

**Sentinel Benefit Provider**  
A Variable Universal Life Insurance Policy  
Intended Primarily for the Corporate Market  
**PROSPECTUS**  
Dated May 1, 2009

**National Life Insurance Company**  
**National Variable Life Insurance Account**

Home Office: National Life Drive, Montpelier, Vermont 05604  
Telephone: (800) 278-3413

This prospectus describes the Sentinel Benefit Provider Policy, a flexible premium variable universal life insurance policy offered by National Life Insurance Company (“National Life”). The policy has an insurance component and an investment component. Owners of policies can make premium payments at various times and in various amounts. You can also allocate premiums among subaccounts that invest in portfolios with different investment objectives and you can increase or decrease the death benefit payable under your policy. You may also choose between two death benefit compliance tests at the time your policy is issued.

You may allocate premium payments to the National Variable Life Insurance Account, a separate account of National Life. The Separate Account currently has a number of subaccounts, each of which buys shares of specific portfolios. The available portfolios are shown below.

<u>Sentinel Asset Management, Inc.</u>	<u>Invesco A im Advisors, Inc.</u>	<u>Fred Alger Management, Inc</u>	<u>American Century Investment Management, Inc.</u>
Sentinel Variable Products Trust Balanced Bond Common Stock Mid Cap Growth Money Market Small Company	AIM Variable Insurance Funds AIM V.I. Dynamics AIM V.I. Global Health Care AIM V.I. Technology	Alger American Fund Capital Appreciation LargeCap Growth SmallCap Growth	American Century Variable Portfolios, Inc. VP Income & Growth VP Inflation Protection VP Value
<u>Deutsche Investment Management Americas Inc.</u>	<u>The Dreyfus Corporation</u>	<u>Fidelity Management &amp; Research Company</u>	<u>J.P. Morgan Investment Management Inc.</u>
DWS Investments VIT Funds Equity 500 Index Fund Small Cap Index Fund	Dreyfus Socially Responsible Growth Fund, Inc.	Fidelity® Variable Insurance Product Investment Grade Bond Overseas	JPMorgan Insurance Trust International Equity Small Cap Core (formerly Small Company)
<u>Morgan Stanley Investment Management, Inc.</u>	<u>Neuberger Berman Management, Inc.</u>	<u>Wells Fargo Funds Management LLC</u>	
The Universal Institutional Funds Core Plus Fixed Income Emerging Markets Equity High Yield U. S. Real Estate	Neuberger Berman Advisers Management Trust Partners	Wells Fargo Variable Trust VT Discovery VT Opportunity	

The value in each subaccount will depend upon the investment results of the portfolios you select. The policy’s value and death benefit will fluctuate based on the investment results of the chosen portfolios and the deduction of charges. You bear the entire investment risk for all amounts allocated to the various portfolios. There is no guaranteed minimum value for any of the portfolios. We do not guarantee any minimum account value. You could lose some or all of your money. You must receive, with this prospectus, current prospectuses for all of the portfolios. We recommend that you read this prospectus and the prospectuses for the portfolios carefully. You should keep all prospectuses for later reference.

An investment in the policy is not a bank deposit. Neither the U.S. government nor any governmental agency insures or guarantees your investment in the policy.

It may not be advantageous to purchase this policy as a replacement for another type of life insurance or as a means to obtain additional insurance protection if you already own another variable universal life insurance policy. It may also not be advantageous for you to finance the purchase of this policy through use of a loan or through making withdrawals from another policy that you already own.

National Life Insurance Company has no current plans to terminate existing coverage under Sentinel Benefit Provider and plans to continue administration of all in force Sentinel Benefit Provider policies.

**The Securities and Exchange Commission (“SEC”) has not approved or disapproved the policy or determined if this prospectus is accurate or complete. Any representation to the contrary is a criminal offense.**

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The policy may not be available in all states and its terms may vary by state. The policy is not available in New York. This prospectus does not offer the policy in any state in which we may not legally offer the policy. You should rely only on the information contained in this prospectus. We have not authorized anyone to provide you with information that is different.

The primary purpose of this variable life insurance policy is to provide insurance protection. We do not claim that the policy is in any way similar or comparable to an investment in a mutual fund.

## SUMMARY OF THE BENEFITS AND RISKS OF THE POLICY

This summary provides you with a brief overview of the benefits and risks associated with the Policy. You should read the entire prospectus before purchasing the Policy. Important details regarding the Policy are contained in other sections of this prospectus. Please consult your agent and refer to your Policy for details. For your convenience, we have defined certain terms we use in the Glossary at the end of the prospectus.

### Summary of Principal Policy Benefits

*Life Insurance Protection.* The Policy provides a means for an Owner to accumulate life insurance on the life of a specified Insured. Proceeds under the Policy can generally pass free of federal and state income tax at the death of an Insured.

As long as your Policy remains in force, we will pay the Death Benefit to the Beneficiary, when we receive due proof of the death of the Insured. We will increase the Death Benefit by any additional benefits provided by a supplementary term insurance Rider. We will reduce the Death Benefit by any outstanding Policy loans and accrued interest and any unpaid Monthly Deductions.

*Death Benefit Option A and Option B.* We offer two Death Benefit options, which we call Option A and Option B. You may choose which option to apply to your Policy.

If you choose Death Benefit Option A, the Death Benefit will be based on the greater of:

- ⇒ Face Amount; or
- ⇒ the Cash Surrender Value multiplied by a death benefit factor specified in the Policy.

If you choose Death Benefit Option B, the Death Benefit will be based on the greater of:

- ⇒ the Face Amount plus the Account Value; or
- ⇒ the Cash Surrender Value multiplied by the same death benefit factor that applies to option A.

The Policy must satisfy one of two death benefit compliance tests under federal income tax laws, the guideline premium test or the Cash Value Accumulation Test. You must select on your application which of these tests will apply to your Policy, and your selection, once made, may not be changed. If you choose the Cash Value Accumulation Test, then Option A is the only available Death Benefit option.

After a year, you may adjust the Death Benefit by increasing or decreasing the Face Amount of your Policy. If you have chosen the guideline premium test as the federal tax death benefit compliance test, then after a year you may also change the Death Benefit option. *See* "Death Benefit." Changing the Face Amount or Death Benefit option may have tax consequences.

You can elect to include a Supplemental Term Insurance Rider in your Policy, which will increase the Death Benefit by the Supplemental Term Insurance Amount.

You may receive personalized illustrations in connection with the purchase of this Policy that reflect your own particular circumstances. These hypothetical illustrations may help you to understand the long-term effects of different levels of investment performance, the possibility of lapse, and the charges and deductions under the Policy. They will also help you to compare this Policy to other life insurance policies. The personalized illustrations are based on hypothetical rates of return and are not a representation or guarantee of investment returns or cash value.

### *Cash Benefits.*

You may borrow against your Policy. The maximum amount of all loans is in most states the Net Account Value less three times the Monthly Deduction for the next Monthly Policy Date. However, the maximum amount of all loans will be different in Vermont - see "Policy Loans", below. When you take a loan, we will transfer an amount

equal to the loan to our general account as Collateral. We charge interest on the loan, and we credit interest on Collateral. Loans may have adverse tax consequences. When the Death Benefit becomes payable or the Policy is surrendered, we will deduct Policy loans and accrued interest from the proceeds otherwise payable.

After a year, you may request a Withdrawal of Net Account Value. However, you cannot withdraw more than the Net Account Value on the date we receive your request minus three times the most recent Monthly Deduction for the most recent Monthly Policy Date. Withdrawals may have tax consequences.

You may surrender your Policy at any time and receive the Net Cash Surrender Value, if any. The Net Cash Surrender Value will equal the Cash Surrender Value less any Policy loan with accrued interest. Surrendering your Policy may have tax consequences.

*Variety of Investment Options.* You may allocate Net Premiums among the subaccounts of the Separate Account. The subaccounts in the Separate Account invest in a wide variety of portfolios that cover a broad spectrum of investment objectives and risk tolerances.

As your needs or financial goals change, you can change your investment mix by making transfers among the subaccounts of the Separate Account. Currently, you may make an unlimited number of such transfers without charge.

#### Summary of the Principal Risks of Purchasing a Policy

*Investment Risk* We cannot give any assurance that any portfolio will achieve its investment objectives. You bear the entire investment risk on the value of your Policy. In addition, we deduct Policy fees and charges from your Account Value, which can significantly reduce your Account Value. During times of poor performance, these deductions will have an even greater impact on your Account Value. You could lose everything you invest, and your Policy could lapse without value, unless you pay additional premium prior to the lapse.

Please note that frequent, large, or short-term transfers among Subaccounts, such as those associated with “market timing” transactions, can adversely affect the portfolios and the returns achieved by Owners. Such transfers may dilute the value of portfolio shares, interfere with the efficient management of the portfolios, and increase brokerage and administrative costs of the portfolios. To protect Owners and portfolios from such effects, we have developed market timing procedures. See “Disruptive Trading” below.

*Risk of Lapse.* If on any Monthly Policy Date the Net Account Value of a Policy is insufficient to cover the Monthly Deductions and other charges under the Policy, we will notify you of this, and the Policy will enter a 61-day Grace Period. If the Grace Period expires without a sufficient payment, the Policy will lapse, and will have no further value. This could happen: (1) if the investment returns on your chosen investment portfolios are lower than anticipated; (2) if you do not pay premiums at the levels you planned; or (3) if you take Policy loans. Your Policy generally will not lapse during the first 5 Policy Years so long as you pay the Cumulative Minimum Monthly Premium. However, any Withdrawal or Policy loan which reduces the Net Cash Surrender value may cause a lapse.

*Tax Risks.* We anticipate that a Policy issued on the basis of a standard rate class should generally be deemed a life insurance contract under Federal tax law. However, due to limited guidance under the Federal tax law, there is some uncertainty about the application of the Federal tax law to Policies issued on a substandard basis (i.e., a rate class involving higher than standard mortality risk), particularly if you pay the full amount of premiums permitted under the Policy and you select the guideline premium tax compliance test. Please consult with a tax adviser about these consequences. Assuming that a Policy qualifies as a life insurance contract for federal income tax purposes, you should not be deemed to be in constructive receipt of the Policy’s value until there is a distribution from the Policy. Moreover, Death Benefits payable under a Policy should generally be excludable from the gross income of the Beneficiary. As a result, your Beneficiary generally should not have to pay U.S. federal income tax on the Death Benefit, although other taxes, such as estate taxes, may apply.

Depending on the total amount of premiums you pay, the Policy may be treated as a “Modified Endowment Contract” (“MEC”) under Federal tax laws. If a Policy is treated as a MEC, then surrenders, Withdrawals, and loans under the Policy will be taxable as ordinary income to the extent there are earnings in the Policy. In addition, a 10%

penalty tax may be imposed on surrenders, Withdrawals and loans taken before you attain age 59½. If a Policy is not a MEC, distributions generally will be treated first as a return of basis or investment in the contract and then as taxable income. Moreover, loans will generally not be treated as distributions. However, the tax consequences associated with preferred loans are uncertain. Finally, neither distributions nor loans from a Policy that is not a MEC are subject to the 10% penalty tax.

See “Federal Tax Considerations,” below. You should consult a qualified tax adviser for assistance in all Policy-related tax matters.

*Withdrawal and Surrender Risks.* You should purchase the Policy only if you have the financial ability to keep it in force for a substantial period of time. You should not purchase the Policy if you intend to surrender all or part of the Policy’s value in the near future. We designed the Policy to meet long-term financial goals. The Policy is not suitable as a short-term investment, for several reasons. These include the premium tax and distribution charges, and the possible adverse tax consequences from an early surrender.

Withdrawals are not permitted in the first Policy Year, and we will reduce the Face Amount by the amount of a Withdrawal if Death Benefit Option A is in effect. A surrender or Withdrawal may have tax consequences.

*Loan Risks.* A Policy loan, whether or not repaid, will affect the Account Value over time because we subtract the amount of the loan from the subaccounts of the Separate Account as Collateral, and this Collateral does not participate in the investment performance of the subaccounts of the Separate Account.

We reduce the amount we pay on the Insured’s death by the amount of any indebtedness. Your Policy may lapse if your indebtedness reduces the Net Account Value to zero.

A loan may have tax consequences. In addition, if you surrender your Policy or allow it to lapse while a Policy loan is outstanding, the amount of the loan, to the extent that it has not previously been taxed, will be added to any amount you receive and taxed accordingly.

*Portfolio Company Risks.* A comprehensive discussion of the risks of each portfolio may be found in the prospectus for such portfolio. Please refer to the portfolios’ prospectuses for more information. **There is no assurance that any portfolio will achieve its stated investment objective.**

*Insurable Interest Risk.* State laws typically govern whether an employer has an insurable interest in a particular employee and, therefore, is entitled to the proceeds of a life insurance policy on such employee. These laws may limit the insured under your Policy to a key, executive and/or highly compensated employee. If you purchase a Policy insuring an employee and it is later determined you did not have an insurable interest in that employee, you may lose some or all of the benefits of the purchase. You should consult qualified legal counsel on all Policy-related insurable interest matters. An employer must have an insurable interest in an insured employee in order to receive favorable tax treatment under the Internal Revenue Code. See “Federal Tax Considerations” for the tax treatment of employer-owned life insurance.

#### Fee Tables

The following tables describe the fees and expenses that you will pay when buying, owning, and surrendering the Policy. If the amount of the charge depends on the personal characteristics of the Insured, then the fee table lists the minimum and maximum charges we assess under the Policy, and the fees and charges of an Insured with the characteristics set forth below. These charges may not be typical of the charges you will pay.

The first table describes the fees and expenses that you will pay at the time you buy the Policy, surrender the Policy, take a Withdrawal from the Policy, or transfer Account Value under the Policy among the subaccounts of the Separate Account.

<i>Transaction Fees</i>			
<i>Charge</i>	<i>When Charge is Deducted</i>	<i>Amount Deducted - Maximum Guaranteed Charge</i>	<i>Amount Deducted - Current Charge</i>
<i>Distribution Charge</i>	Upon receipt of each premium payment	15% of premiums paid up to the Target Premium <sup>1</sup> , plus 2.5% of premiums paid in excess of Target Premium <sup>2</sup>	From 15% of premiums paid up to the Target Premium <sup>1</sup> , and 2.5% of premiums paid in excess of Target Premium, to 0.5% of premiums paid up to the Target Premium, and 2.5% of premiums paid in excess of Target Premium, depending on the Policy Year. <sup>2</sup>
<i>Premium Tax Charge</i>	Upon receipt of each premium payment	An amount equal to the actual amount of premium tax or retaliatory tax assessed on sales in the jurisdiction in which the Policy is sold. Premium taxes may range from 2% to as high as 12% in certain jurisdictions in Kentucky.	An amount equal to the actual amount of premium tax or retaliatory tax assessed on sales in the jurisdiction in which the Policy is sold. Premium taxes may range from 2% to as high as 12% in certain jurisdictions in Kentucky.
<i>Transfer Fees</i>	Upon transfer	\$25 per transfer in excess of 12 transfers in any one Policy Year	None
<i>Loan Interest Spread<sup>3</sup></i>	At the end of each Policy year, or upon death, surrender or lapse, if earlier	0.60% per annum of amount held as Collateral	From 0.47% to 0.22% annually of amount held as Collateral <sup>4</sup>

<sup>1</sup> The Target Premium is an amount equal to 1.25 times the annual whole life premium that would apply to a Policy calculated by using the applicable 1980 Commissioners Standard Ordinary Mortality Table and an interest rate of 3.5%.

<sup>2</sup> The Distribution Charge is: for Policy Year 1: 13% of premiums paid up to the Target Premium, plus 0.5% of premiums paid in excess of Target Premium; for Policy Years 2 through 7: 15% of premiums paid up to the Target Premium, and 2.5% of premiums paid in excess of Target Premium; and for Policy Years 8 and thereafter: 5% of premiums paid up to the Target Premium, and 2.5% of premiums paid in excess of Target Premium.

<sup>3</sup> The Loan Interest Spread is the difference between the amount of interest we charge you for a loan and the amount of interest we credit to the amount in your Collateral loan account (4% compounded annually).

<sup>4</sup> The current loan interest spread is, for Policy Year 1: 0.47% annually of amount held as Collateral; for Policy Years 8 - 10: 0.37% annually of amount held as Collateral; for Policy Years 11 -20: 0.27% annually of amount held as Collateral; and for Policy Years 21 and thereafter: 0.22% annually of amount held as Collateral.

The next table describes the fees and expenses that you will pay periodically during the time you own the Policy, not including portfolio fees and expenses.

<i>Periodic Charges Other Than Portfolio Operating Expenses</i>			
<i>Charge</i>	<i>When Charge is Deducted</i>	<i>Amount Deducted - Maximum Guaranteed Charge</i>	<i>Amount Deducted - Current Charge</i>
Cost of Insurance: <sup>1</sup>	On the Date of Issue of the Policy and on each Monthly Policy Date		
Minimum and Maximum Charge <sup>2</sup>		\$0.084 to \$83.33 per \$1000 of Net Amount at Risk per month	\$0.014 to \$16.99 per \$1000 of Net Amount at Risk per month

<i>Periodic Charges Other Than Portfolio Operating Expenses</i>			
<i>Charge</i>	<i>When Charge is Deducted</i>	<i>Amount Deducted - Maximum Guaranteed Charge</i>	<i>Amount Deducted - Current Charge</i>
Charge for a 45 year old male nonsmoker in the guaranteed issue underwriting class, Policy Year 1		\$0.28 per \$1000 of Net Amount at Risk per month	\$0.105 per \$1000 of Net Amount at Risk per month
<i>Mortality and Expense Risk Fees</i>	On the Date of Issue of the Policy and on each day	Annual rate of 0.60% of the Account Value	Annual rates of from 0.22% to 0.00% of Account Value, depending on Policy Year <sup>3</sup>
<i>Policy Administration Charge</i>	On the Date of Issue of the Policy and on each Monthly Policy Date	\$8.00 per month	\$5.50 per month
<i>Underwriting Charge</i>	On the Date of Issue of the Policy and on each Monthly Policy Date	\$1.67 per month in Year 1, and \$3.75 per month in Years 2 - 5	\$1.67 per month in Year 1, and \$3.75 per month in Years 2 - 5
<i>Separate Account Administration Charge</i>	On the Date of Issue of the Policy and on each day	Annual rate of 0.10% of Account Value during the first 20 Policy Years, and annual rate of 0.07% thereafter	Annual rate of 0.10% of Account Value during the first 20 Policy Years, and annual rate of 0.07% thereafter
<i>Supplemental Term Insurance Rider Charge</i> <sup>1</sup>  Minimum and Maximum Charge <sup>2</sup>  Charge for a 45 year old male nonsmoker in the guaranteed issue underwriting class, Policy Year 1	On the Date of Issue of the Policy and on each Monthly Policy Date	\$0.084 to \$83.33 per \$1000 of Supplemental Term Insurance Amount per month  \$0.28 per \$1000 of Supplemental Term Insurance Amount per month	\$0.014 to \$16.994 per \$1000 of Supplemental Term Insurance Amount per month  \$0.105 per \$1000 of Supplemental Term Insurance Amount per month

Cost of insurance charges vary based on the Insured's Attained Age, Rate Class, underwriting method, Duration, and Net Amount at Risk. The Net Amount at Risk is the amount by which the Death Benefit under the Policy exceeds the Account Value of the Policy. The cost of insurance charges shown in the table may not be typical of what you will pay. Your Policy's data page will indicate the guaranteed and current cost of insurance charges applicable to your Policy. We will also provide more detailed information concerning your charges at your request.

