2017 TAX CHANGES FOR LIFE INSURANCE
IT'S TIME FOR AN UPDATE!

The primary purpose of life insurance is to provide protection. Some policies also offer a savings component, providing clients with access to cash value that accumulates on a tax-advantaged basis. In 1982, tax exempt rules were created to determine how much growth can accumulate within the policy. As new products with new features were introduced, those rules just didn't keep up, causing inconsistent tax treatment among life insurance products.

Effective January 1, 2017, changes will be introduced to modernize the tax exempt rules. This will apply to all life insurance policies issued as of that date. In response, life insurance companies will change some of their permanent life insurance products and features to align with the new rules.

IMPACT OF THE 2017 TAX CHANGES

- Lower limit on the cash value that can accumulate within the policy means less tax-advantaged growth.
- Reduced maximum premiums or deposits means it will take longer to quick pay or overfund a policy.
- Less attractive tax treatment for corporately-owned policies means lower credits to the capital dividend account.

Current (G2) 2017 (G3)

Contact your clients now about this LIMITED TIME OPPORTUNITY to purchase 2016 permanent policies!

2017 tax changes

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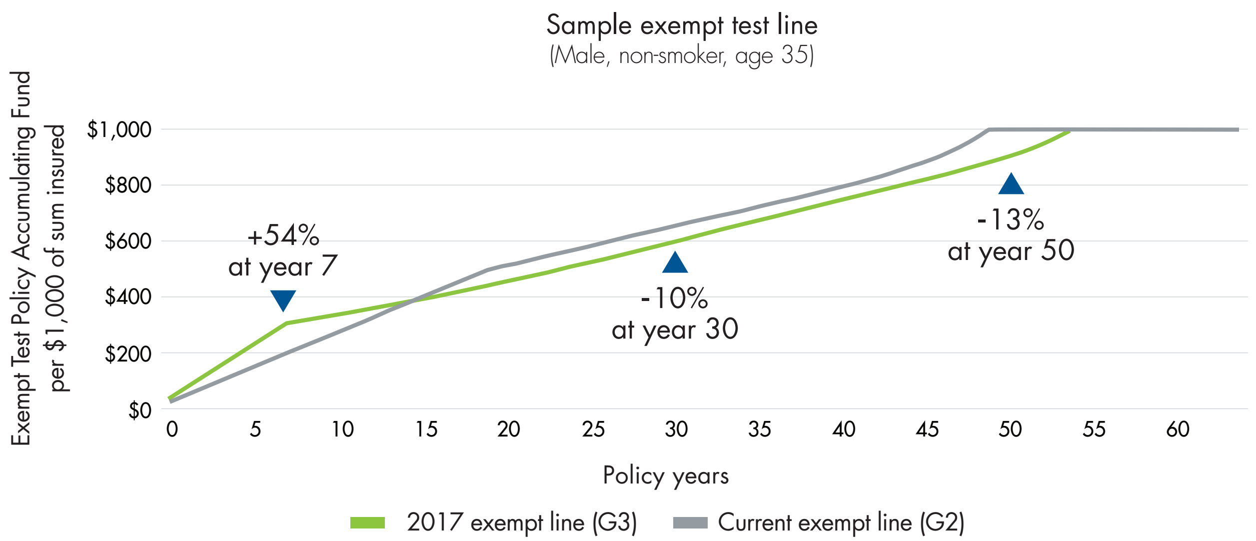
A CLOSER LOOK AT THE CHANGES

Exempt test policy (ETP)

The benchmark policy, also known as the exempt test policy, is used to determine if a policy is tax exempt. 2017 changes include:

	Current exempt test (G2)	2017 exempt test (G3)
Benchmark policy	• Based on a 20 pay endowment at age 85.	• Based on an 8 pay endowment at age 90. • New mortality tables.
Accumulating Fund (AF)	• Greater of the cash surrender value and the tax reserve. • Each insurer uses their own pricing or cash value assumptions to calculate the tax reserve. • Cash surrender value for universal life is equal to the account value less surrender charges.	• Greater of account value and the net premium reserve. • All insurers use the prescribed interest rate and mortality assumptions to calculate the net premium reserve. • Surrender charges are not taken into account.



