



New legislation impacts rules on premium limits

March 5, 2021

What has changed?

The Consolidated Appropriations Act of 2021 (CAA), signed into law on December 27, 2020, includes changes to section 7702 of the Internal Revenue Code. These changes impact the interest rates used in the determination of the limits under:

- The Definition of Life Insurance (using the Guideline Premium and Cash Value Accumulation Tests) and;
- The 7 - Pay Test of IRC Section 7702A (TAMRA) used to determine if a policy is a modified endowment contract.

What policies will these changes effect?

The effect of these changes will increase the guideline premium and 7-pay limits for policies issued in 2021.

Previously, these interest rates had remained constant since the Deficit Reduction Act (DEFRA) was enacted in 1984. With the recent enactment of the CAA, however, the DEFRA and TAMRA interest rates are now floating rates that are determined based on the calendar year of issue, with the next possible change coming in January of 2023.

What is the impact on policyholders?

Once John Hancock has implemented the new limits, our policyholders will be able to put more premiums into their policies relative to the previous Guideline Premium and 7-Pay Limits.

What actions is John Hancock taking?

At John Hancock, we are evaluating the schedule for updating the Guideline Premium Limits (if applicable) and the 7-Pay Limits for all policies issued in 2021 and beyond. Until we update these limits, we will continue to administer and illustrate our policies using the DEFRA and TAMRA limits that were in effect in 2020, in compliance with IRC Sections 7702 and 7702A.

On a product-by-product basis, we are also evaluating whether to lower the minimum death benefit factors for compliance with the Cash Value Accumulation Test for newly issued policies. These factors are used to determine if there is required additional death benefit in a policy on a given day. Because these are contractually guaranteed factors and they are not required to be lowered in order to maintain compliance with IRC Section 7702, we will not change them after issue.

We will provide additional updates to our product portfolio as they become available.

Please contact your John Hancock sales representative or National Sales Support at 888 - 266 - 7498, option 2.

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