<sup>2</sup> The minimum guaranteed charge is based on an Insured with the following characteristics: female, preferred nonsmoker, age 20; the minimum current charge is based on an Insured with the following characteristics: female, preferred nonsmoker, age 26; the maximum guaranteed charge is based on an Insured with the following characteristics: all persons at Attained Age 98; the maximum current charge is based on an Insured with the following characteristics: male, guaranteed issue smoker, Attained Age 98, Issue Age 85.

<sup>3</sup> The current Mortality and Expense Risk Charge is at the following percentages of Account Value: Years 1- 7: 0.22%; Years 8 -10: 0.12%; Years 11-20: 0.02% and Year 21 and thereafter: 0.00%.

The following table describes the portfolio fees and expenses that you will pay periodically during the time that you own the Policy. The table shows the minimum and maximum fees and expenses charged by any of the portfolios for the year ended December 31, 2008. The expense of the portfolios may be higher or lower in the future. More details concerning each portfolio's fees and expenses are contained in the prospectus for each portfolio.

**Underlying Fund Annual Expenses (as a percentage of underlying Fund average net assets):**

	Minimum	Maximum
Total Annual Fund Operating Expenses (expenses that are deducted from fund assets, including management fee, distribution and/or service 12b-1 fees, and other expenses).	0.33%	1.62%

The annual expenses as of December 31, 2008 (unless otherwise noted) of each Fund, before any fee waivers or expense reimbursements, are shown below.<sup>1</sup>

Fund	Management Fee	12b-1 Fees <sup>2</sup>	Other Expenses	Acquired Fund Fees	Gross Total Annual Expenses <sup>3</sup>	Waivers, Reimbursements, and Recoupment	Net Total Annual Expenses <sup>3</sup>
<b>Sentinel VPT</b>							
Balanced Fund	0.55%	0.00%	0.30%	0.00%	0.85%	0.00%	0.85%
Bond Fund	0.40%	0.00%	0.26%	0.00%	0.66%	0.00%	0.66%
Common Stock Fund	0.50%	0.00%	0.21%	0.00%	0.71% <sup>4</sup>	0.00%	0.71% <sup>4</sup>
Mid Cap Growth Fund	0.50%	0.00%	0.30%	0.00%	0.80% <sup>4</sup>	0.00%	0.80% <sup>4</sup>
Money Market Fund	0.25%	0.00%	0.29%	0.00%	0.54% <sup>5</sup>	0.00%	0.54% <sup>5</sup>
Small Company Fund	0.50%	0.00%	0.23%	0.00%	0.73% <sup>4</sup>	0.00%	0.73% <sup>4</sup>
<b>AIM V.I.</b>							
Dynamics Fund - Series I Shares	0.75%	0.00%	0.47%	0.00%	1.22% <sup>7</sup>	0.00%	1.22% <sup>7</sup>
Global Health Care Fund- Series I Shares	0.75%	0.00%	0.38%	0.01% <sup>6</sup>	1.14% <sup>7</sup>	0.01%	1.13% <sup>7</sup>
Technology Fund- Series I Shares	0.75%	0.00%	0.41%	0.01% <sup>6</sup>	1.17% <sup>7</sup>	0.01%	1.16% <sup>7</sup>
<b>Alger American</b>							
LargeCap Growth Portfolio - Class O Shares	0.71%	0.00%	0.12%	0.00%	0.83%	0.00%	0.83%
Capital Appreciation Portfolio - Class O Shares	0.81%	0.00%	0.14%	0.00%	0.95% <sup>8</sup>	0.04%	0.91% <sup>8</sup>
SmallCap Growth Portfolio - Class O Shares	0.81%	0.00%	0.11%	0.00%	0.92%	0.00%	0.92%
<b>American Century VP</b>							
Income & Growth Fund - Class I	0.70% <sup>9</sup>	0.00%	0.00%	0.00%	0.70%	0.00%	0.70%
Value Fund - Class I	0.94% <sup>9</sup>	0.00%	0.01%	0.00%	0.95%	0.00%	0.95%
Inflation Protection Fund - Class II	0.48% <sup>9</sup>	0.25%	0.01%	0.00%	0.74%	0.00%	0.74%
<b>Dreyfus</b>							
Socially Responsible Growth	0.75%	0.00%	0.10%	0.00%	0.85%	0.00%	0.85%

Fund - Initial Shares

Fidelity® VIP

Investment Grade

Bond Portfolio -

Initial Class

0.32% 0.00% 0.11% 0.00% 0.43% 0.00% 0.43%

Overseas Portfolio -

Initial Class

0.71% 0.00% 0.16% 0.00% 0.87%<sup>10</sup> 0.00% 0.87%<sup>10</sup>

JPMorgan Insurance Trust

International Equity

Portfolio - Class 1

Shares

0.60% 0.00% 0.36%<sup>11A</sup> 0.00% 0.96%<sup>12</sup> 0.00% 0.96%<sup>12</sup>

Small Cap Core

Portfolio - Class 1

Shares

0.65% 0.00% 0.37%<sup>11B</sup> 0.01%<sup>13</sup> 1.03%<sup>12</sup> 0.00% 1.03%<sup>12</sup>

Morgan Stanley

Core Plus Fixed

Income Portfolio,

Class I

0.38% 0.00% 0.28% 0.01% 0.67% 0.00% 0.67%

Emerging Markets

Equity Portfolio,

Class I

1.21% 0.00% 0.41% 0.00% 1.62% 0.00% 1.62%

High Yield

Portfolio, Class I

0.42% 0.00% 0.52% 0.00% 0.94%<sup>14</sup> 0.00% 0.94%<sup>14</sup>

U.S. Real Estate

Portfolio, Class I

0.77% 0.00% 0.30% 0.00% 1.07%<sup>15</sup> 0.00% 1.07%<sup>15</sup>

Neuberger Berman AMT

Partners Portfolio -

I Class

0.84% 0.00% 0.11% 0.00% 0.95%<sup>16</sup> 0.00% 0.95%<sup>16</sup>

DWS Investments VIT Funds

DWS Equity 500

Index VIP - Class A

Shares

0.20% 0.00% 0.13% 0.00% 0.33%<sup>17</sup> 0.00% 0.33%<sup>17</sup>

DWS Small Cap

Index VIP - Class A

Shares

0.35% 0.00% 0.19% 0.00% 0.54% 0.00% 0.54%

Wells Fargo Advantage VT

Discovery Fund

0.75%<sup>18</sup> 0.25% 0.27%<sup>19</sup> 0.01% 1.28%<sup>20</sup> 0.12% 1.16%<sup>20</sup>

Opportunity Fund

0.74%<sup>18</sup> 0.25% 0.22%<sup>19</sup> 0.02% 1.23%<sup>20</sup> 0.14% 1.09%<sup>20</sup>

1. The Fund fees and expenses used to prepare the table above, and the example below, were provided to us by the Funds. We have not independently verified such information. Current or future expenses may be greater or less than those shown. In addition, certain Funds may impose a redemption fee of no more than 2% of the amount of Fund shares redeemed. We may be required to implement a Fund's redemption fee. The redemption fee will be assessed against your Contract Value. For more information, please see each Fund's prospectus.

2. Our affiliate, Equity Services, Inc., the principal underwriter for the Contracts, will receive 12b-1 fees deducted from certain Fund assets attributable to the Contracts for providing distribution and shareholder support services to some Funds.

3. The Total Annual Fund Operating Expenses may not be the same as that reported in the portfolio's financial highlights and shareholder reports, because Total Annual Fund Operating Expenses include expenses related to other investment companies acquired by the portfolio, if any, while the financial highlights and shareholder reports do not.

4. For the Common Stock, Mid Cap Growth and Small Company Funds, Management Fees and Total Annual Fund Operating Expenses based on the Funds' 2008 fiscal year have been restated as if the advisory fee schedule effective November 19, 2008 had been in place on January 1, 2008.

5. Effective January 22, 2009, the Advisor has agreed to reimburse the advisory fees paid by the Sentinel Variable Products Money Market Fund to the extent necessary to prevent total expenses paid by the Fund from exceeding the gross income earned on the Fund's investments. This reimbursement may be discontinued at any time.

6. Acquired Fund Fees are not fees or expenses incurred by the fund directly but are expenses of the investment companies in which the fund invests. You incur these fees and expenses indirectly through valuation of the fund's investment in those investment companies. As a result, the Net Annual Fund Operating

Expenses may exceed the limit on Total Annual Fund Operating Expenses, if any. The impact of the acquired fund fees and expense are included in the total returns of the Fund.

7. The Fund's advisor has contractually agreed, through at least April 30, 2010, to waive advisory fees and/or reimburse expenses of Series I shares to the extent necessary to limit Total Annual Fund Operating Expenses (excluding certain items discussed below) of Series I shares to 1.30% of average daily net assets. In determining the advisor's obligation to waive advisory fees and/or reimburse expenses, the following expenses are not taken into account, and could cause the Total Annual Fund Operating Expenses to exceed the numbers reflected above: (i) interest; (ii) taxes; (iii) dividend expense on short sales; (iv) extraordinary items; (v) expenses related to a merger or reorganization, as approved by the Fund's Board of Trustees; and (vi) expenses that the Fund has incurred but did not actually pay because of an expense offset arrangement. Currently the expense offset arrangements from which the Fund may benefit are in the form of credits that the Fund receives from banks where the Fund or its transfer agent has deposit accounts in which it holds uninvested cash. In addition, the Fund may also benefit from a one time credit to be used to offset future custodian expenses. These credits are used to pay certain expenses incurred by the Fund.

8. Effective December 1, 2006, through November 30, 2011, the Manager of Alger American Capital Appreciation Portfolio has contractually agreed to waive 0.035% of its Advisory Fees.

9. The fund has a stepped fee schedule. As a result, the fund's unified management fee rate generally decreases as strategy assets increase and increases as strategy assets decrease.

10. A portion of the brokerage commissions that the Fidelity® Overseas Portfolio pays may be reimbursed and used to reduce the fund's expenses. In addition, through arrangements with the fund's custodian, credits realized as a result of uninvested cash balances are used to reduce the fund's custodian expenses. Including these reductions, the total class operating expenses would have been 0.82%. These offsets may be discontinued at any time.

11A. On 4/24/09 the Portfolio was involved in a reorganization with the JPMorgan International Equity Portfolio where the accounting survivor is the JPMorgan International Equity Portfolio. Because of the reorganization, "Other Expenses" have been calculated based on the actual other expenses incurred by the accounting survivor in the most recent fiscal year except that the expenses have been restated to reflect the Portfolio's fund administration agreement.

11B. On 4/24/09 the Portfolio was involved in a reorganization with the JPMorgan Small Company Portfolio where the accounting survivor is the JPMorgan Small Company Portfolio. Because of the reorganization, "Other Expenses" have been calculated based on the actual other expenses incurred by the accounting survivor in the most recent fiscal year except that the expenses have been restated to reflect the Portfolio's fund administration agreement.

12. J.P. Morgan Investment Management Inc. and JPMorgan Funds Management, Inc. have contractually agreed to waive fees and/or reimburse expenses to the extent that total annual operating expenses (excluding Acquired Fund Fees and Expenses, dividend expenses related to short sales, interest, taxes and extraordinary expenses and expenses related to the Board of Trustees' deferred compensation plan) exceed 1.03% of the average daily net assets through 4/30/10. of the JPMorgan Insurance Trust International Equity Portfolio Class 1 Shares and JPMorgan Insurance Trust Small Cap Core Portfolio Class 1 Shares. Without the Acquired Fund Fees and Expenses, the Gross Total Annual Expenses of the Small Cap Core Portfolio would have been 1.02% of the average daily net assets.

13. Acquired Fund Fees are based on the allocation of the Portfolio's assets among the acquired funds calculated on a daily basis through the Portfolio's last fiscal year end. This amount reflects the allocation only through the fiscal year ending 12/31/08. Acquired Fund Fees will vary with changes in the expenses of the Acquired Funds as well as allocation of the Portfolio's assets and may be higher or lower than those shown.

14. The High Yield Portfolio's advisor has voluntarily agreed to waive a portion or all of its management fee and/or reimburse expenses to the extent necessary so that the total annual operating expenses, excluding certain investment-related expenses such as foreign country tax expenses and interest expense on borrowing, does not exceed 0.80%. The advisor may terminate these waivers at any time at its discretion.

15. For the fiscal year ended December 31, 2008, after giving effect to the Adviser's voluntary fee waivers and/or expense reimbursements, the total annual portfolio operating expenses incurred by investors, including certain investment related expenses, was 1.07%. The total annual portfolio operating expenses excluding certain investment related expense was 1.05%.

16. Neuberger Berman Management Inc. ("NBMI") has undertaken through December 31, 2011, to waive fees and/or reimburse certain operating expenses, including the compensation of NBMI (except with respect to Lehman Brothers Short Duration Bond Portfolio, Mid-Cap Growth Portfolio, and Partners Portfolio) and excluding taxes, interest, extraordinary expenses, brokerage commissions and transaction costs, that exceed, in the aggregate, 1% of average daily net asset value of the Lehman Brothers Short Duration Bond Portfolio, Mid-Cap Growth Portfolio, and Partners Portfolio. The expense limitation arrangements for the Portfolios are contractual and any excess expenses can be repaid to NBMI within three years of the year incurred, provided such recoupment would not cause a Portfolio to exceed its respective limitation.

17. Pursuant to its agreement with DWS Equity 500 Index VIP Fund, the investment advisor has agreed, through September 30, 2009, to waive all or a portion of its management fees and reimburse or pay operating expenses of the fund to the extent necessary to maintain the fund's operating expenses at 0.37%, excluding certain expenses such as extraordinary expenses, taxes, brokerage and interest. Although there can be no assurance that the current waiver/expense reimbursement arrangement will be maintained beyond September 30, 2009, the Advisor has committed to review the continuance of the waiver/expense reimbursement arrangement by September 30, 2009.

18. The Funds' investment adviser has implemented a breakpoint schedule for the Funds' management fees. The management fees charged to the Funds will decline as a Fund's assets grow and will continue to be based on a percentage of the Fund's average daily net assets. The breakpoint schedule for the Discovery and Opportunity Funds is as follows: 0.75% for assets from \$0 to \$499 million; 0.70% for assets from \$500 million to \$999 million; 0.65% for assets from \$1 billion to \$2.99 billion; 0.625% for assets from \$3 billion to \$4.99 billion; and 0.60% for assets \$5 billion and higher.

19. Other expenses may include expenses payable to affiliates of Wells Fargo & Company.

20. The Wells Fargo Advantage Discovery Fund's and the Wells Fargo Advantage Opportunity Fund's adviser has committed through April 30, 2010 to waive fees and/or reimburse expenses to the extent necessary to maintain the net operating expense ratio at 1.15% and 1.07%, respectively, and may include expenses of any money market or other fund held by the fund.

For information concerning compensation paid in connection with the sale of the Policies, see "Distribution of the Policies."

## NATIONAL LIFE

National Life is authorized to transact life insurance and annuity business in Vermont and in 50 other jurisdictions. National Life was originally chartered as a mutual life insurance company in 1848 under Vermont law. It is now a stock life insurance company.

### THE SEPARATE ACCOUNT AND THE PORTFOLIOS

#### The Separate Account

The Separate Account is a separate investment account established under Vermont law to which we allocate assets to support the benefits payable under the Policies, other policies we currently issue, and other variable life insurance policies we may issue in the future. We own the Separate Account's assets, and we are obligated to pay all amounts we promise to pay under the Policies.

The Separate Account's assets are held separate from our other assets and are not part of our general account. Income, gains and losses, whether or not realized, from assets allocated to the Separate Account will be credited or charged against the Separate Account without regard to our other income, gains or losses. Income, gains, and losses credited to, or charged against, a subaccount reflect the subaccount's own investment performance and not the investment performance of our other assets. As a result, the portion of the Separate Account's assets equal to the reserves and other liabilities under the Policies (and other policies) supported by the Separate Account will not be exposed to liabilities arising out of any other business that we may conduct. If the Separate Account's assets exceed the required reserves and other liabilities, we may transfer the excess to our general account.

The subaccounts of the Separate Account purchase and redeem shares of the portfolios at net asset value. Any dividend and capital gain distributions from a portfolio are reinvested at net asset value in shares of that portfolio.

If investment in one or more portfolios is no longer possible, in our judgment becomes inappropriate for the purposes of the Policy, or for any reason, in our sole discretion, we may substitute another portfolio without your consent. The substituted portfolio may have different fees and expenses. Substitution may be made with respect to existing investments or the investment of future premiums, or both. However, no such substitution will be made without any necessary approval of the SEC. Furthermore, we may close Subaccounts to allocations of premiums or Account Value, or both, at any time in our sole discretion. Portfolios, which sell their shares to the Subaccounts under participation agreements, also may terminate these agreements and discontinue offering their shares to the Subaccounts.

We reserve the right to make other structural and operational changes affecting the Separate Account. See "Addition, Deletion, or Substitution of Investments."

#### The Portfolios

The Separate Account invests in shares of certain portfolios. Each portfolio is part of a mutual fund that is registered with the SEC as an open-end management investment company.

Each portfolio's assets are held separate from the assets of the other portfolios, and each portfolio has investment objectives and policies that are different from those of the other portfolios. Thus, each portfolio operates as a separate investment fund, and the income or losses of one portfolio generally have no effect on the investment performance of any other portfolio. You should know that during extended periods of low interest rates, and partly as a result of insurance charges, the yields of the Sentinel Variable Products Trust Money Market Fund in which a subaccount of the Separate Account invests ("Money Market Subaccount") may also become extremely low and possibly negative. There is no assurance that the Sentinel Variable Products Trust Money Market Fund will be able to maintain a stable net asset value per share.

