

(f) Charge for Riders

A monthly charge will be deducted for any riders. This charge will vary with each Contract.

(g) Mortality and Expense Risk Charge

A daily charge equivalent to an effective annual rate of .90% of Account 11's average daily net assets⁴ will be deducted for General American's assumption of mortality and expense risks.

(h) Contingent Deferred Sales Charge ("CDSC")

For a period of up to 15 years after issuance of the Contract or an effective face amount increase, General American will impose a CDSC upon surrender, lapse, a requested decrease in face amount or a partial withdrawal that results in a decrease in face amount.

The amount of the CDSC will depend upon a number of factors, including the type of event, amount of premium payments made prior to the event, number of Contract years that has

elapsed since issuance of the Contract or face amount increase, as applicable.

A separate CDSC applies to the initial face amount and to each increase in face amount and is deducted whenever, and to the extent that, a surrender, lapse or face amount decrease affects the applicable increment of face amount. The length of time over which a CDSC will apply to any increment of face amount will depend upon the attained age of the insured on the issue date or the effective date of the increase, as applicable, and the insured's sex and risk class, as follows:

CONTINGENT DEFERRED SALES CHARGE PERIOD
[Duration in years]

Insured's age	Male non-smoker	Male smoker	Female non-smoker	Female smoker
0-50	15	15	15	15
51	14	14	14	14
52	13	13	13	13
53	12	12	12	12
54	11	11	11	11
55-79	10	11	10	10
80	10	6	10	10

The CDSC will equal the CDSC grading percentage⁵ multiplied by the sum of (1) and (2) where: (1) is 40% of the lesser of the premium payments made or the target premium for the Contract, and (2) is the excess premium surrender charge factor multiplied by premium payments made in excess of the target premium for the Contract. With regard to a face amount increase, multiplied by the sum of (1) and (2) where: (1) is 40% of the lesser of the premium payments attributable to the increase, and (2) is the excess premium surrender charge factor multiplied by the premium payments attributable to the increase in excess of the target premium for the increase. The excess premium surrender charge factors vary with the attained age, sex and risk class of the insured. The target premium for the Contracts is somewhat less than the guideline annual premium ("GAP") as defined in Rule 6e-3(T)(c)(8).

The CDSC for the initial face amount during the first two Contract years will not exceed: (a) 30% of the first GAP paid under the Contract; (b) 10% of the second GAP paid; and (c) 9% of premium payments made in excess of two GAPs. The CDSC for any increase in face amount during the first two Contract years following the increase will not exceed: (a) 30% of the first GAP

attributable to the increase; (b) 10% of the second GAP attributable to the increase; and (c) 9% of premium payments attributable to the increase of two GAPs.

7. *Application of Section 848 of the Code.* Section 848 of the Code, as amended by OBRA, requires life insurance companies to capitalize and amortize over a period of ten years part of their general expenses for the current year. Prior law allowed these expenses to be deducted in full from the current year's gross income. Section 848 effectively accelerates the realization of income from certain categories of life insurance and other contracts ("Specified Contracts") categorized under this Section and, thus, the payment of taxes on that income. The Contract and Other Contracts will be categorized under Section 848 as Specified Contracts. Taking into account the time value of money, Section 848 increases the insurance company's tax burden because the amount of general deductions that must be capitalized and amortized is measured by the premiums received under the Specified Contracts.

8. The amount of deductions subject to Section 848 equals a percentage of the current year's net premiums received (i.e., gross premiums minus return premiums and reinsurance premiums)

under the Specified Contracts. Consequently, 7.7% of the net premiums received must be capitalized and amortized under the schedule set forth in Section 848(c)(1) of the Code.

9. The increased tax burden on every \$10,000 of net premiums received is quantified as follows. For each \$10,000 of net premiums received in a given year, Section 848 requires General American to capitalize \$770 (i.e., 7.7% of \$10,000), and \$38.50 of this amount may be deducted in the current year. The remaining \$731.50 (\$770 less \$38.50), which is subject to taxation at the corporate tax rate of 35%, results in General American owing \$256.03 (.35% × \$731.50) more in taxes for the current year than it otherwise would have owed prior to OBRA 1990. However, the current tax increase will be partially offset by deductions that will be allowed during the next ten years as a result of amortizing the remainder of the \$770 (\$77 in each of the following nine years and \$38.50 in year ten).

10. In its business judgment, General American believes it appropriate to use a discount rate of at least 10% in evaluating the present value of its future tax deductions for the following reasons. Capital that General American must use to pay its increased federal tax

⁴ The value of Account 11's net assets will reflect

operating expenses of the Funds held by Account 11.

⁵ Grading percentages range, on a declining scale,

policy year, and vary depending on the sex, issue