securian FINANCIAL®

TALKING POINTS

7702 changes

Overview

What is Internal Revenue Code (IRC) Section 7702?

IRC Section 7702 was enacted in 1984 to limit the use of life insurance contracts as tax-advantaged investment vehicles. It established two ways for a policy to qualify as life insurance:

- Guideline Premium Test (GPT) – typically used for universal life (UL) contracts
- Cash Value Accumulation Test (CVAT) – typically used for whole life (WL) contracts, but also available on UL contracts.

Modified Endowment Contract (MEC) changes were enacted in 1988 under IRC Section 7702A to further delineate maximum premium limits and tests in order to reduce the ability to take income out of a life insurance contract while the insured was still alive. MEC's are treated like annuities for the purposes of withdrawing lifetime income out of the contract.

What is the Consolidated Appropriations Act of 2021?

Passed on December 27, 2020, the Consolidated Appropriations Acts of 2021 made changes to IRC Section 7702. Specifically, for the first time in the existence of 7702, updates have been made to the interest rates used to determine premium limits for defining life insurance and for determining if a life insurance contract is a MEC.

What interest rate changes were made by the Consolidated Appropriations Act of 2021?

Below are the new 7702 interest rates for the year 2021. In addition, IRC Sections 7702 and 7702A have been changed to use a combination of benchmark and floating rates versus the previous static rates.

Test	Prior Rate	2021 Rate
MEC CVAT Guideline Level Premium	4%	2%
Guideline Single Premium	6%	4%

When do the 7702 changes made by the Consolidated Appropriations Acts of 2021 become effective?

The changes became effective 1/1/2021 and will likely remain the same for 2022. However, the 7702 interest rates will be re-evaluated every year.

What is the impact of the 7702 changes?

The 7702 changes will impact the calculations for GPT, CVAT and MEC testing for life insurance contracts.

Premium limits for policies to qualify as life insurance and MEC status are going to increase. This could make life insurance more efficient at accumulating cash value, which can be used as a source of funds in retirement.

To what Securian Financial policies do the 7702 changes apply?

The 7702 changes will apply to all life insurance policies issued after the Securian Financial implementation date in 2021. The changes will not apply to inforce policies. For policies issued in 2021 prior to the implementation date, the new premium limits will be available upon request (see details in the Transitions Rules section below).

How will the 7702 changes impact Securian Financial products?

The changes may increase projected distributions of top accumulation products by 4%-8%, depending on Age/UW.

Impact on Universal Life Contracts

What will Securian Financial be doing to implement the 7702 changes for UL contracts?

For all Universal Life contracts, Securian Financial will start using the new 7702 interest rates for CVAT, MEC, and GPT.

What will be the new 7702 interest rates for those calculations?

The new interest rates will be the greater of the prescribed rate and the guaranteed rate of the product. The table below indicates what these rates will be currently. The corridor factors for GPT will be unchanged.

Test	New Rate
CVAT (Net Single Premiums and Deemed Cash Value) MEC (7 Pay Limit) Guideline Level Premium	2%
Guideline Single Premium	4%

What is the expected impact to UL contracts that use the GPT to qualify as life insurance?

For UL contracts that use the GPT, the face amount that is required to have a premium or premium stream qualify as life insurance will decrease. Which means, for the same face amount, the MEC and GPT premium limits will increase under the new rule.

- For example, we estimate that premium limits may increase by as much as 100% for a 30-year-old, and by as much as 20% for a 60-year-old.

This increase in premium limits may allow policies to accumulate cash value in a more efficient manner because they may be able to carry a lower net amount at risk throughout the life of the contract.

What is the expected impact to UL contracts that use the CVAT to qualify as life insurance?

In addition to the MEC changes described above, the amount of death benefit required to qualify as life insurance for each dollar of account value will be decreasing.

Will the 7702 changes impact any optional agreements for UL products?