The following table provides certain information on each portfolio, including its fund type, and its investment adviser (and subadviser, if applicable). **There is no assurance that any of the portfolios will achieve their investment objective(s).** You can find detailed information about the portfolios, including a description of risks and expenses, in

the prospectuses for the portfolios that accompany this prospectus. You should read these prospectuses carefully and keep them for future reference.

<i>Portfolio</i>	<i>Type of Portfolio</i>	<i>Investment Adviser</i>	<i>Subadviser</i>
Sentinel Variable Products Trust:			
Common Stock Fund	Large Blend Equity	Sentinel Asset Management, Inc.	None
Mid Cap Growth Fund	Mid Cap Growth Equity	Sentinel Asset Management, Inc.	None
Money Market Fund	Money Market	Sentinel Asset Management, Inc.	None
Small Company Fund	Small Growth Equity	Sentinel Asset Management, Inc.	None
Bond Fund	Investment-Grade Bond	Sentinel Asset Management, Inc.	None
Balanced Fund	Hybrid Equity and Debt	Sentinel Asset Management, Inc.	None
AIM Variable Insurance Funds			
			Invesco Global Asset Management (N.A.), Inc.; Invesco Institutional (N.A.), Inc.; Invesco Senior Secured Management, Inc.; Invesco Hong Kong Limited; Invesco Asset Management Limited; Invesco Asset Management (Japan) Limited; Invesco Asset Management Deutschland, GmbH; Invesco Australia Limited; and Invesco Trimark Ltd.
AIM V.I. Dynamics Fund - Series I Shares	Mid Cap Growth Equity	Invesco Aim Advisors, Inc.*	
			Invesco Global Asset Management (N.A.), Inc.; Invesco Institutional (N.A.), Inc.; Invesco Senior Secured Management, Inc.; Invesco Hong Kong Limited; Invesco Asset Management Limited; Invesco Asset
AIM V.I. Global Health Care Fund - Series I Shares	Sector Equity	Invesco Aim Advisors, Inc.*	

<i>Portfolio</i>	<i>Type of Portfolio</i>	<i>Investment Adviser</i>	<i>Subadviser</i>
			Management (Japan) Limited; Invesco Asset Management Deutschland, GmbH; Invesco Australia Limited; and Invesco Trimark Ltd.
			Invesco Global Asset Management (N.A.), Inc.; Invesco Institutional (N.A.), Inc.; Invesco Senior Secured Management, Inc.; Invesco Hong Kong Limited; Invesco Asset Management Limited; Invesco Asset Management (Japan) Limited; Invesco Asset Management Deutschland, GmbH; Invesco Australia Limited; and Invesco Trimark Ltd.
AIM V.I. Technology Fund - Series I Shares	Sector Equity	Invesco Aim Advisors, Inc.*	
The Alger American Fund:			
Capital Appreciation Portfolio - Class O Shares	Growth Equity	Fred Alger Management, Inc.	None
LargeCap Growth Portfolio - Class O Shares	Large Growth Equity	Fred Alger Management, Inc.	None
SmallCap Growth Portfolio - Class O Shares	Small Growth Equity	Fred Alger Management, Inc.	None
American Century Variable Portfolios, Inc.:			
VP Income & Growth Portfolio	Large Value Equity	American Century Investment Management, Inc.	None
VP Inflation Protection Fund, Class II	Income	American Century Investment Management, Inc.	None
VP Value Portfolio	Mid Cap Value Equity	American Century Investment Management, Inc.	None
Dreyfus Socially Responsible Growth Fund, Inc.	Large Cap Growth	The Dreyfus Corporation	None
Scudder VIT Funds:			
Equity 500 Index Fund	Index Equity	Deutsche Asset Management, Inc.	Northern Trust Company, Inc
Small Cap Index Fund	Index Equity	Deutsche Asset Management, Inc.	Northern Trust

<i>Portfolio</i>	<i>Type of Portfolio</i>	<i>Investment Adviser</i>	<i>Subadviser</i>
			Company, Inc
Fidelity® Variable Insurance Products Initial Class:			
Overseas Portfolio	International Equity	Fidelity Management & Research Company	FMR U.K., FMR Far East, and Fidelity International Investment Advisers; Fidelity Investments Japan Limited
Investment Grade Bond Portfolio	Investment Grade Bond	Fidelity Management & Research Company	None
JPMorgan Insurance Trust:			
International Equity Portfolio	International Equity	J.P. Morgan Investment Management Inc.	None
Small Cap Core Portfolio	Small Cap Blend Equity	J.P. Morgan Investment Management Inc.	None
The Universal Institutional Funds, Inc.:			
Emerging Markets Equity Portfolio	International Equity	Morgan Stanley Investment Management Inc.	Morgan Stanley Investment Management Company
Core Plus Fixed Income Portfolio	Investment Grade Bond	Morgan Stanley Investment Management Inc.	None
High Yield Portfolio	Below Investment Grade Bond	Morgan Stanley Investment Management Inc.	None
U.S. Real Estate Portfolio	Sector Equity	Morgan Stanley Investment Management Inc.	None
Neuberger Berman Advisers Management Trust			
Partners Portfolio	Large Value	Neuberger Berman Management, Inc.	None
Wells Fargo Variable Trust			
Wells Fargo VT Discovery Fund	Mid Cap Growth Equity	Wells Fargo Funds Management, LLC	Wells Capital Management, Incorporated
Wells Fargo VT Opportunity Fund	Mid Cap Blend	Wells Fargo Funds Management, LLC	Wells Capital Management, Incorporated

\*It is anticipated that, on or about the end of the fourth quarter of 2009, Invesco Aim, Invesco Global and Invesco Institutional will be combined into a single entity, which will be named Invesco Advisers, Inc. The combined entity will serve as the fund's investment adviser. Invesco Advisers, Inc. will provide substantially the same services as are currently provided by the three existing separate entities. Further information about this combination will be posted on <http://www.invescoaim.com> on or about the closing date of the transaction.

These portfolios are not available for purchase directly by the general public, and are not the same as other mutual fund portfolios with very similar or nearly identical names that are sold directly to the public. However, the investment objectives and policies of certain portfolios are very similar to the investment objectives and policies of other portfolios that are or may be managed by the same investment adviser or manager. Nevertheless, the investment performance of the portfolios may be lower or higher than the investment performance of these other, publicly available portfolios. There can be no assurance, and we make no representation, that the investment performance of any of the portfolios available under the Policy will be comparable to the investment performance of any other portfolio, even if the other portfolio has the same investment adviser or manager, the same investment objectives and policies, and a very similar name.

National Life may receive compensation from the investment adviser of a portfolio or its affiliates in connection with administration or other services provided with respect to such portfolio and its availability under the Policies, which may include answering Owner's questions about the portfolios, providing prospectuses, shareholder reports and other portfolio documents, providing portfolios and their Boards information about the Policies and their operations and/or collecting voting instructions for portfolio shareholder proposals. The amount of this compensation is based on a percentage of the assets on which the fees are based of the portfolio attributable to the Policies. These percentages differ, and some advisers (or affiliates) may pay us more than others. In 2008, the percentages ranged from 0.05% to 0.25%, and the dollar amounts received ranged from \$74.09 to \$6,684.39 per adviser or affiliate (this includes payments received in 2008 for services rendered in 2007). The availability of these types of arrangements creates an incentive for us to seek and offer Funds (and classes of shares of such Funds) that pay us to provide these services. The payments we receive as compensation for providing these services may be used by us for any corporate purpose. National Life may profit from these payments. For more information on the compensation we receive, see "Contractual Arrangement between National Life and the Funds' Investment Advisors or Distributors" in the Statement of Additional Information.

Our affiliate, Equity Services, Inc. ("ESI"), the principal underwriter for the Policies, will receive 12b-1 fees deducted from certain portfolio assets pursuant to a 12b-1 plan. The 12b-1 plan is described in more detail in each portfolio's prospectus. Because 12b-1 fees are paid out of a portfolio's assets on an ongoing basis, over time they will increase the cost of an investment in portfolio shares.

We select the portfolios offered through this Policy based on several criteria, including asset class coverage, the strength of the adviser's or subadviser's reputation and tenure, brand recognition, performance, and the capability and qualification of each investment firm. Another factor we consider during the selection process is whether the portfolio's adviser or subadviser is one of our affiliates or whether the portfolio, its adviser, its subadviser(s), or an affiliate will compensate us or our affiliates, as described above and in the Statement of Additional Information under "Contractual Arrangements Between National Life And The Portfolios' Investment Advisors Or Distributors." We review the portfolios periodically and may remove a portfolio or limit its availability to new premium payments and/or transfers of Account Value if we determine that the portfolio no longer meets one or more of the selection criteria, and/or if the portfolio has not attracted significant allocations from Owners.

**You bear the risk of any decline in the Account Value of your Policy resulting from the performance of the portfolios you have chosen.**

Owners, through their indirect investment in the portfolios, bear the costs of investment advisory or management fees that the portfolios pay to their respective investment advisers, and in some cases, subadvisers (see the portfolios' prospectuses for more information). As described above, an investment adviser (other than our affiliate, Sentinel Asset Management, Inc.) or subadviser to a portfolio, or its affiliates, may make payments to us and/or certain of our affiliates. These payments may be derived, in whole or in part, from the advisory (and in some cases, subadvisory) or other fees deducted from portfolio assets.

Addition, Deletion or Substitution of Investments

Where permitted by applicable law, we may make certain changes to the structure or operation of the Separate Account, if we feel such an action is reasonably necessary. In doing so we would comply with all applicable laws, including approval of Owners, if so required. These changes include, among others:

- 1) making changes in the form of the Separate Account, if in our judgment such changes would serve the interests of Owners or would be appropriate in carrying out the purposes of the Policies, for example:
  - a) operating the Separate Account as a management company under the 1940 Act;
  - b) deregistering the Separate Account under the 1940 Act if registration is no longer required;
  - c) combining or substituting separate accounts;
  - d) transferring the assets of the Separate Account to another separate account;
  - e) making changes necessary to comply with, obtain or continue any exemptions from the 1940 Act; or
  - f) making other technical changes in the Policy to conform with any action described herein;

- 2) if in our judgment a portfolio no longer suits the investment goals of the Policy, or if tax or marketing conditions so warrant, substituting shares of another investment portfolio for shares of such portfolio (the new portfolio may have higher fees and expenses than the ones it replaced);
- 3) eliminating, combining or substituting subaccounts and establish new subaccounts, if in our judgment marketing needs, tax considerations, or investment conditions so warrant (the new subaccounts may not be available in all classes of Policies);
- 4) transferring assets from a subaccount to another subaccount or separate account if the transfer in our judgment would best serve interests of Owners or would be appropriate in carrying out the purposes of the Policies; and
- 5) modifying the provisions of the Policies to comply with applicable laws.

If the underlying portfolio in which a subaccount invests is unaffiliated with us, and your Policy has Account Value in that subaccount when it is eliminated, we will give you at least 30 days notice before the elimination, and will request that you name the subaccount or subaccounts to which the Account Value in that subaccount should be transferred. If you do not name a new subaccount, then we will use the Money Market Subaccount. If the underlying portfolio in which such a subaccount invests is affiliated with us, we will not eliminate such subaccount without first obtaining a substitution order from the SEC. In any case, if in the future we impose a transfer charge or establish limits on the number of transfers or free transfers, no charge will be made for this transfer, and it will not count toward any limit on transfers or free transfers.

#### Voting Portfolio Shares

Even though we are the legal owner of the portfolio shares held in the Separate Account, and have the right to vote on all matters submitted to shareholders of the portfolios, we will vote our shares only as Owners instruct, so long as such action is required by law.

Before a vote of a portfolio's shareholders occurs, you will receive voting materials. We will ask you to instruct us on how to vote and to return your proxy to us in a timely manner. You will have the right to instruct us on the number of full and fractional portfolio shares that corresponds to the amount of Account Value you have in the subaccount investing in that portfolio (as of a date set by the portfolio). The number of portfolio shares attributable to each Owner is determined by dividing the Owner's interest in each subaccount by the net asset value of the portfolio corresponding to the subaccount.

If we do not receive voting instructions on time from some Owners, we will vote those shares "for" or "against" the proposal or abstain from voting on the proposal in the same percentages as the voting instructions we received on time. This means that a small number of Owners may control how we vote. Should Federal securities laws, regulations, or interpretations change, we may elect to vote portfolio shares in our own right. If required by state insurance officials, or if permitted under Federal regulation, we may disregard certain voting instructions of Owners. If we ever disregard voting instructions, we will send you a summary in the next annual report to Owners advising you of the action and the reasons we took this action.

### **THE POLICY**

We describe our basic Policy below. There may be differences in your Policy (such as differences in fees, charges, and benefits) from the one described in this prospectus because of the requirements of the state where we issued your Policy. Please consult your Policy for its specific terms. We no longer sell the Policy.

*Specialized Uses of the Policy.* For Policies that are intended to be used in multiple employer welfare benefit plans established under §419A (f) (6) of the Internal Revenue Code, you should be aware that there is a risk that the intended tax consequences of such a plan may not be realized. The courts and the Internal Revenue Service have raised questions about certain of these arrangements under existing law, and the Internal Revenue Service has issued regulations under section 419A(f)(6). In addition, the IRS requires that plans substantially similar to those plans listed as abusive tax shelters pursuant to section 6011 must be disclosed to the Internal Revenue Service. We do not

guarantee any particular tax consequences of any use of the Policies, including but not limited to use in these so-called “§ 419 plans.” We recommend that you seek independent advice on tax consequences. In the case of the Policies owned by these 419 plans, if the Owner surrenders the Policy, National Life will permit the Insured to reinstate the Policy, with the Insured as Owner, subject to its normal reinstatement rules, within six months of the surrender.

Also, this Policy may be used with certain tax-qualified retirement plans. The Policy includes attributes such as tax deferral on accumulated earnings. Qualified retirement plans provide their own tax-deferral benefits; the purchase of the Policy does not provide additional tax-deferral benefits beyond those provided in the qualified plan. Accordingly, if you are purchasing this Policy through a qualified plan, you should consider purchasing this Policy for its death benefit and other non-tax related benefits. Please consult a tax advisor for information specific to your circumstances to determine whether this Policy is an appropriate investment for you.

### Premiums

*Minimum Initial Premium.* No insurance will take effect until the Minimum Initial Premium is paid, and the health and other conditions of the Insured described in the application must not have changed.

*Amount and Timing of Premiums.* Each subsequent premium payment must be at least \$300. Subject to certain limitations described below, you have considerable flexibility in determining the amount and frequency of premium payments. Payments must be received at National Life’s Home Office.

At the time of application, you may select a planned annual premium schedule, based on a periodic billing mode of annual payments. You may request us to send an annual premium reminder notice. You may change the planned annual premium amount. Payments may be made by wire transfer or by check.

You are not required to pay the planned annual premiums in accordance with any specified annual schedule. You may pay premiums in any amount (subject to the \$300 minimum and the limitations described in the next section), frequency and time period. Payment of the planned annual premiums will not, however, guarantee that the Policy will remain in force (except that if such premiums are at least equal to the Cumulative Minimum Monthly Premium, then the Policy will remain in force for at least 5 years). Instead, the duration of the Policy depends upon the Policy’s Net Account Value. Thus, even if planned annual premiums are paid, the Policy will lapse whenever the Net Account Value is insufficient to pay the Monthly Deductions and any other charges under the Policy and if a Grace Period expires without an adequate payment by you (unless the Policy is in its first five years, and the Cumulative Minimum Monthly Premium has been paid).

Any payments made while there is an outstanding Policy loan will be applied as premium payments rather than loan repayments, unless we are notified in writing that the amount is to be applied as a loan repayment. No premium payments may be made after the Insured reaches Attained Age 99. However, loan repayments will be permitted after Attained Age 99.

Higher premium payments under Death Benefit Option A, until the Death Benefit Factor times the Cash Surrender Value exceeds the Face Amount, will generally result in a lower Net Amount at Risk, and lower cost of insurance charges against the Policy. Conversely, lower premium payments in this situation will result in a higher Net Amount at Risk, which will result in higher cost of insurance charges under the Policy.

Under Death Benefit Option B, until the Death Benefit Factor times the Cash Surrender Value exceeds the Face Amount plus the Account Value, the level of premium payments will not affect the Net Amount at Risk. (However, both the Account Value and Death Benefit will be higher if premium payments are higher and lower if premium payments are lower.)

Under either Death Benefit Option, if the Death Benefit is based on the Death Benefit Factor times the Cash Surrender Value, then higher premium payments will result in a higher Net Amount at Risk, and higher cost of insurance charges. Lower premium payments will result in a lower Net Amount at Risk, and lower cost of insurance charges.

*Premium Limitations.* With regard to a Policy's inside build-up, in the case of Policies to which the guideline premium test for federal income tax law compliance applies, the Internal Revenue Code of 1986 (the "Code") provides for exclusion of the Death Benefit from gross income if total premium payments do not exceed certain stated limits. In no event can the total of all premiums paid under such a Policy exceed such limits. If at any time a premium is paid which would result in total premiums exceeding such limits, we will only accept that portion of the premium that would make total premiums equal the maximum amount that may be paid under the Policy. The excess will be promptly refunded, and in the cases of premiums paid by check, after such check has cleared. If there is an outstanding loan on the Policy, the excess may instead be applied as a loan repayment.

The maximum premium limitations set forth in the Code depend in part upon the amount of the Death Benefit at any time. As a result, any Policy changes which affect the amount of the Death Benefit may affect whether cumulative premiums paid under the Policy exceed the maximum premium limitations. To the extent that any such change would result in cumulative premiums exceeding the maximum premium limitations, we will not effect such change. (See "Federal Tax Considerations," below.)

Unless the Insured provides satisfactory evidence of insurability, we reserve the right to limit the amount of any premium payment if it increases the Net Amount at Risk.

For Policies to which the Cash Value Accumulation Test for federal income tax law compliance applies, the Internal Revenue Code does not provide any limits on premium payments in determining whether a policy qualifies as life insurance under the Code.

*Allocation of Net Premiums.* The Net Premium equals the premium paid less the Premium Loads. In the application for the Policy, you will indicate how Net Premiums should be allocated among the Subaccounts of the Separate Account. You may change these allocations at any time by written notice to us at our Home Office. The percentages of each Net Premium that may be allocated to any Subaccount must be in whole numbers of not less than 5%, and the sum of the allocation percentages must be 100%. Except in the circumstances described in the following paragraph, National Life will allocate the Net Premiums as of the Valuation Day it receives such premium at its Home Office, based on the allocation percentages then in effect. Please note that if you submit your premium to your agent, we will not begin processing the premium until we have received it from your agent's selling firm.

