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How F&G is Keeping 7702 Rate Changes Simple & Flexible

Congress passed the Consolidated Appropriation Act (CAA) at the end of 2020, and the Act includes a life insurance provision under Section 7702 of the U.S. Internal Revenue Code that lowers interest rates and increases policyholder funding limits. Specifically:

- The Guideline Single Premium interest rate decreased from 6% to 4%.
- The Guideline Level Annual Premium interest rate decreased from 4% to 2%.
- The Modified Endowment Contract (MEC) Premium or 7-Pay Annual Premium interest rate decreased from 4% to 2%.

For more of a recap, click **here** to read what we shared about the changes and their impacts earlier this year when they first became effective. The rest of our FAQ focuses on changes moving forward.

What does this mean for my clients?

Simply stated, the new rates will give clients the ability to pay more premium into an FIUL policy (without a higher face amount) and conversely, a specific premium amount will now allow for a lower death benefit without creating a MEC or guideline violation.

This can be a beneficial change for clients seeking to maximize cash accumulation potential within their FIUL policy.

What considerations should I keep in mind?

When offering F&G FIUL coverage to a client, maximizing cash accumulation potential by decreasing expenses may be a key consideration — however, providing adequate protection is the core purpose of any life insurance policy. The benefit to a client to increase their funding amounts while retaining an appropriate death benefit amount can pay off in greater accumulation potential down the road.

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Let’s look at some comparisons featuring F&G Pathsetter FIUL

Using the Barclays Trailblazer Sectors 5 Index interest crediting option

Example 1: Increased funding potential

A 45-year-old female at standard non-tobacco rates seeking $500,000 of death benefit previously could pay a maximum of $6,765.28 annually on an Option A – Death Benefit on F&G Pathsetter. Using the 7702 rates effective January 1, 2021, this same design would now allow up to $9,455.26 in annual premium. Over time, this increase in funding can have very favorable results for income potential. The following example demonstrates maximum level premium being paid for 20 years, followed by 20 years of variable policy loans at 5% interest on monthly disbursements.

	7702 Rates Before 1/1/21	7702 Rates Effective 1/1/21
Face Amount	$500,000	$500,000
Maximum Annual Premium	$6,765	$9,455
Target Premium	$7,500	$7,500
Illustrated Annualized Income	$23,710	$39,600

A 40% increase in cumulative premiums paid over 20 years yields a nearly 70% increase in projected income.

Example 2: Decreased Death Benefit Comparison

In considering a 35-year-old male at standard non-tobacco rates who is paying $300 monthly premiums through age 65 on F&G Pathsetter, there is a significant loss of death benefit protection for a nominal increase in illustrated income running the “new” 7702 rates. In this example, an Option A – Death Benefit is used, solving for minimum non-MEC death benefit, paying for 20 years followed by 20 years of monthly variable loans at 5% interest.

	7702 Rates Before 1/1/21	7702 Rates Effective 1/1/21
Face Amount	$349,335	$233,776
Maximum Annual Premium	$3,600	$3,600
Target Premium	$3,730	$2,496
Illustrated Annualized Income	$34,449	$39,168

The client loses over $100,000 in initial death benefit (33% decrease) and living benefits, for around 13% higher projected income.

How will the changes impact F&G illustrations moving forward?

Beginning on May 15, 2021, the 7702 rates effective January 1, 2021 will be used for all new illustrations. When using a solve for a maximum accumulation design, you will have the option to solve using the "new" rates — but the F&G software will default to solve using prior rates.

Impacted solve options include "Max Accum and Income" and "Max Accum." A checkbox within the solve screen will allow you to select "7702 rates effective 1/1/2021." If you are solving for minimum face amount, continuing to use the default rates will still result in very competitive accumulation and income without sacrificing substantial death benefit protection and living benefits for your client. In addition, this will allow greater flexibility in the future should your client want to increase premiums. Alternately, if you know the death benefit amount and are "solving" for premium, selecting the new rates will allow for a significant increase in premium, resulting in exponentially higher illustrated accumulation and income potential.

All of the example cases shown would qualify for F&G Exam-Free Underwriting![1]

[1] Policy approval is determined by a review of medical and personal history on the application, and may be subject to additional underwriting requirements at the discretion of F&G. Review F&G Underwriting Guidelines for additional details.

What does this mean for inforce policies?

The updated 7702 rates apply to any F&G policy with an effective date of January 1, 2021 or after. We will continue to share updates with you regarding inforce resources and client communications as that information is available.

Questions? F&G Life Internal Sales is available to assist with your product and case design questions: **800.357.8734** or **life.sales@fglife.com**.

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May increase the likelihood that your surrender value will be insufficient to cover the monthly mortality costs and expense charges unless additional premium is paid. If additional premium is not paid, your policy may terminate. Please consult your financial professional for details.

Surrenders, withdrawals and loans will reduce available death benefit and may be subject to surrender charges. Surrenders and withdrawals beyond basis may be taxable income and subject to penalties if taken prior to age 59 ½. Excessive and unpaid loans will reduce policy values and may cause the policy to lapse. In order to receive favorable tax treatments on distributions made during the lifetime of the insured (including loans), a life insurance policy must satisfy a 7-pay premium limitation during the first seven policy years. A new 7-year limitation will be imposed after certain policy changes. Failure to satisfy this limitation would cause your policy to be considered a Modified Endowment Contract (MEC).

Volatility control seeks to provide smoother returns and mitigate sharp market fluctuations. While this type of strategy can lessen the impact of market downturns, it can also lessen the impact of market upturns, potentially limiting upside potential.

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