

SPECIAL REPORT



DATE: March 5, 2021

TO: Life Insurance Producers, Management, Office Administrators, and Technical Staff

SUBJECT: Allowing Updates to Policies Impacted by Section 7702 Tax Law Changes

Category	
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Allowing Updates to Policies Impacted by Section 7702 Tax Law Changes

By now, you're familiar with how the Consolidated Appropriations Act, 2021 (H.R. 133) changed the tax limit tests described in section 7702 of the US tax code. For additional information, refer to the Feb. 8, 2021 bulletin, "How the Latest COVID-19 Relief Act May Impact Newly Issued Policies." ([link](#))

While these changes primarily affect the pricing and product design of whole life insurance products, **they may also impact some universal life insurance policies, especially those used in overfunded supplemental income designs** in which tax limits may have the greatest bearing on premium and death benefit limits. The following transition guidelines describe the options available to policyowners with impacted policies.

For Policies Issued on or After January 1, 2021

- **If a client seeks to pay additional premiums:**
We anticipate updating our administrative and illustration systems to reflect the new limits for impacted policies by the week of April 5th. After the system updates, additional premiums may be paid up to the new limits. Until then, any premiums paid will be administered according to our current limits. No interim tools or calculators should be used to determine the new limits as their accuracy cannot be validated.
- **If a client would like to request a lower face amount or make any other desired policy change:**
To request a face amount reduction or any other desired policy changes, Pacific Life will allow policies to be reissued. **Note:** Reissue requests must be received no later than April 30th or 90-days from the policy issue date and are subject to Pacific Life's customary underwriting and new business requirements.
 - For policies that have been updated to reflect the new tax limits, Pacific Life will not impose a commission chargeback as long as the policies are being reissued solely to reduce the face amount. Policies originally issued reflecting the new tax limits are not eligible.
 - Contact your Pacific Life representative for any additional information.

For Policies Issued Before January 1, 2021

- **No reissues or policy updates allowed.**
The policy may be replaced via a 1035 Exchange. However, this exchange may not be in client's best interest as the new policy would be subject to new surrender charge schedule, and new coverage charge period. Furthermore, the cost of the replacement may not offset any cash value gain the policy may realize.

There are circumstances in which replacing your client's existing life insurance or annuity can benefit your client. As a general rule, however, replacement is not in your client's best interest. You should make a careful comparison of the costs and benefits, including any applicable surrender charges, of your client's existing policy and the proposed policy to analyze how a replacement may affect your client's plan of insurance. You should provide this detailed information to your client and discuss whether replacement is in your client's best interest.

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