to the new law, the employee must be given notice prior to issuance of the policy. Therefore, USFL must receive the *Acknowledgement of Disclosure* (EOLI1) form prior to issuance of the policy.

The *Disclosure for Employer-Owned Life Insurance Policies* and the *Acknowledgement of Disclosure* may be found on our Web site in the Agent/Forms page at www.usfli.com/a_forms.html. Click on “EOLI Employer Disclosure and Acknowledgement Forms.”

Note: The “Employee Notice and Consent Form” is merely a SAMPLE form we are providing for the benefit of the Employer. We do not need a copy of this form for our file.

Agents should immediately provide the Disclosure and obtain a signed Acknowledgement for all EOLI policies currently in underwriting.

EOLI policies include those sold in connection with the following types of arrangements:

- Key Person Life Insurance
- Buy-Sell Redemption Arrangements funded with life insurance including Section 303 Plans
- Non-Qualified Deferred Compensation Plans
- Supplemental Executive Retirement Plans
- Split Dollar Arrangements
- Death Benefit Only Arrangements where any portion goes to employer
- 1035 Exchange where the death benefit increases

EFFECTIVE DATE

The new rules will apply to all EOLI life insurance contracts issued after the President signs the bill, which is expected to occur on August 17, 2006.

It is strongly recommended that employers provide notice to, and receive consent from, their employees before applying for a policy, particularly if money is taken for a Temporary Insurance Agreement.

FOR PENDING CASES

For cases that are currently in underwriting, agents should immediately provide the employer with the Disclosure (EOLI2) and must obtain a signed Acknowledgement (EOLI1) prior to the issuance of the policy. The Employer must get the Employee Consent signed prior to issuance to avoid adverse tax consequences.

In the alternative, if the Employer notifies the Agent that it has provided the required notification to the Employee and has obtained the Employee's written consent prior to the issuance of the policy, we will accept an alternative form, EOLI3, *Employer's Acknowledgement of Disclosure/Compliance* as a delivery requirement.

The Agent must provide the Employer with a copy of the *Disclosure for Employer-Owned Life Insurance Policies* before the Employer signs either of the Acknowledgement forms.

Please Note: These new procedures are in addition to the existing procedures described for California EOLI policies. If an employer has already acknowledged receipt of the *Disclosure*, the Agent may simply provide a copy of the signed form, EOLI1 or EOLI3, to USFL.

The *EOLI Employer Disclosure* form on our Web site describes the legislation and requirements that are about to become law and includes the necessary forms. Go to: http://www.usfli.com/a_forms.html.

Copy: USFL Home Office Staff