

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.

National Life Group® is a trade name of National Life Insurance Company (NLIC), Montpelier, VT, Life Insurance Company of the Southwest (LSW), Addison, TX and their affiliates. Each company of National Life Group is solely responsible for its own financial condition and contractual obligations. Life Insurance Company of the Southwest is not an authorized insurer in New York and does not conduct insurance business in New York. Premium financing is offered and administered independently of the companies of National Life Group. National Life is bound only by the terms of the life insurance contracts issued by the Group insurance companies.

No bank or credit union guarantee | Not a deposit | Not FDIC/NCUA insured | May lose value | Not insured by any federal or state government agency

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

With the face amount remaining the same the policyholder can pay more than before, therefore increasing their retirement income potential. Since the face amount isn't changing, the target premium will remain the same as well.

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

	Pre 7702 2020 Version	Post 7702 2021 Version
Face Amount	\$250,000	\$250,000
Target Premium	\$1,718	\$1,718
Max Premium	\$4,582	\$7,942
Estimated Annual Income (assuming max premium)	\$36,510	\$68,149

73%
increase in max premium

86%
more potential income

The following example is a FlexLife IUL policy for a female issue age 50 Std NS, \$250,000 face amount.

	Pre 7702 2020 Version	Post 7702 2021 Version
Face Amount	\$250,000	\$250,000
Target Premium	\$5,605	\$5,605
Max Premium	\$12,489	\$17,170
Estimated Annual Income (assuming max premium)	\$18,560	\$26,991

37%
increase in max premium

45%
more potential income

The following example is a FlexLife IUL policy for a female issue age 40 Std NS, \$250,000 face amount.

	Pre 7702 2020 Version	Post 7702 2021 Version
Face Amount	\$250,000	\$250,000
Target Premium	\$2,758	\$2,758
Max Premium	\$6,884	\$10,667
Estimated Annual Income (assuming max premium)	\$24,354	\$41,260

55%
increase in max premium

69%
more potential income

When solving for the minimum death benefit / maximum cash value to generate retirement income potential, the face amounts will now be lower due to the 7702 adjustments. Rather than leaving living benefits on the table with the reduced death benefit, you can increase the face amount to ensure the policyholder still has the right amount of protection.

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

	Minimum Face Solve - Pre 7702	Minimum Face Solve - Post 7702	Differences
Face Amount	\$331,201	\$188,263	\$142,938
Target Premium	\$2,275	\$1,293	\$982
Premium Paid	\$6,000	\$6,000	\$0
Estimated Annual Income	\$49,301	\$51,300	\$1,999

43% Reduction
in Death and ABR Benefits

4% Increase
in Income

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?

Commission percentages are not changing. For minimum death benefit / maximum cash value solves, the face amounts will be lower. In turn, target premiums, which commissions are based off, will be lower as well.

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