Any portion of the Initial Premium and any subsequent premiums received by National Life before the end of the free-look period held in the Money Market Subaccount until the earliest of:

1. the end of the tenth day following receipt of the Policy by the Owner, if we receive at our Home Office a signed delivery receipt for the Policy on or before that date;
2. the end of the day on which we receive at the Home Office a signed delivery receipt for the Policy, if on or between the eleventh and nineteenth days following receipt of the Policy by the Owner; or
3. the end of the 20th day following receipt of the Policy by the Owner, otherwise.

We will then, on the next Valuation Day, allocate the amount in the Money Market Subaccount to each of the Subaccounts selected in the application based on the allocation percentage set forth in the application for such Subaccount.

The values of the Subaccounts will vary with their investment experience. You bear the entire investment risk. Please note that during extended periods of low interest rates, the yields on the Money Market Subaccount may become extremely low, and possibly even negative. You should periodically review your allocation percentages in light of market conditions and your overall financial objectives.

When all or a portion of a premium payment is received without a clear subaccount designation or allocated to a subaccount that is not available for investment, we may allocate the undesignated portion or the entire amount, as applicable, into the Money Market Subaccount. You may at any time after the deposit direct us to redeem or exchange

the units in the Money Market Subaccount, which will be completed at the next appropriate net asset value. All transactions will be subject to any applicable fees or charges.

### Transfers

You may transfer the Account Value among the Subaccounts of the Separate Account on any business day by making a written transfer request to us. Transfer requests must be in a form acceptable to us. Transfers among the Subaccounts of the Separate Account are made as of the Valuation Day on which the request for transfer is received at our Home Office. Please remember that a Valuation Day ends at the close of regular trading on the New York Stock Exchange each day it is open, which is usually 4:00 p.m. Eastern Time. We must receive your transfer request before the close of trading on the New York Stock Exchange for a transfer to be made on that Valuation Day. You may transfer all or part of the amount in one of the Subaccounts of the Separate Account to another Subaccount or Subaccounts. However, Account Value may not be allocated to more than ten Subaccounts at any one time.

Currently an unlimited number of transfers are permitted without charge, and we have no current intent to impose a transfer charge in the foreseeable future. However, we reserve the right, upon prior notice to Owners, to change this policy so as to deduct a transfer charge of up to \$25 from each transfer in excess of the 12<sup>th</sup> transfer during any one Policy Year. We may do this if the expense of administering transfers becomes burdensome. All transfers effected on the same Valuation Day are treated as one transfer transaction. Transfers resulting from Policy loans, the exercise of the transfer right for change of investment policy, and the reallocation from the Money Market Subaccount following the free look period after the date the Policy is delivered, will not be subject to a transfer charge and will not count against the twelve free transfers in any Policy Year. Under present law, transfers are not taxable transactions.

### Facsimile Transaction Privilege

You may provide instructions by facsimile for all transactions, except for a full surrender, full transfer, incoming transfer or death claim, by providing instructions to us at a designated fax number. Contact your agent for more information. We may suspend facsimile transaction privileges at any time, for any reason, if we deem such suspension to be in the best interests of the Owners.

Facsimile transactions may not always be available. Communication systems, whether yours, ours or your agent's, can experience outages or slowdowns for a variety of reasons. These outages or slowdowns may prevent or delay our receipt of your request. If you are experiencing problems, you should make your request by mail.

### Disruptive Trading

*Policy.* The Policies are intended for long-term investment by Owners. They were not designed for the use of market timers or other investors who make similar programmed, large, frequent, or short-term transfers. Market timing and other programmed, large, frequent, or short-term transfers among the subaccounts can cause risks with adverse effects for other Owners (and beneficiaries and portfolios). These risks include:

- the dilution of interests of long-term investors in a subaccount if purchases or transfers into or out of a portfolio are made at prices that do not reflect an accurate value for the portfolio's investments;
- an adverse effect on portfolio management, such as impeding a portfolio manager's ability to sustain an investment objective, causing a portfolio to maintain a higher level of cash than would otherwise be the case, or causing a portfolio to liquidate investments prematurely (or at an otherwise inopportune time) to pay withdrawals or transfers out of the portfolio; and
- increased brokerage and administrative expenses.

The risks and costs are borne by all Owners invested in those subaccounts, not just those making the transfers.

We have developed policies and procedures with respect to market timing and other transfers (the "Procedures") and we do not make special arrangements or grant exceptions to accommodate market timing or other potentially disruptive or harmful trading. Do not invest in this Policy if you intend to conduct market timing or other potentially disruptive trading.

*Detection.* We employ various means to attempt to detect and deter market timing and disruptive trading. However, despite our monitoring, we may not be able to detect or stop all harmful trading. In addition, because other insurance companies (and retirement plans) with different policies and procedures may invest in the portfolios, we cannot guarantee that all harmful trading will be detected or that a portfolio will not suffer harm from programmed, large, frequent, or short-term transfers among the subaccounts of variable products issued by these companies or retirement plans.

*Deterrence.* Once an Owner has been identified as a “market timer” under the Procedures, we notify the Owner that we will not accept instructions for such market timing or other similar programmed, large, frequent or short-term transfers in the future. We also will mark the Policy on our administrative system so that the system will have to be overridden by the staff to process any transfers. We will only permit the Owner to make transfers when we believe the Owner is not “market timing.”

In our sole discretion, we may revise the Procedures at any time, without prior notice, as necessary to (i) better detect and deter frequent, large, or short-term transfers that may adversely affect other Owners or portfolio shareholders, (ii) comply with state or federal regulatory requirements, or (iii) impose additional or alternate restrictions on market timers (such as dollars or percentage limits on transfers). We also reserve the right, to the extent permitted or required by applicable law, to (1) implement and administer redemption fees imposed by one or more portfolios in the future, (2) deduct redemption fees imposed by the portfolios, and (3) suspend the transfer privilege at any time we are unable to purchase or redeem shares of the portfolios. We may be required to share personal information about you with the portfolios.

We currently do not impose redemption fees on transfers. Further, for transfers between or among the subaccounts, we currently do not expressly allow a certain number of transfers in a given period or limit the size of transfers in a given period. Redemption fees, transfer limits, and other procedures or restrictions may be more or less successful than our Procedures in deterring market timing or other disruptive trading and in preventing or limiting harm from such trading.

Our ability to detect and deter such transfer activity is limited by our operational and technological systems, as well as by our ability to predict strategies employed by Owners (or those acting on their behalf) to avoid detection. Accordingly, despite our best efforts, we cannot guarantee that the Procedures will detect or deter frequent or harmful transfers by such Owners or intermediaries acting on their behalf. We apply the Procedures consistently to all Owners without waiver or exception.

*Portfolio Frequent Trading Policies.* The portfolios may have adopted their own policies and procedures with respect to frequent purchases and redemptions of their respective shares. The prospectuses for the portfolios describe any such policies and procedures. The frequent trading policies and procedures of a portfolio may be different, and more or less restrictive, than the frequent trading policies and procedures of other portfolios and the policies and procedures we have adopted to discourage market timing and other programmed, large, frequent, or short-term transfers. You should be aware that we may not have the operational capacity to apply the frequent trading policies and procedures of the respective portfolios that would be affected by the transfers. Accordingly, Owners and other persons who have material rights under the Policy should assume that the sole protections they may have against potential harm from frequent transfers are the protections, if any, provided by the Procedures.

Owners should be aware that we are required to provide to a portfolio or its designee, promptly upon request, certain information about the trading activity of individual Owners, and to restrict or prohibit further purchases or transfers by specific Owners identified by a portfolio as violating the frequent trading policies established for that portfolio. If we do not process a purchase because of such restriction or prohibition, we may return the premium to the Owner, place the premium in the Money Market Subaccount until we receive further instruction from the Owner and/or replace the restricted or prohibited Subaccount with the Money Market Subaccount in the Owner’s default allocation until we receive further instructions from the Owner.

*Omnibus Orders.* Owners and other persons with material rights under the Policy also should be aware that the purchase and redemption orders received by the portfolios generally are “omnibus” orders from intermediaries such as retirement plans and separate accounts funding variable insurance contracts. The omnibus orders reflect the aggregation and netting of multiple orders from individual owners of variable insurance contracts and individual retirement plan participants. The omnibus nature of these orders may limit each portfolio’s ability to apply its

respective frequent trading policies and procedures. We cannot guarantee that the portfolio will not be harmed by transfer activity relating to the retirement plans or other insurance companies that may invest in the portfolios. These other insurance companies are responsible for their own policies and procedures regarding frequent transfer activity. If their policies and procedures fail to successfully discourage harmful transfer activity, it will affect other owners of portfolio shares, as well as the owners of all of the variable annuity or variable life insurance policies whose variable investment options correspond to the affected portfolios. In addition, if a portfolio believes that an omnibus order we submit may reflect one or more transfer requests from Owners engaged in market timing and other programmed, large, frequent, or short-term transfers, the portfolio may reject the entire omnibus order and thereby delay or prevent us from implementing your request.

As a result of our discretion to permit Owners previously identified as “market timers” to make transfers that we do not believe involve “market timing,” and as a result of operational and technological limitations, differing fund procedures, and the omnibus nature of purchase and redemption orders, some Owners may still be able to engage in market timing, while other Owners bear any adverse effects of that market timing activity. To the extent we are unable to detect and deter market timing or other similar programmed, large, frequent, or short-term transfers, the performance of the subaccount and the portfolio could be adversely affected, including by (1) requiring the portfolio to maintain larger amounts of cash or cash-type securities than the portfolio’s manager might otherwise choose to maintain or to liquidate portfolio holdings at disadvantageous times, thereby increasing brokerage, administrative, and other expenses and (2) diluting returns to long-term shareholders.

#### Transfer Right for Change in Investment Policy

If the investment policy of a Subaccount of the Separate Account is materially changed, you may transfer the portion of the Account Value in such Subaccount to another Subaccount, without regard to any limits on transfers or free transfers.

#### Available Automated Portfolio Management Features

We currently offer, at no charge to you, two automated portfolio management features. Only one of these features may be active for any single Policy at any time. We are not legally obligated to continue to offer these features. Although we have no current intention to do so, we may cease offering one or both these features at any time, after providing 60 days prior written notice to all Owners who are then utilizing the features being discontinued.

*Dollar Cost Averaging.* This feature permits you to automatically transfer funds from the Money Market Subaccount to any other Subaccounts on a monthly basis. You may elect Dollar Cost Averaging at issue by marking the appropriate box on the initial application, and completing the appropriate instructions. You may also begin a Dollar Cost Averaging program after issue by filling out similar information on a change request form and sending it to us at our Home Office. You may discontinue Dollar Cost Averaging at any time by sending an appropriate change request form to the Home Office.

*Portfolio Rebalancing.* This feature permits you to automatically rebalance the value in the Subaccounts on a semi-annual basis, based on your premium allocation percentages in effect at the time of the rebalancing. You may elect Portfolio Rebalancing at issue by marking the appropriate box on the application, or, after issue, by completing a change request form and sending it to our Home Office. You may discontinue Portfolio Rebalancing at any time by submitting an appropriate change request form to us at our Home Office.

#### Account Value

The Account Value is the total amount of value held under the Policy at any time. It is equal to the sum of the Policy’s values in the Separate Account and the Loan Account. In Policy Years 1 and 2, the Cash Surrender Value is the Account Value reflecting the Distribution Charge Refund. In Policy Years 1 to 5 the Cash Surrender Value is further enhanced by reflecting the nonguaranteed enhancement, if applicable, described under “Enhancement of Cash Surrender Value in the Early Policy Years”, below. After the fifth Policy Anniversary, the Cash Surrender Value is equal to the Account Value. There is no guaranteed minimum for the Account Value in any of the Subaccounts of the Separate Account and, because the Account Value on any future date depends upon a number of variables, it cannot be predetermined.





Value during the initial Policy Years is a primary objective, the Cash Value Accumulation Test is more appropriate. If your primary objective is the most economically efficient method of obtaining a specified amount of coverage, the guideline premium test is generally more appropriate. You should take into account in considering the guideline premium test that both Option A and Option B are available, and that it is possible to change from time to time between Option A and Option B. Because the selection of the federal tax death benefit compliance test depends on complex factors and may not be changed, prospective purchasers of the Policy should consult with a qualified tax adviser before making this election.

In 2001 we began to use uni-smoke factors for purposes of testing compliance with section 7702, rather than the smoker distinct factors used previously.

*Death Benefit Options.* The Policy provides two Death Benefit Options: Option A and Option B. Policies that use the guideline premium test as the federal tax death benefit compliance test may select either Death Benefit Option A or Option B. You designate the Death Benefit Option in the application, and you may change it as described in "Change in Death Benefit Option," below. Only Option A is available for Policies which use the Cash Value Accumulation Test as the federal tax death benefit compliance test.

*Option A.* The Death Benefit is equal to the greater of (a) the Face Amount of the Policy and (b) the Cash Surrender Value on the Valuation Day on or next following the Insured's date of death multiplied by the applicable Death Benefit Factor, in each case less any outstanding Policy loan and accrued interest thereon, and less any unpaid Monthly Deductions.

*Illustration of Option A -- For purposes of this illustration, assume that the Insured is under Attained Age 40, the guideline premium test has been elected, and there is no Policy loan outstanding.*

*Under Option A, a Policy with a Face Amount of \$200,000 will generally have a Death Benefit of \$200,000, assuming no Policy loans outstanding and no unpaid Monthly Deductions. The Death Benefit Factor for an Insured under Attained Age 40 on the Policy Anniversary prior to the date of death is 250%. Because the Death Benefit must be equal to or greater than 2.50 times the Cash Surrender Value, any time the Cash Surrender Value exceeds \$80,000 the Death Benefit will exceed the Face Amount. Each additional dollar added to the Cash Surrender Value will increase the Death Benefit by \$2.50. Thus, a 35 year old Insured with a Cash Surrender Value of \$90,000 will have a Death Benefit of \$225,000 (2.50 x \$90,000, and a Cash Surrender Value of \$150,000 will have a Death Benefit of \$375,000 (2.50 x \$150,000).*

Similarly, any time the Cash Surrender Value exceeds \$80,000, each dollar taken out of the Cash Surrender Value will reduce the Death Benefit by \$2.50. If at any time, however, the Cash Surrender Value multiplied by the specified percentage is less than the Face Amount, the Death Benefit will be the Face Amount of the Policy.

If the Cash Value Accumulation Test for tax compliance applies to a Policy, the Death Benefit Factors will be different but the above example otherwise applies.

*Option B.* The Death Benefit is equal to the greater of (a) the Face Amount of the Policy *plus* the Account Value and (b) the Cash Surrender Value on the Valuation Day on or next following the Insured's date of death multiplied by the applicable Death Benefit Factor (shown in the table above), in each case less any outstanding Policy loan and accrued interest thereon, and less any unpaid Monthly Deductions. As noted above, Option B is only available for Policies on which the guideline premium test has been elected.

*Illustration of Option B -- For purposes of this illustration, assume that the Insured is under Attained Age 40 and there is no Policy loan outstanding.*

*Under Option B, a Policy with a face amount of \$200,000 will generally have a Death Benefit of \$200,000 plus the Cash Surrender Value, assuming no Policy loans outstanding and no unpaid Monthly Deductions. Thus, for example, a Policy with a \$50,000 Cash Surrender Value will have a Death Benefit of \$250,000 (\$200,000 plus \$50,000). Because the applicable Death Benefit Factor is 250%, the Death Benefit will be at least 2.50 times the Cash Surrender Value. As a result, if the Cash Surrender Value exceeds \$133,333; the Death Benefit will be greater than the Face Amount plus the Cash Surrender Value. Each additional dollar added to the Cash Surrender Value above \$133,333 will increase the Death Benefit by \$2.50. An Insured with a Cash Surrender Value of \$150,000 will have a Death*

*Benefit of \$375,000 (2.50 x \$150,000), and a Cash Surrender Value of \$200,000 will yield a Death Benefit of \$500,000 (2.50 x \$200,000). Similarly, any time the Cash Surrender Value exceeds \$133,333, each dollar taken out of the Cash Surrender Value will reduce the Death Benefit by \$2.50. If at any time, however, the Cash Surrender Value multiplied by the specified percentage is less than the Face Amount plus the Cash Surrender Value, the Death Benefit will be the Face Amount plus the Cash Surrender Value.*

At Attained Age 99, Option B automatically becomes Option A.

Please note that payment of any amount in excess of Account Value is subject to the financial strength and claims-paying ability of National Life.

*Change in Death Benefit Option.* After the first Policy Year, the Death Benefit Option in effect for Policies that have elected the guideline premium test as the federal tax death benefit compliance test may be changed by sending National Life a written request. No charges will be imposed to make a change in the Death Benefit Option. The effective date of any such change will be the Policy Anniversary on or next following the date we receive the written request. Only one change in Death Benefit Option is permitted in any one Policy Year.

On the effective date of a change in Death Benefit Option, the Face Amount is adjusted so that there will be no change in the Death Benefit or the Net Amount at Risk. In the case of a change from Option B to Option A, the Face Amount must be increased by the Account Value. In the case of a change from Option A to Option B, the Face Amount must be decreased by the Account Value. The change from Option A to Option B will not be allowed if it would reduce the Face Amount to less than the Minimum Face Amount.

On the effective date of the change, the Death Benefit, Account Value and Net Amount at Risk (and therefore the cost of insurance charges) are unchanged. However, after the effective date of the change, the pattern of future Death Benefits, Account Value, Net Amount at Risk and cost of insurance charges will be different than if the change had not been made.

If a change in the Death Benefit Option would result in cumulative premiums exceeding the maximum premium limitations under the Internal Revenue Code for life insurance (such limitations apply only to Policies to which the guideline premium test for federal income tax law compliance has been elected), we will not effect the change.

A change in the Death Benefit Option may have Federal income tax consequences. (See "Tax Treatment of Policy Benefits," below.)

*How the Death Benefit May Vary.* The amount of the Death Benefit may vary with the Account Value in the following circumstances. The Death Benefit under Option A will vary with the Account Value whenever the Death Benefit Factor multiplied by the Cash Surrender Value exceeds the Face Amount of the Policy. The Death Benefit under Option B will always vary with the Account Value because the Death Benefit equals the greater of (a) the Face Amount plus the Account Value and (b) the Cash Surrender Value multiplied by the Death Benefit Factor.

*Supplemental Term Insurance.* As discussed in more detail under "Supplemental Term Insurance Rider", below, we offer optional term insurance. This rider provides a death benefit upon death of the Insured that supplements the Death Benefit under the base Policy. The death benefit under this rider generally may be more cost effective to you than increasing your Face Amount under the Policy.

