

TALKING POINTS

SecureCare Universal Life (UL) 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 cash accumulation products
- Cash Value Accumulation Test (CVAT) – typically used for protection-focused products

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. MECs 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.

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

The changes became effective January 1, 2021 and will remain the same for 2022. However, while these changes were implemented in 2021, carriers were given until January 1, 2022 to comply with them. The 7702 interest rates will be re-evaluated every year.

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

Below are the new 7702 interest rates for the year 2021 and 2022. In addition, IRC Sections 7702 and 7702A have been changed to use a combination of benchmark and floating rates versus the previous static rates.

	Prior Rate	New Rate
MEC CVAT Guideline Level Premium	4%	2%
Guideline Single Premium	6%	4%
Maximum nonforfeiture rate	4.50%	3.75%

Impact on SecureCare UL

Will the 7702 changes impact SecureCare?

Long-term care (LTC) benefits: The new guaranteed interest rate will have no impact on the LTC benefit pool. Regardless of whether an applicant receives the old or new guaranteed interest rate, the amount of LTC coverage they receive will be the same.

Death benefit: The change to the guaranteed interest rate reduces the minimum required death benefit factors used in the Cash Value Accumulation Test (CVAT). While some plan designs are not affected by these changes, this can result in lower death benefit amounts for some SecureCare UL policies in the corridor:

- Generally, single-pay policies impacted by the 7702 changes will see a death benefit reduction immediately, while impacted multi-pay policies will see a reduction towards the end of the premium payment schedule.
- If a policy's death benefit amount is impacted by the 7702 changes, the difference between the old guaranteed interest rate's death benefit and new guaranteed interest rate's death benefit diminishes over time until they are eventually equal.

Cash surrender value: While some policies may see a slight increase in the cash surrender value, other policies will remain unaffected from the change.

Timing and Transition Rules

What are the transition rules for applications received no later than October 29?

Applications must be signed, in good order and received by Securian Financial before end of business on October 29, 2021 to be eligible for the old guaranteed interest rate. Applications received after October 29, 2021 will receive the new guaranteed interest rate.

- **Please note:** given the extended turnaround times the LTC industry is experiencing as a whole, we are not able to guarantee that applications received by October 29 will have all of their requirements completed in time for the policy to be paid in 2021. Our service teams understand the importance of meeting this deadline and are operating at full capacity.

Monday, November 1, 2021 – The new guaranteed interest rate will be available in the illustration software.

Friday, December 31, 2021 – Policy issuance and funding deadline to receive the old guaranteed interest rate

- **Applications received no later than October 29, 2021** must be approved, issued and paid before January 1, 2022 per The Consolidated Appropriations Act. If the policy is not approved, issued and paid by December 31, 2021, the policy will be reissued with the new guaranteed interest rate. This is a regulatory requirement, and NO EXCEPTIONS will be made.
- **Applications received after October 29, 2021** will receive the new guaranteed interest rate even if they are approved and paid by December 31, 2021. No exceptions will be made.

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, and may contain restrictions, such as surrender periods.

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.

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