



IRC § 7702 REVISIONS RESOURCE PAGE

General Information

The Compact Office has received questions about changes to life insurance nonforfeiture interest rates and death benefit factors due to federal legislation and changes in the economy. At the end of December 2020, Congress enacted the Consolidated Appropriations Act, 2021, which includes revisions to Internal Revenue Code Section 7702. In reaction to this and certain revisions to the Valuation Manual adopted by the NAIC in 2020, filing companies are making adjustments to individual life insurance products. This page is provided as an overview and resource for the purpose of assisting filers and regulators in understanding the applicable requirements of the Uniform Standards and filing processes. Please be aware of the following general caveats:

- This information is specific to individual life insurance nonforfeiture requirements. It is not applicable to annuity nonforfeiture requirements in any way.
- The principles and requirements of Mix and Match have not changed, including that a Compact filing cannot be used to revise nonforfeiture values or death benefit factors for state-filed products.
- The [pre-filing communication](#) process is open and available for questions from company filers about Uniform Standards requirements.
- The Expedited Review Program is now permanent and is available for filing submissions related to life insurance nonforfeiture and death benefit factor revisions. The eligibility criteria are loosened for filing submissions made for this purpose. Please consult the expedited review information on the Insurer Resources page and direct any inquiries to Comments@insurancecompact.org.

Related Weekly Tips

- [Individual Term Reprices](#) (9/17/20)
- [Filing Information Notice 2020-1 Issued](#) (11/19/20)
- [Making Changes to Interest Rates for Life Insurance Nonforfeiture Values](#) (1/14/21)
- [Cash Value Accumulation Test \(CVAT\) & Guideline Premium Test \(GPT\) Changes](#) (1/21/21)

Related Filing Information Notices

- [FIN 2020-1: New, Amended and Refiled Product Filings due to Changes in Interest Rates for Nonforfeiture Values in Life Insurance Products](#)
- [FIN 2017-1: Process for Revisions to Forms and Supporting Documentation in Compact Filings](#)

Frequently Asked Questions

Question 1: Is there an abbreviated filing process for product revisions needed only to comply with the new nonforfeiture rates?

Answer 1: Yes, the Compact Office has processes for expedited review and for updates to Supporting Documentation that maintain prior approval of all filings when static form language is not changing. Updates that affect only variable items and/or the actuarial memoranda can be submitted in accordance with FIN 2017-1.

The Expedited Review Program is available for any type of filing made in relation to life insurance nonforfeiture revisions. If you are unsure whether your company or filing qualifies for the program, we encourage you to submit a request so that the Compact Office can evaluate whether to loosen the criteria. See the [3/4/20 weekly tip](#). The expedited review queue is frequently expanded to more than four filings for the individual life insurance product line and for filings that do not meet at least one of the eligibility criteria.

Question 2: What kind of filing is required for updating the nonforfeiture interest rate for new issues of previously approved policies?

Answer 2: The approach a company may take depends on whether the nonforfeiture interest rate is on the specification page, whether the rate was filed as a bracketed variable item and/or range of values, and whether any revisions to form provisions are intended. FIN 2020-1 walks through several scenarios for updating products previously approved by the Compact.

Question 3: Can a company use a different interest rate basis for guaranteed values for different premium-paying periods for new issues of the same whole life policy form? For example: 2% for Paid Up at Age 100 and 3% for 15-Pay Life?

Answer 3: Yes, the actuary must demonstrate that the guaranteed cash values are at least as great as the Standard Nonforfeiture Law (SNFL) minimum values computed per the requirements of Valuation Manual VM-02. The nonforfeiture interest rate used to determine the guaranteed cash values may vary by premium paying period within the same whole life policy form as long as the rate is a variable on the specifications page, specifically addressed in the statement of variability, and the actuarial memorandum demonstrates that the guaranteed cash values for each premium paying period comply with the SNFL minimum values.

Question 4: Can a nonforfeiture interest rate vary by policy duration? For example, a whole life policy might have a rate of 3.75% for the first 20 years and 3.00% thereafter?

Answer 4: Yes, the nonforfeiture interest rate may vary by policy duration if the resulting cash values are at least as great as the SNFL minimum nonforfeiture values at each duration.

Question 5: Can a company change the mortality basis for guaranteed values of new issues from the composite (uni-smoke) CSO table to the CSO smoker-distinct tables? What about gender-blended, select and ultimate, and preferred versions of the CSO table?

Answer 5: Yes, in accordance with the Valuation Manual, VM-02 Section 4A(3). However, VM-02 Section 4A(2) states: “b. The 2017 CSO Preferred Structure Tables shall not be used to determine the minimum nonforfeiture standard.”