#### Ability to Adjust Face Amount

Subject to certain limitations, you may increase or decrease the Policy's Face Amount by submitting a written application to National Life. The effective date of an increase will be the Monthly Policy Date on or next following our approval of the request, and the effective date of a decrease is the Monthly Policy Date on or next following the date that we receive the written request. An increase or decrease in Face Amount may have federal tax consequences. Consult a tax advisor before increasing or decreasing the Face Amount. The effects of changes in Face Amount on Policy charges, as well as other considerations, are described below. The Face Amount and any change in Face Amount do not include any coverage provided by the Term Rider, if it has been elected.

*Increase.* To obtain an increase in the Face Amount, you should submit an application for the increase. We reserve the right to require evidence satisfactory to us of the Insured's insurability, if the Net Amount at Risk would increase. For Policies issued on the basis of guaranteed issue underwriting, increases in Face Amount are limited to a maximum of 10% without medical underwriting. Automated annual increases in Face Amount of specified percentages or dollar amounts, or in the amount of premium payments, may be elected. You may not increase the Face Amount after the Insured's Attained Age 85 (Attained Age 65 in the case of guaranteed issue or simplified issue underwriting).

On the effective date of an increase, and taking the increase into account, the Net Account Value must be greater than the Monthly Deductions then due. If the Net Account Value is not sufficient, the increase will not take effect until you make a sufficient additional premium payment to increase the Net Account Value.

An increase in the Face Amount will generally affect the total Net Amount at Risk which will increase the monthly cost of insurance charges. In addition, the Insured may be in a different Rate Class as to the increase in insurance coverage. An increase in premium payment or frequency may be appropriate after an increase in Face Amount.

*Decrease.* By providing a written request, you may decrease the Face Amount of the Policy. The Face Amount after any decrease may not be less than the Minimum Face Amount, which is generally currently \$5,000, or may not be less than the minimum amount for which the Policy qualify as life insurance for federal income tax purposes under the Internal Revenue Code.

A decrease in the Face Amount generally will decrease the total Net Amount at Risk, which will decrease your monthly cost of insurance charges.

For purposes of determining the Cost of Insurance Charge, any decrease in the Face Amount will reduce the Face Amount in the following order: (a) the increase in Face Amount provided by the most recent increase; (b) the next most recent increases, in inverse chronological order; and (c) the Face Amount on the Date of Issue.

#### Payment of Policy Benefits.

You may decide the form in which Death Benefit proceeds will be paid. During the Insured's lifetime, you may arrange for the Death Benefit to be paid in a lump sum or under a Settlement Option. These choices are also available upon surrender of the Policy for its Net Cash Surrender Value. If no election is made, payment will be made in a lump sum. The Beneficiary may also arrange for payment of the Death Benefit in a lump sum or under a Settlement Option. If paid in a lump sum, the Death Benefit under a Policy will ordinarily be paid to the Beneficiary within seven days after National Life receives proof of the Insured's death at its Home Office and all other requirements are satisfied. If paid under a Settlement Option, the Death Benefit will be applied to the Settlement Option within seven days after National Life receives proof of the Insured's death at its Home Office and all other requirements are satisfied.

Interest at the annual rate of 4% or any higher rate declared by us or required by law is paid on the Death Benefit from the date of death until payment is made.

#### Settlement Options

There are several ways of receiving proceeds under the Death Benefit and surrender provisions of the Policy, other than in a lump sum. None of these options vary with the investment performance of the Separate Account. More detailed information concerning these settlement options is available in your Policy, upon request from our Home Office, or by referring to the Statement of Additional Information. Even if the Death Benefit under the Policy is excludible from income, payments under Settlement Options may not be excludible in full. This is because earnings on the Death Benefit after the Insured's death are taxable and payments under the Settlement Options generally include such earnings. You should consult a tax adviser as to the tax treatment of payments under the Settlement Options.

### **PAYMENT OF PROCEEDS**

We will normally pay proceeds of a surrender, withdrawal, or policy loan within seven days of receipt of when we receive written request at our Home Office in a form satisfactory to us. However, in cases where you surrender your Policy within 30 days of making a premium payment by check or draft, and we are unable to confirm that such

payment has cleared, we may withhold an amount equal to such payment from your surrender proceeds until we are able to confirm that the payment item has cleared, but for no more than 30 days from our receipt of the payment item. You may avoid the possibility of this holdback by making premium payments by unconditional means, such as by certified check or wire transfer of immediately available funds.

Generally, we will determine the amount of a payment as of the date we receive all required documents in good order. Good order means the actual receipt by us of instructions relating to a transaction, along with all the information and supporting legal documentation we require to effect the transaction. To be in "good order," instructions must be sufficiently clear so that we do not need to exercise any discretion to follow such instructions. However, we may defer the determination or payment of such amounts if the date for determining such amounts falls within any period during which: (1) the disposal or valuation of a Subaccount's assets is not reasonably practicable because the New York Stock Exchange is closed or conditions are such that, under the SEC's rules and regulations, trading is restricted or an emergency is deemed to exist; or (2) the SEC by order permits postponement of such actions for the protection of National Life policyholders.

If mandated under applicable law, we may be required to reject a premium payment. We may also be required to provide additional information about your account to government regulators. We may be required to block an Owner's account and thereby refuse to honor any request for transfers, withdrawals, surrenders, loans or death benefits, until instructions are received from the appropriate regulator.

Transactions will not be processed on the following days: New Year's Day, Martin Luther King, Jr. Day, Presidents' Day, Good Friday, Memorial Day, Independence Day, Labor Day, Thanksgiving Day, the day after Thanksgiving Day and Christmas Day. Please remember that we must receive a transaction request before the close of regular trading on the New York Stock Exchange, which is usually 4:00 p.m. Eastern Time, to process the transaction on that Valuation Day. If we receive a transaction request after 4:00 p.m. Eastern Time, we will process the transaction request on the next Valuation Day.

## **POLICY LOANS**

*General.* You may, on any Valuation Day, borrow money from National Life using the Policy as the only security for the loan. In most states, the amount of these loans may not exceed the Policy's Net Account Value on the date of receipt of the loan request, minus three times the Monthly Deduction for the next Monthly Policy Date. In Vermont, the maximum amount of all loans is the Net Account Value. The maximum amount of all loans is calculated as follows:

As of the beginning of any Policy month, the greater of:

(1) Account Value plus Net Premium if any, less any Withdrawal, less the Minimum Net Premium, all discounted at the loan interest rate from the succeeding Policy Anniversary to present, less any outstanding Policy loan.

or

(2) 75% of the Net Account Value as of the date of the loan.

The Company reserves the right to increase the above percentages if the Owner provides a satisfactory written explanation pertaining to any unforeseen substantial loss of income or unforeseen increase in financial obligations.

While the Insured is living, you may repay all or a portion of a loan and accrued interest. Loans may be taken by making a written request to us at our Home Office. Loan proceeds will be paid within seven days of the Valuation Day on which a valid loan request is received at our Home Office.

*Interest Rate Charged.* We currently charge the following interest rates on Policy loans:

- Policy Years 1 – 7: 4.47% per year;
- Policy Years 8 – 10: 4.37% per year;
- Policy Years 11 – 20: 4.27% per year; and
- Policy Years 21 and thereafter: 4.22% per year.

However, these interest rates are not guaranteed. We may in the future charge our guaranteed maximum interest rate of 4.60%.

Interest is charged from the date of the loan and will be added to the loan balance at the end of the Policy Year and bear interest at the same rate. The tax treatment of no or low cost loans is uncertain (see “Tax Treatment of Policy Benefits, below”).

*Allocation of Loans and Collateral.* When a Policy loan is taken, Account Value is held in the Loan Account as Collateral for the Policy loan. Account Value is taken from the Subaccounts of the Separate Account based upon the proportion that each Subaccount’s value bears to the total Account Value in the Separate Account.

The Collateral for a Policy loan will initially be the loan amount. Any loan interest due and unpaid will be added to the Policy loan. We will take additional Collateral for such loan interest so added pro rata from the Subaccounts of the Separate Account, and hold the Collateral in the Loan Account. At any time, the amount of the outstanding loan under a Policy equals the sum of all loans (including due and unpaid interest added to the loan balance) minus any loan repayments.

*Interest Credited to Amounts Held as Collateral.* We will credit the amount held in the Loan Account as Collateral with interest at an effective annual rate of 4%.

*Effect of Policy Loan.* Policy loans, whether or not repaid, will have a permanent effect on the Account Value, and may permanently affect the Death Benefit under the Policy. The effect on the Account Value and Death Benefit could be favorable or unfavorable, depending on whether the investment performance of the Subaccounts is less than or greater than the interest being credited on the amounts held as Collateral in the Loan Account while the loan is outstanding. Compared to a Policy under which no loan is made, values under a Policy will be lower when the credited interest rate on Collateral is less than the investment experience of assets held in the Separate Account. The longer a loan is outstanding, the greater the effect a Policy loan is likely to have. The Death Benefit will be reduced by the amount of any outstanding Policy loan.

*Loan Repayments.* We will assume that any payments made while there is an outstanding loan on the Policy are premium payments, rather than loan repayments, unless we receive written instructions that a payment is a loan repayment. In the event of a loan repayment, the amount held as Collateral in the Loan Account will be reduced by an amount equal to the repayment, and such amount will be transferred to the Subaccounts of the Separate Account based on the proportion that each Subaccount’s value bears to the total Account Value in the Separate Account.

*Lapse With Loans Outstanding.* The amount of an outstanding loan under a Policy plus any accrued interest on outstanding loans is not part of Net Account Value. Therefore, the larger the amount of an outstanding loan, the more likely it is that the Policy could lapse. In addition, if the Policy is not a Modified Endowment Policy, lapse of the Policy with outstanding loans may result in adverse federal income tax consequences. (See “Tax Treatment of Policy Benefits,” below.)

*Tax Considerations.* Any loans taken from a “Modified Endowment Contract” will be treated as a taxable distribution. In addition, with certain exceptions, a 10% additional income tax penalty will be imposed on the portion of any loan that is included in income. (See “Federal Tax Considerations – Tax Treatment of Policy Benefits - Distributions from Policies Classified as Modified Endowment Contracts,” below.) The tax consequences associated with no or low cost Policy loans from a Policy that is not a modified endowment contract are unclear. A tax adviser should be consulted before taking out a Policy loan.

## **SURRENDERS AND WITHDRAWALS**

At any time before the death of the Insured, you may surrender the Policy for its Net Cash Surrender Value. The Net Cash Surrender Value will equal the Cash Surrender Value less any Policy loan and accrued interest. The Net Cash Surrender Value will be determined by National Life on the Valuation Day it receives, at its Home Office, a written surrender request signed by the Owner, and the Policy. Coverage under the Policy will end on the day you mail or otherwise send the written surrender request and the Policy to National Life. We will ordinarily mail surrender proceeds to you within seven days of receipt of the request. However, in cases where you surrender your Policy within 30 days of making a premium payment by check or draft, and we are unable to confirm that such payment has

cleared, we may withhold an amount equal to such payment from your surrender proceeds until we are able to confirm that the payment item has cleared, but for no more than 30 days from our receipt of the payment item. You may avoid the possibility of this holdback by making premium payments by unconditional means, such as by certified check or wire transfer of immediately available funds.

A surrender may have Federal income tax consequences. (See “Federal Tax Considerations - Tax Treatment of Policy Benefits,” below).

Before the death of the Insured and on any Valuation Day after the first Policy Anniversary, you may withdraw a portion of the Policy’s Net Account Value. The maximum Withdrawal is the Net Account Value on the date of receipt of the Withdrawal request, minus three times the Monthly Deduction on the most recent Monthly Policy Date.

The Withdrawal will be taken from the Subaccounts of the Separate Account based upon the proportion that each Subaccount’s value bears to the total Account Value in the Separate Account.

The effect of a Withdrawal on the Death Benefit and Face Amount will vary depending upon the Death Benefit Option and federal tax death benefit compliance test in effect and whether the Death Benefit is based on the applicable Death Benefit Factor times the Cash Surrender Value.

*Option A.* The effect of a Withdrawal on the Face Amount and Death Benefit under Option A and the guideline premium test for tax law compliance is as follows:

If the Face Amount divided by the Death Benefit Factor times the Cash Surrender Value exceeds the Account Value just after the Withdrawal, a Withdrawal will reduce the Face Amount by the lesser of such excess and the amount of the Withdrawal.

For the purposes of this illustration (and the following illustrations of Withdrawals), assume that the Attained Age of the Insured is under 40, there is no indebtedness and there is no Term Insurance Amount. The applicable Death Benefit Factor is 250% for an Insured with an Attained Age under 40, if the guideline premium test is in effect as the federal tax death benefit compliance test.

*Under Option A, a Policy with a Face Amount of \$300,000 and an Account Value of \$30,000 will have a Death Benefit of \$300,000. Assume that the Owner takes a Withdrawal of \$10,000. The Withdrawal will reduce the Account Value to \$20,000 (\$30,000 - \$10,000) after the Withdrawal. The Face Amount divided by the Death Benefit Factor is \$120,000 ( $\$300,000 / 2.50$ ), which exceeds the Account Value after the Withdrawal by \$100,000 ( $\$120,000 - \$20,000$ ). The lesser of this excess and the amount of the Withdrawal is \$10,000, the amount of the Withdrawal. Therefore, the Face Amount will be reduced by \$10,000 to \$290,000.*

If the Face Amount plus the Term Insurance Amount, divided by the applicable Death Benefit Factor times the Cash Surrender Value does not exceed the Cash Surrender Value just after the Withdrawal, then the Face Amount is not reduced. The Face Amount will be reduced by the lesser of such excess or the amount of the Withdrawal.

A decrease in total insurance coverage shall apply first to any Supplemental Term Insurance Amount provided by a Term Rider on this Policy, then to any increase in Face Amount in reverse order in which they were made, and then to the Face Amount on the Date of Issue.

*Under Option A, a policy with a Face Amount of \$300,000, an Account Value of \$150,000, and no Term Insurance Amount will have a Death Benefit of \$375,000 ( $\$150,000 \times 2.50$ ). Assume that the Owner takes a Withdrawal of \$10,000. The Withdrawal will reduce the Account Value to \$140,000 ( $\$150,000 - \$10,000$ ). The Face Amount divided by the applicable Death Benefit Factor is \$120,000, which does not exceed the Account Value after the Withdrawal. Therefore, the Face Amount stays at \$300,000 and the Death Benefit is \$350,000 ( $\$140,000 \times 2.50$ ).*

*Option B.* The Face Amount will never be decreased by a Withdrawal. A Withdrawal will, however, always decrease the Death Benefit.

If the Death Benefit plus any outstanding Policy loans and any unpaid Monthly Deductions equals the Face Amount plus the Account Value, a Withdrawal will reduce the Account Value by the amount of the Withdrawal and thus the Death Benefit will also be reduced by the amount of the Withdrawal.

*Under Option B, a Policy with a Face Amount of \$300,000 and an Account Value of \$90,000 will have a Death Benefit of \$390,000 ( $\$300,000 + \$90,000$ ), assuming no outstanding Policy loans and no unpaid Monthly Deductions. Assume the Owner takes a Withdrawal of \$20,000. The Withdrawal will reduce the Account Value to \$70,000 ( $\$90,000 - \$20,000$ ) and the Death Benefit to \$370,000 ( $\$300,000 + \$70,000$ ). The Face Amount is unchanged.*

If the Death Benefit immediately prior to the Withdrawal is based on the applicable Death Benefit Factor times the Cash Surrender Value, the Death Benefit will be reduced to equal the greater of (a) the Face Amount plus the Account Value after deducting the amount of the Withdrawal and Withdrawal Charge and (b) the applicable Death Benefit Factor times the Cash Surrender Value after deducting the amount of the Withdrawal.

*Under Option B, a Policy with a Face Amount of \$300,000 and an Account Value of \$210,000 will have a Death Benefit of \$525,000 ( $\$210,000 \times 2.5$ ), assuming no Policy loans outstanding and no unpaid Monthly Deductions. Assume the Owner takes a Withdrawal of \$60,000. The Withdrawal will reduce the Account Value to \$150,000 ( $\$210,000 - \$60,000$ ), and the Death Benefit to the greater of (a) the Face Amount plus the Account Value, or \$450,000 ( $\$300,000 + \$150,000$ ) and (b) the Death Benefit based on the applicable Death Benefit Factor times the Cash Surrender Value, or \$375,000 ( $\$150,000 \times 2.5$ ). Therefore, the Death Benefit will be \$450,000. The Face Amount is unchanged.*

If you have elected the Cash Value Accumulation Test for tax law compliance, a Withdrawal will decrease Face Amount by an amount equal to the amount withdrawn times 1.00327374.

Because a Withdrawal can affect the Face Amount and the Death Benefit as described above, a Withdrawal may also affect the Net Amount at Risk which is used to calculate the cost of insurance charge under the Policy. Because a Withdrawal reduces the Net Account Value, the likelihood that the Policy will lapse is increased. A request for Withdrawal may not be allowed if such Withdrawal would reduce the Face Amount below the Minimum Face Amount for the Policy. Also, if a Withdrawal would result in cumulative premiums exceeding the maximum premium limitations applicable under the Code for life insurance under the guideline premium test; we will not allow such Withdrawal.

You may request a Withdrawal only by sending a signed written request to us at our Home Office. A Withdrawal will ordinarily be paid within seven days of the Valuation Day on which a valid Withdrawal request is received.

A Withdrawal of Net Account Value may have Federal income tax consequences. (See "Federal Tax Considerations - Tax Treatment of Policy Benefits," below.)

## **LAPSE AND REINSTATEMENT**

*Policy Lapse.* The failure to make a premium payment will not itself cause a Policy to lapse. Lapse will only occur when the Net Account Value is insufficient to cover the Monthly Deductions and other charges under the Policy and the Grace Period expires without a sufficient payment. During the first five Policy Years, the Policy will not lapse so long as the Cumulative Minimum Monthly Premium has been paid.

The Policy provides for a 61-day Grace Period that is measured from the date on which notice is sent by National Life. The Policy does not lapse, and the insurance coverage continues, until the expiration of this Grace Period. In order to prevent lapse, you would have to during the Grace Period make a premium payment equal to the sum of any amount by which the past Monthly Deductions have been in excess of Net Account Value, plus three times the Monthly Deduction due the date the Grace Period began. The notice sent by National Life will specify the payment required to keep the Policy in force. Failure to make a payment at least equal to the required amount within the Grace Period will result in lapse of the Policy without value.

*Reinstatement.* A Policy that lapses without value may be reinstated at any time within five years after the beginning of the Grace Period by submitting evidence of the Insured's insurability satisfactory to National Life and payment of an amount sufficient to provide for two times the Monthly Deduction due on the date the Grace Period began plus

three times the Monthly Deduction due on the effective date of reinstatement, which is, unless otherwise required by state law, the Monthly Policy Date on or next following the date the reinstatement application is approved. Upon reinstatement, the Account Value will be based upon the premium paid to reinstate the Policy and the Policy will be reinstated with the same Date of Issue as it had prior to the lapse. The Policy Protection Period may not be reinstated.

