

Important 7702 New Business Update

Additional Flexibility Now Available on CVAT Cases Placed Prior to April 19, 2021

The changes to IRC Section 7702 (“IRC 7702”) were signed into law on December 27, 2020 and became effective on January 1, 2021. We worked diligently to update our systems as quickly as possible and to inform producers that these changes may have impact on their cases already in flight. While the changes the IRS made to IRC 7702 generally have a neutral or positive impact on policy performance and case design flexibility, we have heard some concerns on the impact to certain inforce policies issued between January 1, 2021 and April 18, 2021. To accommodate these situations, we are introducing a backdating option for the small set of policies we believe may be impacted.

Impacted Policies

The policies most impacted are death benefit focused, single- or short-pay, highly funded designs that used the CVAT definition of life insurance in order to have the policy hit the corridor (*and increase the death benefit above the face amount*) in very early policy years.

For those cases, the new CVAT corridor factors are lower than those under IRC 7702 prior to January 1, 2021 and, therefore, the death benefit in early policy years may not be as high as originally illustrated.

By contrast, many clients will likely have a long-term policy view focused on the value of the death benefit and the potential for long term account value growth closer to life expectancy.

Backdating Option and Next Steps

Our illustration software is updated with the new IRC 7702 rules. If you sold a CVAT policy with an effective date in 2021 and placed prior to April 19th, 2021, you may re-run an illustration under the new rules and an illustration showing backdating to December 2020. After comparing to the as-sold illustration, you may determine you want to backdate the policy to receive the old IRC 7702 CVAT corridor factors. This solution may not be optimal in all situations. Please review the following [important considerations document](#) ahead of making the decision to backdate.

If you do not wish to request backdating, no action is needed on your part, and the policy will be updated with the new IRC 7702 tax rates. Please note, requests for backdating must be received by June 10, 2021.

As mentioned in earlier communications on IRC 7702, we plan to send impacted producers and customers a letter later this summer that reflects the updated tax limits. Please note that if backdating is elected, both you and your client will not receive this letter. We understand it’s important for you to see this communication in advance. Once these letters are finalized, we will share samples in a future communication prior to the mailing.

Please note that the process mentioned above, and the consumer letter do not apply to Private Placement Life Insurance business. For questions specific to PPLI, please contact your wholesaling team.

FOR FINANCIAL PROFESSIONAL USE ONLY. NOT FOR CONSUMER USE.

NR-12956759 Ed. 05/2021



Send these requests to: ili.problem.recon-reg.support@prudential.com, with “7702 Backdate Request” as the subject and include all requirements as outlined in the important considerations document. For illustration support please contact the national sales desk at 1-800-800-2738 option 1 or your local Prudential representative.

Thank you for your business!

Life insurance is issued by Pruco Life Insurance Company (except in NY), and Pruco Life Insurance Company of New Jersey (in NY). Both are Prudential Financial companies located in Newark, NJ

We do not provide tax, accounting, or legal advice. Clients should consult their own independent advisors as to any tax, accounting, or legal statements made herein. All guarantees, and benefits of the insurance policy are backed by the claims-paying ability of the issuing insurance company. Policy guarantees and benefits are not backed by the broker/dealer and/or insurance agency selling the policy, nor by any of their affiliates, and none of them make any representations or guarantees regarding the claims-paying ability of the issuing insurance company.

FOR FINANCIAL PROFESSIONAL USE ONLY. NOT FOR CONSUMER USE.

© 2021 Prudential Financial, Inc. and its related entities.