Question 6: How can the company provide higher cash values to in-force policies without filing new policies?

Answer 6: The Compact Office recommends consideration of these points:

- Would the company file an endorsement for use with Compact approved forms, or would the company reissue the specifications pages; i.e. is the nonforfeiture rate a variable on the specification page?
- The company would need to file an updated actuarial memo demonstrating compliance at the new nonforfeiture rate for all previously approved products.
- The actuary would need to confirm that the new values available on in force policies are at least as great as the values provided at issue for all previously approved products for all durations.
- The company would need to consider policies issued and already surrendered. In other words, should the owner have received a higher cash value at the time of surrender and how would the company ensure surrendered policies are not treated differently than in-force policies?

Question 7: Does a company need to submit a filing to reflect revised Cash Value Accumulation Test (CVAT) and Gross Premium Test (GPT) factors for Universal Life and Variable Universal Life products if the factors were bracketed as variable when the product was approved?

Answer 7: Other than the requirement that the table of death benefit factors be provided, the Compact does not review or approve information regarding a product's qualification as life insurance under Section 7702. If bracketed in a previously approved filing, CVAT/GPT factors may be changed without a new filing pursuant to the Variability of Information provision in the policy Uniform Standards permitting product specifications to be changed without prior notice, as long as the Statement of Variability presents reasonable and realistic ranges for the item being changed, or a descriptive statement as described in Answer 8 below. For Universal Life insurance policies, the Variability of Information provision is IIPRC-L-09-I, Section 1C(5).

Question 8: How can CVAT/GPT factors be revised if they were not previously bracketed as variable items?

Answer 8: If not bracketed in a previously approved filing, a new filing using the Supporting Documentation Update filing type may be used to make non-variable items variable in accordance with FIN 2017-1, Section II.C.2. The factors may be explained in the SOV by either (1) including a range for the factors, or (2) a statement describing how the factors may vary, such as by gender, issue age, risk class or due to changes in federal requirements. The SOV need not include both a range and a descriptive statement.

Question 9: Is a revised actuarial memorandum required to be filed with respect to CVAT/GPT details that have changed?

Answer 9: No, a company is not required to submit a revised actuarial memorandum if a previously approved actuarial memorandum included CVAT/GPT details that have changed.

Question 10: For accelerated death benefits, the incidental value test states that NSP1 and NSP2 are determined using an effective annual interest rate of 6%. Does this change as a result of the changes to Section 7702?

Answer 10: No, there is no change to the rate shown in the incidental value test, because Appendix A of the Additional Standards for Accelerated Death Benefits codifies the 6% rate.

Question 11: Should filers provide updated nonforfeiture demonstrations for previously approved universal life or variable universal life products due to the nonforfeiture interest rate change?

Answer 11: Companies do not need to submit a new actuarial memo for a previously approved UL/VUL product if the approved nonforfeiture demonstration is more conservative than what would result by using the updated nonforfeiture rate of 3.75%. More conservative means the previously approved demonstration produced lower maximum surrender charges than would result at 3.75%. If companies would like to document the applicable filings, the filer may provide a Note to Reviewer in each filing stating that the product continues to comply based on the 2021 nonforfeiture rate and that the company is not changing the guaranteed maximum expense charges and surrender charges. For example, the note could include a statement similar to the following: *"This demonstration of compliance with nonforfeiture values under section 6A of the NAIC Universal Life Insurance Regulation, Model #585 uses a 4% interest rate in the calculation of the initial expense allowance which is more conservative than the 3.75% nonforfeiture interest rate to be used effective 1/1/22. In addition, the guaranteed maximum expense and surrender charges will not change. Therefore, the nonforfeiture values for this product remain in compliance with the applicable Uniform Standards requirement."*

Question 12: May companies use a higher nonforfeiture rate for term life products that do not have nonforfeiture values?

Answer 12: No. VM-02 states *"the nonforfeiture interest rate for any life insurance policy issued in a particular calendar year beginning on and after the operative date of the Valuation Manual shall be equal to 125% of the calendar year statutory valuation interest rate defined for the NPR in the Valuation Manual for a life insurance policy with nonforfeiture values, whether or not such sections apply to such policy for valuation purposes."* This means that the appropriate statutory valuation interest rate to use in the determination of the nonforfeiture interest rate is the rate for life products *with* nonforfeiture values, e.g. for life policies subject to VM-20 Section 3.B.5 or 3.A.2. Thus nonforfeiture

Updated on June 3, 2021 to add Question #12

testing for term life products must be based on a nonforfeiture interest rate of 3.75% for guarantee durations longer than 20 years and 4.00% for guarantee durations of 20 years or less.