## CHARGES AND DEDUCTIONS

We deduct the charges described below from your premium payments or your Policy Value. Certain of the charges depend on a number of variables. The charges are for the services and benefits provided, costs and expenses incurred and risks assumed by us under the Policy. We intend to profit from these charges.

Services and benefits we provide include:

- the death benefits, cash and loan benefits provided by the Policy;
- the funding choices, including net premium allocations, dollar-cost averaging programs, and automatic asset rebalancing programs;
- the administration of various elective options under the Policy (including any riders); and
- the distribution of various reports to Owners.

Costs and Expenses we incur include:

- those associated with underwriting applications and changes in Face Amount and any riders;
- various overhead and other expenses associated with providing the services and benefits provided by the Policy (and any riders);
- sales and marketing expenses; and
- other costs of doing business, such as complying with federal and state regulatory requirements.

Risks we assume include the risks that:

- insureds may die sooner than estimated, resulting in the payment of greater death benefits than expected; and
- the costs of providing the services and benefits under the Policy (and any riders) will exceed the charges deducted.

### Premium Loads

A Premium Load will be deducted from each premium payment. The Premium Load consists of the Distribution Charge and the Premium Tax Charge.

The Distribution Charge is deducted to compensate us partially for the cost of administering, issuing, and selling the Policy, including agent sales commissions, the cost of printing prospectuses and sales literature, any advertising costs, medical exams, review of applications for insurance, processing of applications of the applications, establishing Policy records, and Policy issue. We do not expect the Distribution Charge to cover all of these costs. To the extent they do not, we will cover the short-fall from our general account assets, which may include profits from the Mortality and Expense Risk Charge and the Cost of Insurance Charge. The Distribution Charge is equal to, in Policy Year 1, 13% of premiums paid during the Policy Year up to the Target Premium, and 0.5% of premiums paid in excess of the Target Premium. In Policy Years 2 through 7, the Distribution Charge is equal to 15% of premiums paid during a Policy Year up to the Target Premium, and 2.5% of premiums paid in excess of the Target Premium in any such Policy Year. In Policy Years 8 and thereafter, the Distribution Charge will be 5% of premiums paid during a Policy Year up to the Target Premium, and 2.5% of premiums paid in excess of the Target Premium in any such Policy Year. For this purpose, the Target Premium equals 1.25 times the annual whole life premium which would be calculated for the Policy using the applicable 1980 Commissioners Standard Ordinary Mortality Table and an interest rate of 3.5%.

The Premium Tax Charge will vary from state to state, and will be equal to the actual amount of premium tax or retaliatory tax assessed on sales in the jurisdiction in which the Policy is sold. Currently Vermont-domiciled insurance companies are assessed a premium tax or a retaliatory tax on sales of life insurance in all states. Premium taxes generally range from 2% to 3.5%. Premium taxes may range up to 2% for certain cities in South Carolina and 12% for certain jurisdictions in Kentucky.

## Monthly Deductions

Charges will be deducted from the Account Value on or as of the Date of Issue and on each Monthly Policy Date. The Monthly Deduction consists of four components - (a) the Cost of Insurance Charge, (b) the Policy Administration Charge, (c) for Policies issued on the basis of full medical underwriting, the Underwriting Charge, and (d) for Policies containing a Term Rider, the charges associated with the Term Rider. Because portions of the Monthly Deduction, such as the Cost of Insurance Charge, can vary from Policy Month to Policy Month, the Monthly Deduction may vary in amount from Policy Month to Policy Month. The Monthly Deduction will be deducted on a pro rata basis from the Subaccounts of the Separate Account.

*Cost of Insurance Charge.* The cost of insurance charge is the primary charge for the death benefit provided by your Policy. The monthly cost of insurance charge is calculated by multiplying the cost of insurance rate or rates by the Net Amount at Risk for each Policy Month. Because both the Net Amount at Risk and the variables that determine the cost of insurance rate, such as the Insured's age and the Duration of the Policy, may vary, the cost of insurance charge will likely be different from month to month. We expect to profit from this charge and may use the charge for lawful purpose, including covering distribution expenses.

- (1) *Net Amount At Risk.* The Net Amount at Risk on any Monthly Policy Date is approximately the amount by which the Death Benefit exceeds the Account Value. It measures the amount that National Life would have to pay in excess of the Policy's Account Value if the Insured died. The actual calculation uses the Death Benefit divided by 1.00327234 to take into account assumed monthly earnings at an annual rate of 4%. The Net Amount at Risk is determined separately for the Face Amount on the Date of Issue and any increases in Face Amount. In determining the Net Amount at Risk for each increment of Face Amount, the Account Value is first applied to the Face Amount on the Date of Issue. If the Account Value exceeds the Face Amount on the Date of Issue, the excess is then applied to any increases in Face Amount in the order such increases took effect.

If the Net Amount at Risk increases, your monthly cost of insurance charge will increase proportionately. The Net Amount at Risk may increase if, for example, the Death Benefit is based on the Face Amount and the Account Value decreases because of negative investment results. The Net Amount at Risk may also increase if the Death Benefit is based on the Death Benefit Factor times the Cash Surrender Value and the Account Value rises because of positive investment results. The Net Amount at Risk may decrease in the opposite situations, and if it does, your monthly cost of insurance charge will decrease proportionately.

- (2) *Cost of Insurance Rate.* Policies may be issued
  - (a) after full medical underwriting of the proposed Insured,
  - (b) on a guaranteed issue basis, where no medical underwriting is required prior to issuance of a Policy, or
  - (c) on a simplified underwriting basis, under which medical underwriting is limited to requiring the proposed Insured to answer three medical questions on the application.

Current cost of insurance rates for Policies issued on a guaranteed issue basis or a simplified underwriting basis are higher than current standard cost of insurance rates for healthy Insureds who undergo medical underwriting.

*Guaranteed Rates.* The guaranteed maximum cost of insurance rates are set forth in the Policy, and will depend on the Insured's Attained Age, Rate Class, and the applicable 1980 Commissioners Standard Ordinary Smoker/Nonsmoker/Unismoker Mortality Table. If you are based in Montana you must generally select a "unisex" Rate Class.

*Current Rates and How They are Determined.* The actual cost of insurance rates used ("current rates") will depend on the Insured's Attained Age, Rate Class, underwriting method, and Duration. These current cost of insurance rates is set based on National Life's anticipated mortality experience. Generally rates are higher for an older insured, if the Insured is a smoker, or if the Insured is in a substandard rate class (usually because of a health issue). Generally rates

are lower for insureds in a fully medically underwritten preferred rate class. Rates may also be higher for a Policy that has a longer Duration, compared to another Policy with identical characteristics and a shorter Duration. As noted above, rates for Policies issued on the basis of guaranteed issue or simplified issue will generally be higher. We periodically review the adequacy of our current cost of insurance rates and may adjust their level if our anticipated mortality experience changes. However, our cost of insurance rates will never exceed guaranteed maximum cost of insurance rates. Any change in the current cost of insurance rates will apply to all persons of the same Issue Age, Rate Class, underwriting method, and with Policies of the same Duration.

A cost of insurance rate is determined separately for the Face Amount on the Date of Issue and any increases in Face Amount. In calculating the Cost of Insurance Charge, the rate for the Rate Class on the Date of Issue is applied to the Net Amount at Risk for the Face Amount on the Date of Issue (see "Rate Class", below). For each increase in Face Amount, the rate for the Rate Class applicable to the increase is used. If, however, the Death Benefit is based on the Cash Surrender Value times the Death Benefit Factor, the rate for the Rate Class for the Face Amount on the Date of Issue will be used for the amount of the Death Benefit in excess of the total Face Amount.

*Rate Class.* The Rate Class of the Insured will affect the guaranteed and current cost of insurance rates. National Life currently places Insureds into, for each of guaranteed issue, simplified issue, and full medical underwriting, male non-smoker, female non-smoker, unisex non-smoker, male smoker, female smoker, unisex smoker, unisex unismoker, male unismoker, and female unismoker Rate Classes. For full medical underwriting cases, preferred and substandard rate classes may also apply. Substandard, smoker, male, guaranteed issue and simplified issue Rate Classes reflect higher mortality risks. The unisex Rate Classes are not available in certain states.

*Cost of Term Insurance.* For Policies which include the Term Rider, the cost of term insurance under the Rider will be the Supplemental Term Insurance Amount, divided by 1.00327234, times the same cost of insurance rates that apply to the Net Amount at Risk for the Face Amount.

*Policy Administration Charge.* The Policy Administration Charge, which is currently \$5.50 per month, will be deducted from the Account Value on or as of the Date of Issue and each Monthly Policy Date as part of the Monthly Deduction. The Policy Administration Charge may be increased, but is guaranteed never to exceed \$8.00 per month.

*Underwriting Charge.* Policies issued on the basis on full medical underwriting will be assessed an Underwriting Charge, deducted monthly as part of the Monthly Deduction. The Underwriting Charge totals \$20 in Policy Year 1, and \$45 in each of the next four Policy Years. Policies issued on the basis of guaranteed issue or simplified issue will not be assessed an Underwriting Charge.

#### Mortality and Expense Risk Charge

A daily Mortality and Expense Risk Charge will be assessed against the Separate Account. The current annual rates are set forth below for the various Policy Years of a Policy.

For Policy Years 1 – 7: 0.22% of Account Value in the Separate Account  
For Policy Years 8 –10: 0.12% of Account Value in the Separate Account  
For Policy Years 11-20: 0.02% of Account Value in the Separate Account; and  
For Policy Year 21 and thereafter: 0.00% of Account Value in the Separate Account.

We may increase the above rates for the Mortality and Expense Risk Charge, but the charge is guaranteed not to exceed 0.60% of Account Value in the Separate Account at all times. We expect to profit from this charge and may use the charge for lawful purposes, including covering distribution expenses.

#### Separate Account Administration Charge

A daily Separate Account Administration Charge is assessed against the Separate Account. This daily charge is assessed at an annual rate of 0.10% of the Account Value in each Subaccount of the Separate Account. This charge is guaranteed not to increase. National Life currently intends to reduce the Separate Account Administration Charge for Policy Years after Policy Year 20 to 0.07% annually. This cost reduction is not guaranteed, however, and will be continued only if our expense experience with the Policies justifies it.

### Transfer Charge

Currently, unlimited transfers are permitted among the Subaccounts. We have no present intention to impose a transfer charge in the foreseeable future. However, we reserve the right to impose in the future a transfer charge of up to \$25 on each transfer in excess of 12 transfers in any Policy Year. We may do this if the expense of administering transfers becomes burdensome.

If imposed, the transfer charge will be deducted from the Subaccounts based on the proportion that each Subaccount's value bears to the total Account Value in the Separate Account. All transfers effected on the same Valuation Day would be treated as one transfer transaction. The transfer charge will not apply to transfers resulting from Policy loans, the exercise of the transfer right due to the change in investment policy of a Subaccount, or the initial reallocation of Account Values from the Money Market Subaccount to other Subaccounts. These transfers will not count against the 12 free transfers in any Policy Year.

### Other Charges

The Separate Account purchases shares of the portfolios at net asset value. The net asset value of those shares reflects management fees and expenses already deducted from the assets of the portfolios. The fees and expenses for the portfolios are described briefly in connection with a general description of each portfolio.

We sell the Policies through registered representatives of broker-dealers. These registered representatives are also appointed and licensed as our insurance agents. We pay commissions to the broker-dealers for selling the Policies. You do not pay these commissions directly. We do. We intend to recoup commissions and other sales expenses through fees and charges imposed under the Policies.

More detailed information is contained in the portfolios' prospectuses that accompany this prospectus.

### Possible Charge for National Life's Taxes

At the present time, National Life makes no charge for any Federal, state or local taxes (other than state premium taxes or the DAC Tax) that the Company incurs that may be attributable to the Separate Account or to the Policies. National Life, however, reserves the right in the future to make a charge for any such tax or other economic burden resulting from the application of the tax laws that it determines to be properly attributable to the Accounts or to the Policies. If any tax charges are made in the future, they will be accumulated daily and transferred from the Separate Account to National Life's general account. Any investment earnings on tax charges accumulated in the Separate Account will be retained by National Life.

## **SUPPLEMENTAL TERM INSURANCE RIDER**

At your option, the Term Rider, which is subject to the restrictions and limitations set forth in the Rider, may be included in a Policy. Election of the Term Rider will result in the Death Benefit including the Supplemental Term Insurance Amount. The charge for the Term Rider will be an amount included in the Monthly Deduction equal to the Supplemental Term Insurance Amount, divided by 1.00327234, times the cost of insurance rates which apply based on the Insured's then Attained Age, sex (if applicable) and Rate Class applicable to the Insured on the date of issue of the Term Rider. At issue, costs can be decreased by purchasing a higher Supplemental Term Insurance Amount through the use of the Term Rider, because there is no Target Premium associated with the Supplemental Term Insurance Amount, which may have the effect of reducing the Premium Loads. For Policies issued in the State of Florida, the Supplemental Term Insurance Rider is not available after age 95.

## **FEDERAL TAX CONSIDERATIONS**

The following summary provides a general description of the Federal tax considerations associated with the Policy and does not purport to be complete or to cover all tax situations. This discussion is not intended as tax advice. Counsel or other competent tax advisors should be consulted for more complete information. This discussion is based upon our understanding of the present Federal income tax laws. No representation is made as to the likelihood of continuation of the present Federal income tax laws or as to how they may be interpreted by the Internal Revenue Service.

## Tax Status of the Policy

In order to qualify as a life insurance contract for Federal income tax purposes and to receive the tax treatment normally accorded life insurance contracts under Federal tax law, a life insurance policy must satisfy certain requirements which are set forth in the Internal Revenue Code. Guidance as to how these requirements are to be applied is limited. Nevertheless, National Life believes that a Policy issued on the basis of a standard rate class should satisfy the applicable requirements. There is less guidance, however, with respect to a policy issued on a substandard basis (*i.e.*, a rate class involving higher than standard mortality risk) and it is not clear whether such a policy will in all cases satisfy the applicable requirements particularly if you pay the full amount of premiums permitted under the policy. If it is subsequently determined that a Policy does not satisfy the applicable requirements, National Life may take appropriate steps to bring the policy into compliance with such requirements and National Life reserves the right to modify the policy as necessary in order to do so.

In some circumstances, owners of variable contracts who retain excessive control over the investment of the underlying separate account assets may be treated as the owners of those assets and may be subject to tax on income produced by those assets. Although published guidance does not address certain aspects of the policies, National Life believes that the owner of a policy should not be treated as the owner of the underlying assets. While National Life believes that the policy does not give Owners investment control over Separate Account assets, we reserve the right to modify the policy as necessary to prevent the Owner from being treated as the owner of the Separate Account assets supporting the Policy.

In addition, the Code requires that the investments of the Separate Account be “adequately diversified” in order for the policy to be treated as a life insurance contract for Federal income tax purposes. It is intended that the Separate Account, through the portfolios, will satisfy these diversification requirements.

The following discussion assumes that the Policy will qualify as a life insurance contract for Federal tax purposes.

## Tax Treatment of Policy Benefits

*In General.* National Life believes that the death benefit under a Policy should generally be excludible from the gross income of the beneficiary. Federal, state and local estate, inheritance, transfer, and other tax consequences of ownership or receipt of Policy proceeds depend on the circumstances of each Owner or beneficiary. A tax advisor should be consulted on these consequences.

Depending on the circumstances, the exchange of a Policy, an increase or decrease of a Policy’s Face Amount, a change in the Policy’s Death Benefit Option (*i.e.*, a change from Death Benefit Option A to Death Benefit Option B or vice versa, a Policy loan, a Withdrawal, a surrender, a change in ownership, or an assignment of the Policy may have Federal income tax consequences. A tax advisor should be consulted before effecting any of these policy changes.

Generally, as long as you are not subject to the federal corporate Alternative Minimum Tax, you will not be deemed to be in constructive receipt of the Account Value, including increments thereof, until there is a distribution. The tax consequences of distributions from, and loans taken from or secured by, a Policy depend upon whether the Policy is classified as a “Modified Endowment Contract”. Whether a Policy is or is not a Modified Endowment Contract, upon a complete surrender or lapse of a Policy or when benefits are paid at a Policy’s maturity date, if the amount received plus the amount of indebtedness exceeds the total investment in the Policy, the excess will generally be treated as ordinary income subject to tax

*Modified Endowment Contracts.* Under the Internal Revenue Code, certain life insurance contracts are classified as “Modified Endowment Contracts” (“MECs”), with less favorable tax treatment than other life insurance contracts. Due to the flexibility of the Policy as to premiums and benefits, the individual circumstances of each Policy will determine whether it is classified as a MEC. In general a policy will be classified as a MEC if the amount of premiums paid into the policy causes the policy to fail the “7-pay test.” A policy will fail the 7-pay test if at any time in the first seven policy years, the amount paid in the policy exceeds the sum of the level premiums that would have been paid at that point under a policy that provided for paid-up future benefits after the payment of seven level annual payments.

If there is a reduction in the benefits under the policy during the first seven years, the 7-pay test will have to be reapplied as if the policy had originally been issued at the reduced face amount. If there is a “material change” in the policy’s benefits or other terms, the policy may have to be retested as if it were a newly issued policy. A material change may occur, for example, when there is an increase in the death benefit due to the payment of an unnecessary premium. Unnecessary premiums are premiums paid into the policy that are not needed in order to provide a death benefit equal to the lowest death benefit that was payable in the first seven policy years. To prevent your policy from becoming a MEC, it may be necessary to limit premium payments or to limit reductions in benefits. A current or prospective Owner should consult a tax advisor to determine whether a policy transaction will cause the Policy to be classified as a MEC.

*Distributions Other Than Death Benefits from Modified Endowment Contracts.* Policies classified as Modified Endowment Contracts are subject to the following tax rules:

- (1) All distributions other than death benefits from a Modified Endowment Contract, including distributions upon surrender and withdrawals, will be treated first as distributions of gain taxable as ordinary income and as tax-free recovery of the Owner’s investment in the Policy only after all gain has been distributed.
- (2) Loans taken from or secured by a Policy classified as a Modified Endowment Contract are treated as distributions and taxed accordingly.
- (3) A 10 percent additional income tax is imposed on the amount subject to tax except where the distribution or loan is made when the Owner has attained age 59½ or is disabled, or where the distribution is part of a series of substantially equal periodic payments for the life (or life expectancy) of the Owner or the joint lives (or joint life expectancies) of the Owner and the Owner’s beneficiary or designated beneficiary.

