

## Client Alert: Legislative Update – COVID-19 Relief Bill Corrects Statutory Interest Rates for New Life Insurance Policies

**Consolidated Appropriations Act, 2021** included an update to Internal Revenue Code Section 7702 (definition of life insurance for tax purposes) interest rates to reflect current economic conditions. Unfortunately, recent economic reality, exacerbated by the COVID pandemic, combined with an outdated section of the tax code, threatened product availability essential to consumers' financial security. In response, the industry worked with Congress throughout 2020 to update section 7702 of the tax code in order to ensure a robust marketplace of permanent life insurance products would continue to be available for individuals, families, and businesses.

To qualify as life insurance contracts for tax purposes, permanent life insurance policies must meet several requirements under IRC Section 7702. These requirements include the use of two interest rate assumptions for determining premium amounts. The interest rate assumptions were set at 4% and 6% when Section 7702 was enacted in 1984.

In that year, the average long-term Treasury rate was near 12%. At the start of 2021, 10-year U.S. Treasury note rates are near 1%. The legislative change corrected the hard-coded interest rate assumptions so that new policies will move to a floating rate that reflects current market conditions.

The provision of lower interest rates means that for a given death benefit, the maximum premium that can be paid will be greater, potentially lowering insurance charges, and providing for greater cash value accumulation and lowering the risk of policy lapse.

Life insurance companies are now in the process of repricing all life insurance products, and as we learn more about the impact of these changes, we will update you with important developments.

**If you would like to discuss this recent legislative change and how it may impact new life insurance offerings, please reach out to your Mullin Barends Sanford Financial consultant or schedule a call via this [link](#).**

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