

A Deeper Knowledge

Consolidated Appropriations Act, 2021 (CAA)

The Consolidated Appropriations Act, 2021 (H.R. 133), was signed into law December 27, 2020. It revises Internal Revenue Code (IRC) Section 7702 life insurance contract qualification tests.

Why It Matters

To qualify for federal income tax treatment—tax-free build-up of cash values of life insurance policies—a funded policy must satisfy either the Section 7702 cash value accumulation test (CVAT) or pass the Section 7702 guideline premium test (GPT). Since 1984, CVAT has been based on a hard-coded 4% fixed interest rate benchmark. GPT has had a benchmark rate of 6%.

Section 205 of the CAA modifies IRC Section 7702 by implementing a dynamic interest rate model for defining CVAT and GPT rates, allowing the minimum interest rates to move in accordance with changes in market interest rates.

The changes to § 7702 grant relief to carriers struggling to manufacture compelling and profitable product in the current economic environment. In effect, § 7702 has been modernized to reflect a sharply different rate environment than in 1984. Here's how:

- It lowers § 7702 minimum interest rates, effective January 1, 2021.
- CVAT 2%, GPT 4%; rates for 2021 and floating rates thereafter.
- Policy owners, advisors and carriers are all impacted by § 7702 changes.
- Net-positive for the industry.
- Net-positive for permanent accumulation sales.
- Potential net-negative for permanent death benefit sales.

Contact CreativeOne today at **800.992.2642** or visit creativeone.com/unplugged for more resources.



The Impact



Policy Owners

More premium dollars can be placed into life insurance policies, exposing greater funding to tax-free compounding. As a result, accumulation products will be more attractive and efficient.



Carriers

Organizations are assessing their product portfolios, updating product designs, refiling products in every state, reconfiguring illustrations, updating product management and administration systems, just to name a few! As a result, carriers will also be forced to overhaul their compensation to account for the radical premium changes.



Advisors

Moving forward it's critical to review all in force accumulation policies, considering the timing and availability of products to sell as changes are implemented throughout 2021. Suitability and appropriateness of products will be essential. Advisor compensation formulas will also change in 2021.