If a Policy becomes a modified endowment contract, distributions that occur during the contract year will be taxed as distributions from a modified endowment contract. In addition, distributions from a Policy within two years before it becomes a modified endowment contract will be taxed in this manner. This means that a distribution made from a Policy that is not a modified endowment contract could later become taxable as a distribution from a modified endowment contract.

*Distributions Other Than Death Benefits from Policies that are not Modified Endowment Contracts.* Distributions other than death benefits from a Policy that is not classified as a Modified Endowment Contract are generally treated first as a recovery of the Owner’s investment in the Policy and only after the recovery of all investment in the policy as taxable income. However, certain distributions that must be made in order to enable the Policy to continue to qualify as a life insurance contract for Federal income tax purposes if Policy benefits are reduced during the first 15 policy years may be treated in whole or in part as ordinary income subject to tax.

Loans from or secured by a Policy that is not classified as a Modified Endowment Contract are generally not treated as distributions. However, the tax consequences associated with Policy loans with no or very low spread between the interest rate charged and the interest rate credited to the Loan Account are less clear and a tax adviser should be consulted about such loans.

Finally, neither distributions from nor loans from or secured by a Policy that is not a Modified Endowment Contract are subject to the 10 percent additional income tax.

*Investment in the Policy.* Your investment in the Policy is generally your aggregate premium payments. When a distribution is taken from the Policy, your investment in the Policy is reduced by the amount of the distribution that is tax-free.

*Policy Loans.* In general, interest paid on any loan under a Policy will not be deductible. If a Policy loan is outstanding when a Policy is canceled or lapses, the amount of the outstanding indebtedness will be added to amount distributed and will be taxed accordingly. Before taking out a Policy loan, you should consult a tax adviser as to the tax consequences.

*Withholding.* To the extent that Policy distributions are taxable, they are generally subject to withholding for the recipient's federal income tax liability. Recipients can generally elect, however, not to have tax withheld from distributions.

*Exchanges.* Generally, there are no tax consequences when you exchange one life insurance policy for another, so long as the same person is being insured (a change of the insured is a taxable event). Paying additional premiums under the new policy may cause it to be treated as a modified endowment contract. The new policy may also lose any "grandfathering" privilege, where you would be exempt from certain legislative or regulatory changes made after your original policy was issued, if you exchange your policy. You should consult with a tax advisor if you are considering exchanging any life insurance policy.

*Life Insurance Purchases by Nonresident Aliens and Foreign Corporations.* The discussion herein provides general information regarding U.S. federal income tax consequences to life insurance purchasers that are U.S. citizens or residents. Purchasers that are not U.S. citizens or residents will generally be subject to U.S. federal withholding tax on taxable distributions from life insurance policies at a 30% rate, unless a lower treaty rate applies. In addition, purchasers may be subject to state and/or municipal taxes and taxes that may be imposed by the purchaser's country of citizenship or residence. Prospective purchasers are advised to consult with a qualified tax adviser regarding U.S. state, and foreign taxation with respect to a life insurance policy purchase.

*Life Insurance Purchases by Residents of Puerto Rico.* In Rev. Rul. 2004-75, 2004-31 I.R.B. 109, the Internal Revenue Service announced that income received by residents of Puerto Rico under life insurance or annuity contracts issued by a Puerto Rico branch of a United States life insurance company is U.S.-source income that is generally subject to United States Federal income tax.

*Multiple Policies.* All Modified Endowment Contracts that are issued by National Life (or its affiliates) to the same Owner during any calendar year are treated as one Modified Endowment Contract for purposes of determining the amount includible in the Owner's income when a taxable distribution occurs.

*Business Uses of the Policy.* Businesses can use the Policy in various arrangements, including nonqualified deferred compensation or salary continuance plans, split dollar insurance plans, executive bonus plans, tax exempt and nonexempt welfare benefit plans, retiree medical benefit plans and others. The tax consequences of such plans may vary depending on the particular facts and circumstances. If you are purchasing the Policy for any arrangement the value of which depends in part on its tax consequences, you should consult a qualified tax adviser. Any business contemplating the purchase of a new Policy or a change in an existing Policy should consult a tax adviser.

*Employer-owned life insurance contracts.* Pursuant to recently enacted section 101(j) of the Code, unless certain eligibility, notice and consent requirements are satisfied, the amount excludible as a death benefit payment under an employer-owned life insurance contract will generally be limited to the premiums paid for such contract (although certain exceptions may apply in specific circumstances). An employer-owned life insurance contract is a life insurance contract owned by an employer that insures an employee of the employer and where the employer is a direct or indirect beneficiary under such contract. It is the employer's responsibility to verify the eligibility of the intended insured under employer-owned life insurance contracts and to provide the notices and obtain the consents required by section 101(j). These requirements generally apply to employer-owned life insurance contracts issued or materially modified after August 17, 2006. A tax adviser should be consulted by anyone considering the purchase or modification of an employer-owned life insurance contract.

*Non-Individual Owners and Business Beneficiaries of Policies.* If a Policy is owned or held by a corporation, trust or other non-natural person, this could jeopardize some (or all) of such entity's interest deduction under Code Section 264, even where such entity's indebtedness is in no way connected to the Policy. In addition, under Section 264(f) (5), if a business (other than a sole proprietorship) is directly or indirectly a beneficiary of a Policy, this Policy could be treated as held by the business for purposes of the Section 264(f) entity-holder rules. Therefore, it would be advisable to consult with a qualified tax adviser before any non-natural person is made an owner or holder of a Policy, or before a business (other than a sole proprietorship) is made a beneficiary of a Policy.

*Split Dollar Arrangements.* The IRS and the Treasury Department have issued guidance that substantially affects split-dollar arrangements. Consult a qualified tax adviser before entering into or paying additional premiums with respect to such arrangements.

Additionally, on July 30, 2002, President Bush signed into law significant accounting and corporate governance reform legislation, known as the Sarbanes-Oxley Act of 2002 (the “Act”). The Act prohibits, with limited exceptions, publicly traded companies, including non-U.S. companies that have securities listed on exchanges in the United States, from extending, directly or through a subsidiary, many types of personal loans to their directors or executive officers. It is possible that this prohibition may be interpreted as applying to split-dollar life insurance policies for directors and executive officers of such companies, because such insurance arguably can be viewed as involving a loan from the employer for at least some purposes.

Although the prohibition on loans is generally effective as of July 30, 2002, there is an exception for loans outstanding as of the date of enactment, so long as there is no material modification to the loan terms and the loan is not renewed after July 30, 2002. Any affected business contemplating the payment of a premium on an existing Policy, or the purchase of a new Policy, in connection with a split-dollar life insurance arrangement should consult legal counsel.

*Alternative Minimum Tax.* There may be an indirect tax upon the income in the Policy or the proceeds of a Policy under the federal corporate alternative minimum tax, if the Owner is subject to that tax.

*Estate, Gift and Generation-Skipping Transfer Taxes.* The transfer of the policy or designation of a beneficiary may have federal, state, and/or local transfer and inheritance tax consequences, including the imposition of gift, estate, and generation-skipping transfer taxes. For example, when the Insured dies, the death proceeds will generally be includable in the Owner’s estate for purposes of federal estate tax if the Insured owned the policy. If the Owner was not the Insured, the fair market value of the Policy would be included in the Owner’s estate upon the Owner’s death. The Policy would not be includable in the Insured’s estate if the Insured neither retained incidents of ownership at death nor had given up ownership within three years before death.

Moreover, under certain circumstances, the Code may impose a “generation skipping transfer tax” when all or part of a life insurance Policy is transferred to, or a death benefit is paid to, an individual two or more generations younger than the Owner. Regulations issued under the Code may require us to deduct the tax from your Policy, or from any applicable payment, and pay it directly to the IRS.

Qualified tax advisers should be consulted concerning the estate and gift tax consequences of Policy ownership and distributions under federal, state and local law. The individual situation of each owner or beneficiary will determine the extent, if any, to which federal, state, and local transfer and inheritance taxes may be imposed and how ownership or receipt of policy proceeds will be treated for purposes of federal, state and local estate, inheritance, generation skipping and other taxes.

*Economic Growth and Tax Relief Reconciliation Act of 2001.* The Economic Growth and Tax Relief Reconciliation Act of 2001 (“EGTRRA”) repeals the federal estate tax and replaces it with a carryover basis income tax regime effective for estates of decedents dying after December 31, 2009. EGTRRA also repeals the generation skipping transfer tax, but not the gift tax, for transfers made after December 31, 2009. EGTRRA contains a sunset provision, which essentially returns the federal estate, gift and generation-skipping transfer taxes to their pre-EGTRRA form, beginning in 2011. Congress may or may not enact permanent repeal between now and then.

During the period prior to 2010, EGTRRA provides for periodic decreases in the maximum estate tax rate coupled with periodic increases in the estate tax exemption. For 2009, the maximum estate tax rate is 45% and the estate tax exemption is \$3,500,000.

The complexity of the new tax law, along with uncertainty as to how it might be modified in coming years, underscores the importance of seeking guidance from a qualified advisor to help ensure that your estate plan adequately addresses your needs and that of your beneficiaries under all possible scenarios.

*Continuation Beyond Age 100.* The tax consequences of continuing the Policy beyond the Insured’s 100th year are unclear. You should consult a tax adviser if you intend to keep the Policy in force beyond the Insured’s 100th year.

*Foreign Tax Credits.* We may benefit from any foreign tax credits attributable to taxes paid by certain portfolios to foreign jurisdictions to the extent permitted under federal tax law.

### Possible Tax Law Changes

Although the likelihood of legislative changes is uncertain, there is always the possibility that the tax treatment of the policy could change by legislation or otherwise. Consult a tax adviser with respect to legislative developments and their effect on the Policy.

### Possible Charges for National Life's Taxes

At the present time, National Life makes no charge for any Federal, state or local taxes (other than the charge for state premium taxes and the DAC tax) that may be attributable to the Subaccounts or to the policies. National Life reserves the right to charge the Subaccounts for any future taxes or economic burden National Life may incur.

## **DISTRIBUTION OF THE POLICIES**

We have entered into a distribution agreement with ESI, our affiliate, for the distribution and sale of the Policies. Pursuant to this agreement, ESI serves as principal underwriter for the Policies. ESI sells the Policies through its registered representatives. ESI has also entered into selling agreements with other broker-dealers who in turn sell the Policies through their registered representatives. ESI is registered as a broker-dealer under the SEC under the Securities Exchange Act of 1934, as well as with the securities commissions in the states in which it operates, and is a member of Financial Industry Regulatory Authority, Inc. ("FINRA").

ESI's representatives who sell the Policy are registered with the FINRA and with the states in which they do business. More information about ESI and its sales representatives is available at [www.finra.org](http://www.finra.org) or by calling 1-800-289-9999. You also can obtain an investor brochure from FINRA describing its Public Disclosure Program.

The Policies may not be available in all states and the District of Columbia. The Policies are offered and sold only in those states where their sale is lawful. All life insurance policies sold starting January 1, 2009 are required by state insurance laws to use the 2001 CSO Mortality Table instead of the 1980 CSO Mortality Table as the basis for maximum mortality charges. In addition, all applicable factors used to comply with IRC 7702 will be expected to be revised based on the new 2001 CSO Mortality Table. Therefore, Sentinel Benefit Provider is no longer offered to new owners.

Dealers are compensated for sales of the Policies by dealer concessions. During the first seven Policy Years, the gross dealer concession will not be more than 15% of the premiums paid up to the target Premium and 2.5% of the premiums paid in excess of the Target Premium. For Policy Years after Policy Year 7, the gross dealer concession will not be more than 5% of the premiums paid, up to the Target Premium, and 2.5% of the premiums in excess of the Target Premium. In addition, dealers will be paid amounts equal to 0.10% per annum of the Account Value in the Separate Account for the first twenty Policy Years and 0.05% per annum of such amount thereafter.

National Life may provide loans to unaffiliated broker-dealers, who in turn provide such loans to their registered representatives, to finance business development, and may then provide further loans or may forgive outstanding loans based on specified business criteria, including sales of the Policies, and measures of business quality. Any loans or forgiveness of outstanding loans based on sales of Policies are provided through the distribution firm's registered broker-dealer.

From time to time we may offer specific sales incentives to selling dealers and registered representatives. These incentives may take the form of cash bonuses for reaching certain sales levels or for attaining a high ranking among registered representatives based on sales levels. These incentive programs may also include sales of National Life's or their affiliates' fixed insurance products and National Life's other variable products. To the extent, if any, that such bonuses are attributable to the sale of variable products, including the Policies, such bonuses will be paid through the agent's broker-dealer.

National Life, ESI and/or their affiliates may contribute amounts to various non-cash and cash incentives paid to registered representatives of ESI the amounts of which may be based in whole or in part on the sales of the Policies, including (1) sponsoring educational programs, (2) contributing to sales contests and/or promotions in which participants receive prizes such as travel, merchandise, hardware and/or software; (3) paying for occasional meals,

lodging and/or entertainment; (4) making cash payments in lieu of business expense reimbursements; (5) making loans and forgiving such loans and/or (6) health and welfare benefit programs.

Commissions and other incentives or payments described above are not charged directly to Policy owners or to the Separate Account. We intend to recoup commissions and other sales expenses through fees and charges deducted under the Policy.

Certain American Century and Wells Fargo Funds offered in the Policies make payments to ESI under their 12b-1 plans in consideration of services provided by ESI in distributing shares of these portfolios. In each case these payments amount to 0.25% of Separate Account assets invested in the particular portfolio.

See "Distribution of the Policies" in the Statement of Additional Information for more information about compensation paid for the sale of the Policies.

## **LEGAL MATTERS**

National Life, like other life insurance companies, is involved in lawsuits from time to time. Although we cannot predict the outcome of any litigation with certainty, National Life believes that at the present time, there are no pending or threatened lawsuits that are reasonably likely to have a material adverse impact on it or the Separate Account.

## **OTHER POLICY PROVISIONS**

*Incontestability.* The Policy will be incontestable after it has been in force during the Insured's lifetime for two years from the Date of Issue (or such other date as required by state law). Similar incontestability will apply to an increase in Face Amount or reinstatement after it has been in force during the Insured's lifetime for two years from its effective date.

Before such times, however, we may contest the validity of the Policy (or changes) based on material misstatements in the initial or any subsequent application.

*Misstatement of Age and Sex.* If it is found that the amount of any benefit provided by the Policy is incorrect because of misstatement as to age or sex (if applicable), the Account Value and the Death Benefit will be equitably adjusted on the basis of the correct facts. When adjusting the Account Value, the adjustment will take effect on the Monthly Policy Date on or next following the date we have proof to our satisfaction of such misstatement. When adjusting the Death Benefit the adjustment shall take effect as of the Monthly Policy Date preceding the date of death.

## **FINANCIAL STATEMENTS**

The financial statements of National Life, the Separate Account and NLV Financial are included in the Statement of Additional Information. The financial statements of National Life should be distinguished from the financial statements of the Separate Account and should be considered only as bearing upon National Life's general financial strength and claims paying ability, and its ability to meet its obligations under the Policies. In addition to General Account allocations, General Account assets are used to guarantee the payment of living and death benefits under the Policy. To the extent that National Life is required to pay you amounts in addition to your Accumulated Value under these benefits, such amounts will come from General Account assets. You should be aware that National Life's principal investments are in fixed-income securities, including corporate bonds, mortgage-backed securities, and commercial real estate mortgages. National Life enters into equity derivative contracts (futures and options) to hedge exposures embedded in our equity indexed annuity products. All of National Life's General Account investments are exposed to various investment risks. National Life's financial statements include a further discussion of risks inherent within general account investments.

Further, you should only consider NLV Financial's financial statements as bearing on the ability of NLV Financial to meet its obligations under the keep well and pledge and security agreement.

## **GLOSSARY**

<b>Account Value</b>	The sum of the Policy's values in the Separate Account and the Loan Account.
<b>Attained Age</b>	The Issue Age of the Insured plus the number of full Policy Years which have passed since the Date of Issue.
<b>Beneficiary</b>	The person(s) or entity (ies) designated to receive all or some of the Death Benefit when the Insured dies. The Beneficiary is designated in the application or if subsequently changed, as shown in the latest change filed with National Life. The interest of any Beneficiary who dies before the Insured shall vest in the Owner unless otherwise stated.
<b>Cash Surrender Value</b>	The Account Value of the Policy reflecting, in Policy Years 1 and 2, the Distribution Charge Refund, and in Policy Years 1 to 5, the nonguaranteed enhancement during the first five Policy years described in this prospectus. The Cash Surrender Value is equal to the Account Value on the fifth Policy Anniversary and thereafter.
<b>Collateral</b>	The Account Value in the Loan Account which secures the amount of any Policy loan.
<b>Cumulative Minimum Monthly Premium</b>	The sum of the Minimum Monthly Premiums in effect on each Monthly Policy Date since the Date of Issue (including the current month).
<b>DAC Tax</b>	A tax attributable to Specified Policy Acquisition Expenses under Internal Revenue Code Section 848.
<b>Date of Issue</b>	The date which is the first Monthly Policy Date, which is set forth in the Policy Schedule A. It is used to determine Policy Years, Policy Months and Monthly Policy Dates, as well as to measure suicide and contestable periods.
<b>Death Benefit</b>	Under Option A, the greater of (a) the Face Amount or (b) the Death Benefit Factor times the Cash Surrender Value on the date of death; under Option B, the greater of (a) the Face Amount plus the Account Value on the date of death, or (b) the Death Benefit Factor times the Cash Surrender Value on the date of death; in each case plus any Supplemental Term Insurance Amount, less any outstanding Policy loan and accrued interest, and less any unpaid Monthly Deductions.
<b>Death Benefit Factor</b>	A percentage specified in either the Cash Value Accumulation Test or the guideline premium test for qualification of a Policy as life insurance under the Internal Revenue Code, which when multiplied by the Cash Surrender Value, must always be less than or equal to the Death Benefit plus any outstanding Policy loans, accrued interest thereon, and any unpaid Monthly Deductions, and minus any dividends payable and any Supplemental term Insurance Amount.
<b>Death Benefit Standard</b>	The Death Benefit Factor multiplied by the Cash Surrender Value of the Policy on the date of the Insured's death, less the amount of any Monthly Deductions then due, and less any outstanding Policy loans plus accrued interest.

