

premium, or scheduled premium variable life insurance policies, in which a deduction is made from premium payments of an amount that is reasonably related to Security Equity's increased federal tax burden resulting from the receipt of such premium payments pursuant to the application of Section 848 of the Internal Revenue Code of 1986, as amended.

**FILING DATE:** The application was filed on February 2, 1995, and amended on July 17, 1995.

**HEARING OR NOTIFICATION OF HEARING:** An order granting the application will be issued unless the Commission orders a hearing. Interested persons may request a hearing by writing to the Commission's Secretary and serving Applicants with a copy of the request, personally or by mail. Hearing requests should be received by the Commission by 5:30 p.m. on August 22, 1995, and should be accompanied by proof of service on applicants in the form of an affidavit or, for lawyers, a certificate of service. Hearing requests should state the nature of the requestor's interest, the reason for the request, and the issues contested. Persons may request notification of a hearing by writing to the Secretary of the Commission.

**ADDRESSES:** Secretary, Securities and Exchange Commission, 450 5th Street, N.W., Washington, D.C. 20549. Applicants, Juanita M. Thomas, Esq., Security Equity Life Insurance Company, c/o General American Life Insurance Company, 700 Market Street, St. Louis, MO 63101.

**FOR FURTHER INFORMATION CONTACT:** Pamela K. Ellis, Senior Counsel, or Wendy Finck Friedlander, Deputy Chief, at (202) 942-0670, Office of Insurance Products (Division of Investment Management).

**SUPPLEMENTARY INFORMATION:** The following is a summary of the application; the complete application is available for a fee from the Commission's Public Reference Branch.

### Applicants' Representations

1. Security Equity, a New York stock life insurance company, offers life insurance in thirty-eight states and the District of Columbia. Security Equity is a wholly-owned subsidiary of General American Life Insurance Company ("General American").

2. The Separate Account is a separate account established by Security Equity to fund the Policies. The Separate Account is registered with the Commission under the 1940 Act as a unit investment trust, and interests in the Policies are registered with the Commission as securities under the

Securities Act of 1933. The Separate Account presently is comprised of ten sub-accounts ("Sub-Accounts"), which invest exclusively in certain open-end management investment companies or series of such companies ("Funds").

3. Walnut Street, a wholly-owned subsidiary of General American Holding Company (which, in turn, is a wholly-owned subsidiary of General American), is the distributor for the Policies. Walnut Street is registered as a broker-dealer under the Securities Exchange Act of 1934, and is a member of the National Association of Securities Dealers, Inc.

4. The Policies are flexible premium variable life insurance contracts that provide for allocation of premium payments to the Sub-Accounts or to a fixed fund. The cash value and the death benefit under the Policies may fluctuate depending on the investment experience of the Sub-Accounts. There are three Death Benefit Options: (a) Face amount; (b) face amount plus account value; or (c) face amount plus a return of premiums. The minimum death benefit is equal to the account value multiplied by a specified percentage, which varies according to certain conditions. The Policies will not lapse if the net cash value is sufficient to cover monthly fees and charges deducted from the account value.<sup>1</sup> The Policies also offer Policy owners the opportunity to obtain a loan.

5. Certain fees and charges are deducted under the Policies. Each Sub-Account is assessed a daily mortality and expense risk charge, as well as monthly administrative charges, cost of insurance charges, charges for optional rider benefits, and charges for special insurance class rating, if any. If the Policy is issued on a medically underwritten basis,<sup>2</sup> a \$100 underwriting charge will be deducted from the account value on the issue date, and the first day of the Policy month following a medically underwritten increase in the face amount<sup>3</sup> of the Policy.<sup>4</sup>

<sup>1</sup> Net cash value is defined as the account value less any outstanding Policy loan and accrued and unpaid loan interest.

<sup>2</sup> Medically underwritten contracts, for the purposes of this underwriting charge, are all Policies other than those issued on a guaranteed issue or simplified issue basis. Security Equity may reduce or waive the underwriting charge in connection with the purchase of Policies sold by licensed agents of Security Equity that are also registered representatives of selected broker-dealers or banks that have entered into written sales agreements with Walnut Street.

<sup>3</sup> The face amount of the Policy is defined as the amount of insurance under the Policy.

<sup>4</sup> The underwriting charge is modified if the Policy is issued with a joint and last survivor rider.

6. In addition, applicants propose to deduct from premium payments a premium load charge consists of a distribution charge, a premium tax charge, and a charge equal to 1.0% of each premium payment to cover the estimated cost of the federal income tax treatment under Section 848 of the Code, commonly referred to as the "DAC Tax." Premium load is expressed as a percentage of premium, and depends upon the amount of the premium paid in relation to the target premium,<sup>5</sup> the Policy year in which the premium is paid, and the issue age of the insured.

### a. Distribution Charge

Applicants assert that the distribution charge compensates Security Equity for its Policy sales expenses, and is comprised of a premium expense load and a commission charge. The percentage premium expense load deducted from each premium payment will be based on the sum of the initial premiums of all Policies in a case,<sup>6</sup> in accordance with the following table.

Sum of the initial premiums of all policies in a case	Premium expense load (percent)
Less than \$250,000 .....	2.00
\$250,000-\$999,999 .....	1.50
\$1 million and more .....	1.25

The commission charge will be deducted from premiums paid in each Policy year up to a target premium amount. There is no commission charge on any premium amount paid during a Policy year in excess of the target premium ("Excess Premium"). The commission charge on premiums paid in a Policy year up to the target premium amount is based upon the issue age of the insured and the Policy year as follows:

Issue ages	Policy year		
	1 (per-cent)	2-10 (per-cent)	11-15 (per-cent)
20-51 .....	28.00	8.00	6.00
52-59 .....	28.00	6.33	4.00
60-67 .....	28.00	4.66	4.00
68-80 .....	19.00	4.00	4.00
81-85 .....	13.00	4.00	4.00

<sup>5</sup> The target premium is a percentage of the level annual premium payment necessary to provide future benefits under the Policy through maturity.

<sup>6</sup> A case is a grouping of one or more Policies connected by a non-arbitrary factor such as common employer of each insured under the Policy. Every Policy is part of a case.