

Universal Life Product Updates

FREQUENTLY ASKED QUESTIONS

What were the changes to IRC Section 7702?

Right before the end of 2020, Congress passed the Consolidated Appropriations Act of 2020. The new Act contains a provision that affects life insurance under Section 7702 of the U.S. Internal Revenue Code. These life insurance changes went into law, effective on January 1, 2021.

Under the IRC Section 7702 provisions, the interest rates used to calculate the guideline and modified endowment premiums were lowered. Ultimately, these changes allow for increased funding limits for the policyholder.

Under the new rules, clients with an interest in cash accumulation potential can benefit from increased premium funding opportunities beginning May 1, 2021.

What's the benefit to my client?

This change only serves to strengthen the value proposition of our IUL products. While maximized funding opportunities may be a new benefit to the client, keep in mind their coverage needs remain the same. Rather than potentially leaving your clients underinsured with the minimum death benefit solve, make sure they have the protection they need today while they solve for the appropriate cash value that will meet their retirement needs down the road.

For clients who may want to increase their funding in the future, it is important to understand how to add value without diminishing the power of their living benefits.

The following example is a FlexLife IUL policy for a female issue age 30 Std NS, \$250,000 face amount.

The maximum possible premium increases with the post-7702 adjustments. If the target face amount remains the same, the policyholder can pay more than before and increase their retirement income potential with target premium the same in both scenarios.

Run	Pay Maximum - Pre 7702	Pay Maximum - Post 7702
Face Amount	\$250,000	\$250,000
CTP	\$1,718	\$1,718
Premium Paid	\$4,582	\$7,942
Level Income	\$36,510	\$68,149

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Guarantees are dependent upon the claims-paying ability of the issuing company.

The following example is a FlexLife IUL policy for a female issue age 30 Std NS, solving for minimum face amount.

Comparing the minimum death benefit solve face amount with income as the goal, the face amount will be lower post-7702 adjustments. Rather than lower the death benefit and leave living benefits on the table, specifying the face amount can help ensure the policyholder still has the right amount of protection.

Run	Minimum Face Solve - Pre 7702	Minimum Face Solve - Post 7702
Face Amount	\$331,201	\$188,263
CTP	\$2,275	\$1,293
Premium Paid	\$6,000	\$6,000
Level Income	\$49,301	\$51,300

What's changing with National Life's products?

The interest rates used to calculate the guideline and modified endowment premiums on newly issued policies have been lowered. Once implemented, the changes will show up on a new policy in one of two ways:

1. An increase in max funding limits, or
2. Lower face amount solves. For case designs with lower face amounts, target premiums will be lower since target premiums are calculated based on face.

The differences in premium increases vary considerably by issue age and product. Changes are largest for younger insureds and considerably less for older issue ages. Guideline/MEC premiums have increased from 5% to 150% depending on issue age and product.

Changes to PeakLife:

In addition to updated guideline and MEC premiums, premium load increases will be made to PeakLife (8% years 1-10, 6% in year 11+).

Which products are being updated on May 1, 2021?

- FlexLife / FlexLife NL
- PeakLife / PeakLife NL
- BasicSecure / BasicSecure NL

How does this impact large cases, specifically with premium finance?

Increased funding limits are largely beneficial for premium financing cases. Additional Protection Benefit (APB) is typically used in premium finance case design. The new funding limits may require different blends of base and APB than with previous designs. For large case and premium finance questions, please contact our Advanced Markets team.

Will this change impact commissions?

Target premium rate changes will not be made with the product updates. For the most part, minimum face amount, max funding solves will be impacted. With the revised products, the face amount solved for in these cases will be lower. Target premium is calculated on face amount, and will therefore be lower.

How does this impact policies using the Cash Value Accumulation Test rather than Guideline?

Cash Value Accumulation Test corridor factors will decrease.

For questions, please contact our Sales Desk team: 800-906-3310, Option 1