What it means for your clients in general

- More savings room in the earlier years due to the change from 20 pay endowment to 8 pay endowment.
- Less savings room in middle and later years due to new mortality tables.
- Significant reduction in longer-term maximum funding for level cost of insurance (COI) universal life policies. Shorter period where maximum funding is available.

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8% RULE

Currently, the full death benefit of the policy may be increased by up to 8% annually if required to keep the policy exempt. In 2017, this increase will apply at a life coverage level. For multi-life policies, the 8% increase can only be applied to each particular life. This could result in less funding room on some policies.

250% TEST

Prevents underfunding in the early years to make room for large future deposits. In 2017, modifications should reduce 250% test failures on low funded policies and will apply to both existing and new policies.

CALCULATION OF NET COST OF PURE INSURANCE (NCPI)

The net cost of pure insurance is the annual cost associated with the mortality risk of the life insured. In 2017, a new mortality table will be introduced, along with changes to the following factors:

	Current factors (G2)	2017 factors (G3)
Calculating risk	Death benefit minus the Accumulating Fund or the cash surrender value.	Difference between the death benefit and the net premium reserve.
Substandard ratings	Not considered.	Will be considered.

What it means for your clients in general

- A lower net cost of pure insurance.
- This can potentially decrease the amount of premiums clients can deduct for income tax purposes when applicable.

CALCULATION OF THE ADJUSTED COST BASIS (ACB)

This is basically the sum of premiums paid less withdrawals less the net cost of pure insurance. In 2017, the lower net cost of pure insurance means the ACB will be higher. The change to the mortality tables means it will take longer before the ACB reaches zero.

What it means for your clients in general

- Universal life multi-life policies that pay out the account value on the first death may experience a taxable gain.
- Higher ACB means the owner may take a higher loan amount before being subject to taxation.
- Higher ACB means the owner will have less taxable income on policy surrender.
- With corporately-owned policies where the corporation is named as the beneficiary, the death benefit is paid to the corporation upon death of the life insured. Amounts in excess of the ACB are credited to the capital dividend account (CDA) and from there, paid to the life insured's estate. A higher ACB means less money is credited to the CDA and less money available for the life insured's estate.

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GRANDFATHERING FOR INFORCE POLICIES

Policies settled before January 1, 2017 are grandfathered under the current rules. However, certain policy changes could cause those policies to lose their grandfathering.

Sample change request	Current rules apply (G2)	2017 rules apply (G3)
Changes from smoker to non-smoker status	✓	
Medical underwriting to reduce a rating	✓	
Policy reinstatement	✓	
Addition of a non-life insurance rider (For example, a rider that does not increase the amount paid at death)	✓	
Switching dividend options on participating whole life	✓	
Change in cost of insurance option in universal life	✓	
Transfer of ownership[1]	✓	
Term conversions		✓
Most changes that require medical underwriting. (For example, increasing the death benefit, adding a term rider, adding or increasing excelerator deposit option after issue, etc.)		✓

GREAT REASONS TO ACT NOW!

Do you have existing clients who may want to make changes to their policies? Or potential clients who are looking for permanent life insurance protection?

Now is the perfect time to contact them. By having those changes and policies in effect before the end of 2016, they can receive all the benefits a grandfathered policy has to offer.

- Higher limit on the cash value that can accumulate within the policy means the potential for greater tax-advantaged growth.
- Greater maximum premiums or deposits makes it easier to overfund or quick pay a policy.
- More attractive tax treatment for corporately-owned life insurance policy.
- More attractive permanent products available for term conversion.
- More flexibility on multi-life policies.

For more information or ideas to help you get in touch with your clients, contact your Equitable Life Regional Sales Manager.

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[1]May have tax consequences.

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