The changes to MEC and/or GPT will change the limits for:

- Early Values Agreement
- Guaranteed Insurability Option
- Inflation Agreement
- Level Term Insurance Agreement
- Surrender Value Enhancement Agreement
- Term Insurance Agreement
- Waiver of Premium Agreement

The Guaranteed Income Agreement will be discontinued as a result of the 7702 changes (see Transition Rules section below).

In addition to the 7702 changes, what other UL product changes will be made?

Securian Financial will be implementing pricing changes for four UL products – Eclipse Accumulator IUL, Balanced Growth Accumulator II, Premier VUL and Eclipse Survivor II IUL.

Impact on Whole Life and Term Life Contracts

What will Securian Financial be doing to implement the 7702 changes for whole life contracts?

For all whole life contracts, Securian Financial will start using the new interest rates for CVAT, MEC, and Guaranteed Cash Value later in 2021 (more information to follow).

What is the impact to Securian Financial term life insurance products?

There will be no impact to term life insurance products or agreements.

Impact on SecureCare Universal Life

Will the 7702 changes impact SecureCare?

Changes to SecureCare will be implemented in 2021 and will be communicated at a later date.

Timing and Transition Rules

What is the Securian Financial implementation date for the 2021 7702 changes and related pricing changes for UL products?

The implementation date for the 2021 7702 changes is Monday, May 3rd, 2021. Applications received on or after this date will be issued with the new 7702 premium limits and new pricing, and updated illustrations will be available.

What are the transition rules for applications received in 2021 prior to the implementation date of May 3rd?

For any application received prior to May 3rd that wants the old pricing and old 7702 premium limits, the policy must be issued by Friday, July 2nd. This means that the case must be underwritten, approved, paid and delivered (delivery receipt signed) by this date with a signed illustration run no later than July 2nd. Cases that have not completed the above requirements by July 2nd will be issued with the new pricing and will require a new, signed 7702-compliant illustration.

What are the transition rules for the Guaranteed Income Agreement (GIA)?

This agreement will be **discontinued** May 1st as it is not available for contracts using the new 7702 premium limits. The deadline to add this agreement to an existing contract sold under the old 7702 premium limits is Friday, October 1st, 3:00 p.m. Central. All requirements must be submitted by this date and time.

What are the transition rules for policies issued in 2021 prior to the implementation date of May 3rd?

Policies issued in 2021 prior to the implementation date will be able to request a reprocess in order to obtain the new 7702 premium limits starting July 1st (more information to follow).

Please keep in mind that the primary reason to purchase a life insurance product is the death benefit.

Life insurance products contain fees, such as mortality and expense charges (which may increase over time), and may contain restrictions, such as surrender periods. Variable life insurance products contain fees, such as management fees, fund expenses, distribution fees and mortality and expense charges (which may increase over time). The variable investment options are subject to market risk, including loss of principal.

Product features and availability may vary by state.

SecureCare may not be available in all states. Product features, including limitations and exclusions, may vary by state.

SecureCare Universal Life Insurance includes the Acceleration for Long-Term Care Agreement. The Acceleration for Long-Term Care Agreement is a tax qualified long-term care agreement that covers care such as nursing care, home and community-based care, and informal care as defined in this agreement. This agreement provides for the payment of a monthly benefit for qualified long-term care services. This agreement is intended to provide federally tax qualified long-term care insurance benefits under Section 7702B of the Internal Revenue Code, as amended. However, due to uncertainty in the tax law, benefits paid under this agreement may be taxable.

Additional agreements may be available. Agreements may be subject to additional costs and restrictions. Agreements may not be available in all states or may exist under a different name in various states and may not be available in combination with other agreements.

Policy loans and withdrawals may create an adverse tax result in the event of lapse or policy surrender and will reduce both the surrender value and death benefit. Withdrawals may be subject to taxation within the first fifteen years of the contract. Clients should consult their tax advisor when considering taking a policy loan or withdrawal.

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