<b>Distribution Charge</b>	An amount deducted from each premium to cover the cost of distribution of the Policy. The Distribution Charge is equal to, in Policy Year 1, 13% of premiums paid during the Policy Year up to the Target Premium, and 0.5% of premiums paid in excess of the target premium during the Policy Year. In Policy Years 2 through 7, the Distribution Charge is equal to 15% of premiums paid during a Policy Year up to the Target Premium, and 2.5% of premiums paid in excess of the Target Premium in any such Policy Year. In Policy Years 8 and thereafter, the Distribution Charge will be 5% of premiums paid during a Policy Year up to the Target Premium, and 2.5% of premiums paid in excess of the Target Premium in any such Policy Year.
<b>Distribution Charge Refund</b>	An amount which will be added to Account Value as of the time of the applicable first year premium payments, to determine the proceeds payable to the Owner upon surrender during in Policy Years 1 or 2. Such amount shall be equal to the lesser of (a) the Premium Loads on all premiums paid in the first Policy Year, less 2% of such premiums paid in the first Policy Year, or (b) one third of the Premium Loads paid on all premiums paid in the first Policy Year, plus 2% of such premiums, less the Premium Tax Charge. The Distribution Charge Refund is zero at all times after the first Policy Year.
<b>Dollar Cost Averaging</b>	Permits you to automatically transfer funds from the Money Market Subaccount to any other Subaccounts on a monthly basis.
<b>Duration</b>	The number of full years the insurance has been in force; for the Face Amount on the Date of Issue, measured from the Date of Issue; for any increase in Face Amount, measured from the effective date of such increase.
<b>Face Amount</b>	The Face Amount of the Policy on the Date of Issue plus any increases in Face Amount and minus any decreases in Face Amount.
<b>Grace Period</b>	A 61-day period measured from the date on which notice of pending lapse is sent by National Life, during which the Policy will not lapse and insurance coverage continues. To prevent lapse, the Owner must during the Grace Period make a premium payment at least equal to three times the Monthly Deduction due the date when the Grace Period began, plus any Premium Loads.
<b>Home Office</b>	National Life's Home Office at National Life Drive, Montpelier, Vermont 05604.
<b>Insured</b>	The person upon whose life the Policy is issued.
<b>Issue Age</b>	The age of the Insured at his or her birthday nearest the Date of Issue. The Issue Age is stated in the Policy.
<b>Loan Account</b>	Account Value which is held in National Life's general account as Collateral for Policy loans.
<b>Minimum Face Amount</b>	The Minimum Face Amount is generally \$5,000.
<b>Minimum Initial Premium</b>	The minimum premium required to issue a Policy. The Minimum Initial Premium per set of Policies purchased at the same time and associated with a corporation or its affiliates, a trust, or a partnership, is \$100,000.

<b>Minimum Monthly Premium</b>	An amount stated in the Policy, the payment of which each month will keep the Policy from entering a Grace Period during the Policy Protection Period.
<b>Monthly Deduction</b>	The amount deducted in advance from the Account Value on each Monthly Policy Date. It includes the Policy Administration Charge, the Cost of Insurance Charge, and, if applicable, the Underwriting Charge and the charge for the Term Rider.
<b>Monthly Policy Date</b>	The day in each calendar month which is the same day of the month as the Date of Issue, or the last day of any month having no such date, except that whenever the Monthly Policy Date would otherwise fall on a date other than a Valuation Day, the Monthly Policy Date will be deemed to be the next Valuation Day.
<b>Net Account Value</b>	The Account Value of a Policy less any outstanding Policy loans and accrued interest thereon.
<b>Net Amount at Risk</b>	The amount by which (a) the Death Benefit, plus any outstanding Policy loans and accrued interest, and plus any unpaid Monthly Deductions, and divided by 1.0032734 (to take into account earnings of 4% per annum solely for the purpose of computing Net Amount at Risk), exceeds (b) the Account Value.
<b>Net Cash Surrender Value</b>	The Cash Surrender Value of a policy less any outstanding Policy Loans and accrued interest thereon.
<b>Net Premium</b>	The remainder of a premium after the deduction of the Premium Loads.
<b>Owner</b>	The person(s) or entity (ies) entitled to exercise the rights granted in the Policy.
<b>Policy Administration Charge</b>	A charge currently in the amount of \$5.50 per month included in the Monthly Deduction, which is intended to reimburse National Life for ordinary administrative expenses. National Life reserves the right to increase this charge up to an amount equal to \$8.00 per month.
<b>Policy Anniversary</b>	The same day and month as the Date of Issue in each later year.
<b>Policy Protection Period</b>	The first five years after the Date of Issue of a Policy during which the Policy will not lapse regardless of whether net Account value is sufficient to cover the Monthly Deductions, provided that premium payments at least equal to the Cumulative Minimum Monthly Premium have been paid.
<b>Policy Year</b>	A year that starts on the Date of Issue or on a Policy Anniversary.
<b>Portfolio Rebalancing</b>	Permits you to automatically rebalance the value in the Subaccounts on a semi-annual basis, based on your premium allocation percentages in effect at the time of the rebalancing.
<b>Premium Loads</b>	A charge deducted from each premium payment, which consists of the Distribution Charge and the applicable Premium Tax Charge
<b>Premium Tax Charge</b>	A charge deducted from each premium payment to cover the cost of all applicable state and local premium taxes.

<b>Rate Class</b>	The classification of the Insured for cost of insurance purposes. The Rate Classes are: for each of guaranteed issue, simplified issue, and full medical underwriting, there are male non-smoker, female non-smoker, unisex non-smoker, male smoker, female smoker, unisex nonsmoker, unisex unismoker, male unismoker, and female unismoker. For full medical underwriting cases, preferred and substandard rate classes may also apply.
<b>Separate Account</b>	National Variable Life Insurance Account.
<b>Supplemental Term Insurance Amount</b>	Additional insurance coverage provided by the Term Rider, equal to, under Option A, the Term Insurance Amount stated in the Policy less any excess of (a) the Policy's Death Benefit Standard over (b) the Policy's Face Amount on the date of the Insured's death, less the amount of any Monthly Deductions then due, and less any outstanding Policy loans and accrued interest thereon, but not less than zero. Under Option B, the Supplemental Term Insurance Amount is equal to the Term Insurance Amount stated in the Policy less any excess of (a) the Policy's Death Benefit Standard over (b) the Policy's Face Amount on the date of the Insured's death, plus the Account Value of the Policy on the date of the Insured's Death, less the amount of any Monthly Deductions then due, and less any outstanding Policy loans and accrued interest thereon, but not less than zero.
<b>Target Premium</b>	An amount equal to 1.25 times the annual whole life premium which would apply to a Policy calculated by using the applicable 1980 Commissioners Standard Ordinary Mortality Table and an interest rate of 3.5%.
<b>Term Insurance Amount</b>	An amount stated in the Policy on which the Supplemental Term Insurance Amount is based.
<b>Term Rider</b>	An optional benefit that may be included in a Policy at the owner's option, which provides additional insurance coverage in the form of the Supplemental Term Insurance Amount.
<b>Valuation Day</b>	Each day that the New York Stock Exchange is open for business other than the day after Thanksgiving and any day on which trading is restricted by directive of the SEC. Unless otherwise indicated, whenever an event occurs or a transaction is to be effected on a day that is not a Valuation Day, it will be deemed to have occurred on the next Valuation Day. A Valuation Day ends at the close of regular trading on the New York Stock Exchange, usually 4:00 p.m., Eastern Time.
<b>Withdrawal</b>	A payment made at the request of the Owner pursuant to the right in the Policy to withdraw a portion of the Policy's Net Account Value.

**APPENDIX A**  
Illustration of Death Benefits, Account Values and Net Cash Surrender Values

The following tables illustrate how the Death Benefits, Account Values and Net Cash Surrender Values of a Policy may change with the investment experience of the Separate Account. The tables show how the Death Benefits, Account Values and Net Cash Surrender Values of a Policy issued to an Insured of a given age, sex and Rate Class would vary over time if the investment return on the assets held in each portfolio were a *uniform*, gross annual rate of 0%, 6% and 8%. These gross rates of return do not include the deduction of the charges and expenses of the underlying Portfolios.

The tables on Pages A-2 to A-4 illustrate a Policy issued to a male Insured, Age 45 based on Guaranteed Issue Underwriting with a Face Amount of \$250,000 and planned annual premiums of \$4,000 payable at the beginning of each year up to age 65. The Death Benefits, Account Values and Net Cash Surrender Values would be lower if the Insured was a smoker, because the cost of insurance charges is higher for smokers. Also, the values would be different from those shown if the gross annual investment returns *averaged* 0%, 6% and 8% over a period of years, but fluctuated above and below those averages during individual Policy Years.

The second column of the tables show the amount to which the premiums would accumulate if an amount equal to those premiums were invested to earn interest, after taxes, at 5% compounded annually. The columns shown under the heading "Guaranteed" assume that throughout the life of the policy, the monthly charge for cost of insurance is based on the maximum level permitted under the Policy (based on the applicable 1980 CSO Table); the columns under the heading "Current" assume that throughout the life of the Policy, the monthly charge for cost of insurance is based on the current cost of insurance rate, and the Mortality and Expense Risk Charge and the Policy Administration Charge are at the current rates.

The amounts shown in all tables reflect (1) the Mortality and Expense Risk Charge, (2) the Separate Account Administration Charge, and (3) an averaging of certain other asset charges described below that may be assessed under the Policy. The other asset charges reflected in the Current and Guaranteed illustrations equals an average of 0.86%. This total is based on an assumption that an Owner allocates the Policy values equally among the Subaccounts of the Separate Account. These asset charges do not take into account expense reimbursement arrangements may be in place for 2008 for some of the Portfolios. If these reimbursement agreements were reflected, the Account Values and Net Cash Surrender Values of a Policy which allocates Policy Values equally among the Subaccounts would be higher than those shown in the following tables. For information on portfolio expenses, see the prospectuses for the portfolios accompanying this prospectus.

The tables also reflect the fact that no charges for Federal or state income taxes are currently made against the Separate Account. If such a charge is made in the future, it would take a higher gross annual rate of return to produce the same Policy values.

The tables illustrate the Policy values that would result based upon the hypothetical investment rates of return if premiums are paid and allocated as indicated and no Policy loans are made. The tables are also based on the assumption that the Owner has not requested an increase or decrease in the Face Amount, that no Withdrawals have been made and no transfers have been made in any Policy Year.

Please note: Actual returns will fluctuate over time and likely will be both positive and negative. The actual values under the Policy could be significantly different from those shown even if the actual returns averaged 0%, 6% and 8%, but fluctuated over and under those averages throughout the years shown. Depending on the timing and degree of fluctuation, the actual values could be substantially less than those shown, and may, under certain circumstances, result in the lapse of the Policy unless the Owner pays more than the stated premiums.

Upon request, National Life will provide a comparable illustration based upon the proposed Insured's Age and Rate Class, the Death Benefit Option, the Death Benefit compliance test, Face Amount and planned annual premiums requested and the application of the Term Rider, if requested.

NATIONAL LIFE INSURANCE COMPANY  
SENTINEL BENEFIT PROVIDER FLEXIBLE PREMIUM VARIABLE UNIVERSAL LIFE INSURANCE

\$250,000 FACE AMOUNT  
DEATH BENEFIT OPTION A  
CASH VALUE ACCUMULATION TEST

MALE INSURED ISSUE AGE 45  
ANNUAL PREMIUM \$4,000

GUARANTEED ISSUE

ASSUMING HYPOTHETICAL GROSS ANNUAL RATE OF RETURN 0% (NET ANNUAL RATE OF RETURN OF -1.56% FOR GUARANTEED CHARGES IN ALL YEARS. FOR CURRENT CHARGES, -1.18% FOR THE FIRST SEVEN YEARS, -1.08% FOR THE NEXT THREE YEARS, -0.98% FOR THE NEXT TEN YEARS, AND -0.93% FOR YEARS AFTER THE TWENTIETH YEAR)

End of Policy Year	Premiums Accumulated at 5% Interest Per Year	Guaranteed			Current		
		Accumulated Value	Cash Surrender Value	Death Benefit	Accumulated Value	Cash Surrender Value	Death Benefit
1	4,200	2,440	2,637	250,000	2,987	3,344	250,000
2	8,610	4,707	4,901	250,000	5,819	6,415	250,000
3	13,241	6,876	6,876	250,000	8,578	8,978	250,000
4	18,103	8,947	8,947	250,000	11,263	11,503	250,000
5	23,208	10,911	10,911	250,000	13,878	13,958	250,000
6	28,568	12,767	12,767	250,000	16,418	16,418	250,000
7	34,196	14,500	14,500	250,000	18,878	18,878	250,000
8	40,106	16,494	16,494	250,000	21,671	21,671	250,000
9	46,312	18,338	18,338	250,000	24,375	24,375	250,000
10	52,827	20,014	20,014	250,000	26,986	26,986	250,000
11	59,669	21,510	21,510	250,000	29,523	29,523	250,000
12	66,852	22,812	22,812	250,000	31,953	31,953	250,000
13	74,395	23,912	23,912	250,000	34,264	34,264	250,000
14	82,314	24,796	24,796	250,000	36,450	36,450	250,000
15	90,630	25,441	25,441	250,000	38,496	38,496	250,000
16	99,361	25,822	25,822	250,000	40,390	40,390	250,000
17	108,530	25,910	25,910	250,000	42,142	42,142	250,000
18	118,156	25,666	25,666	250,000	43,738	43,738	250,000
19	128,264	25,040	25,040	250,000	45,185	45,185	250,000
20	138,877	23,980	23,980	250,000	46,474	46,474	250,000
25	200,454	0	0	0	31,231	31,231	250,000
30	279,043	0	0	0	7,306	7,306	250,000

The Death Benefit may, and the Account Values and Cash Surrender Values will, differ if premiums are paid in different amounts or frequencies.

**It is emphasized that the hypothetical investment results are illustrative only and should not be deemed a representation of past or future investment results. Actual investment results may be more or less than those shown. The death benefit, account value and net cash surrender value for a policy would be different from those shown if actual rates of investment return applicable to the policy averaged 0%, 6% or 8% over a period of years, but also fluctuated above or below that average for individual policy years. The death benefit, account value and net cash surrender value would also be different from those shown, depending on the investment.**

**Allocations made to the subaccounts of the separate account and the different rates of return of the subaccounts if the actual rates of investment return applicable to the policy averaged 0%, 6%, or 8%, but varied above or below that average for particular subaccounts. No representations can be made that these hypothetical rates of return can be achieved for any one year or sustained over any period of time.**



NATIONAL LIFE INSURANCE COMPANY  
SENTINEL BENEFIT PROVIDER FLEXIBLE PREMIUM VARIABLE UNIVERSAL LIFE INSURANCE

\$250,000 FACE AMOUNT  
DEATH BENEFIT OPTION A  
CASH VALUE ACCUMULATION TEST

MALE INSURED ISSUE AGE 45  
ANNUAL PREMIUM \$4,000

GUARANTEED ISSUE

ASSUMING HYPOTHETICAL GROSS ANNUAL RATE OF RETURN 8% (NET ANNUAL RATE OF RETURN OF 6.44% FOR GUARANTEED CHARGES IN ALL YEARS. FOR CURRENT CHARGES, 6.82% FOR THE FIRST SEVEN YEARS, 6.92% FOR THE NEXT THREE YEARS, 7.02% FOR THE NEXT TEN YEARS, AND 7.07% FOR YEARS AFTER THE TWENTIETH YEAR)

End of Policy Year	Premiums Accumulated at 5% Interest Per Year	Guaranteed			Current		
		Accumulated Value	Cash Surrender Value	Death Benefit	Accumulated Value	Cash Surrender Value	Death Benefit
1	4,200	2,670	2,883	250,000	3,240	3,613	250,000
2	8,610	5,365	5,591	250,000	6,571	7,199	250,000
3	13,241	8,168	8,168	250,000	10,085	10,485	250,000
4	18,103	11,085	11,085	250,000	13,795	14,035	250,000
5	23,208	14,113	14,113	250,000	17,717	17,797	250,000
6	28,568	17,259	17,259	250,000	21,863	21,863	250,000
7	34,196	20,517	20,517	250,000	26,239	26,239	250,000
8	40,106	24,307	24,307	250,000	31,320	31,320	250,000
9	46,312	28,230	28,230	250,000	36,696	36,696	250,000
10	52,827	32,279	32,279	250,000	42,387	42,387	250,000
11	59,669	36,453	36,453	250,000	48,457	48,457	250,000
12	66,852	40,750	40,750	250,000	54,885	54,885	250,000
13	74,395	45,174	45,174	250,000	61,692	61,692	250,000
14	82,314	49,729	49,729	250,000	68,905	68,905	250,000
15	90,630	54,408	54,408	250,000	76,547	76,547	250,000
16	99,361	59,207	59,207	250,000	84,647	84,647	250,000
17	108,530	64,120	64,120	250,000	93,258	93,258	250,000
18	118,156	69,137	69,137	250,000	102,418	102,418	250,000
19	128,264	74,239	74,239	250,000	112,188	112,188	250,000
20	138,877	79,414	79,414	250,000	122,622	122,622	250,000
25	200,454	81,715	81,715	250,000	163,767	163,767	250,000
30	279,043	66,082	66,082	250,000	219,952	219,952	303,116

The Death Benefit may, and the Account Values and Cash Surrender Values will, differ if premiums are paid in different amounts or frequencies.

**It is emphasized that the hypothetical investment results are illustrative only and should not be deemed a representation of past or future investment results. Actual investment results may be more or less than those shown. The death benefit, account value and net cash surrender value for a policy would be different from those shown if actual rates of investment return applicable to the policy averaged 0%, 6% or 8% over a period of years, but also fluctuated above or below that average for individual policy years. The death benefit, account value and net cash surrender value would also be different from those shown, depending on the investment.**

**Allocations made to the subaccounts of the separate account and the different rates of return of the subaccounts if the actual rates of investment return applicable to the policy averaged 0%, 6%, or 8%, but varied above or below that average for particular subaccounts. No representations can be made that these hypothetical rates of return can be achieved for any one year or sustained over any period of time.**

**APPENDIX B**  
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## Statement of Additional Information

The Statement of Additional Information contains further information about the Policies and is incorporated by reference (legally considered to be part of this prospectus). A table of contents for the Statement of Additional Information is on the last page of this prospectus. You may request a free copy by writing to National Life Insurance Company, National Life Drive, Montpelier, Vermont 05604 or by calling 1-800-278-3413. Please contact your registered representative or National Life if you have any questions or would like to request other information about the Policies such as personalized illustrations of an Insured's Death Benefit, Cash Surrender Value and Policy Values.

The Statement of Additional Information is also available at National Life's website at [www.nationallife.com](http://www.nationallife.com). Information about the Policy (including the Statement of Additional Information) can also be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Call (202) 551-8090 for information on the operation of the public reference room. This information is also available on the SEC's Internet site at <http://www.sec.gov>, and copies may be obtained, upon payment of a duplicating fee, by writing to the Public Reference Section of the SEC, 100 F Street, NE, Washington, D.C. 20549

*You should rely only on the information contained in this prospectus. No one is authorized to provide you with information that is different.*

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