

# 2021 Nonforfeiture Interest Rate for Life Insurance

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January 10, 2021

## **Disclosure**

This paper was developed to provide a general overview of the issues related to its subject matter. The comments and recommendations contained in this paper are not intended to provide specific consulting advice or a statement of actuarial opinion. The unique situation of an individual company should always be considered in determining an appropriate response.

## **Introduction**

The maximum nonforfeiture interest rate is equal to 125% of the maximum valuation interest rate, rounded to the nearest quarter of one percent, but not less than the applicable interest rate prescribed to meet the definition of life insurance in the Cash Value Accumulation Test (CVAT) under IRC § 7702.

Before the Consolidated Appropriations Act, 2021 (CAA) was signed into law, the 2021 maximum nonforfeiture rate for life insurance with a guaranteed duration more than twenty years was 4.00% (reduced from 4.50% in 2020). With the enactment of the CAA, the applicable interest rate prescribed for the CVAT was reduced from 4.00% to 2.00% for policies issued in 2021. As a result, the 2021 maximum nonforfeiture interest rate for life insurance with a guaranteed duration more than twenty years will now be 3.75% instead of 4.00%.

While this change occurred with very little notice, the standard nonforfeiture law permits companies to use the maximum nonforfeiture interest rate applicable to the preceding calendar year. This means that policies that met the requirements of the standard nonforfeiture law in 2020, may continue to be sold in 2021 with no change to the nonforfeiture values. The nonforfeiture values must be updated as required to reflect the 2021 maximum nonforfeiture rate to continue the sale of these products in 2022.

Please note that the interest rate used to calculate the maximum surrender charge for a universal life insurance product under NY Insurance Law §4221(n-1) is still floored at 4.00%.

The reduction in the maximum nonforfeiture interest rate will result in an increase in statutory minimum nonforfeiture values relative to similar contracts issued in 2020.

## **Response**

While companies have until January 1, 2022 to update the nonforfeiture values for currently marketed products, there may be some advantages to updating the nonforfeiture basis as quickly as possible for certain products. In particular, the IRC funding limits can be increased relative to the values in effect in 2020 if the rate or rates guaranteed in the policy are less than 4%. For universal life insurance, this refers to the guaranteed minimum crediting rate(s). For traditional life insurance, this refers to the nonforfeiture interest rate. See my white paper on the [Consolidated Appropriations Act, 2021](#) for additional details.

For new product development in 2021, it will probably be prudent to reflect the new maximum nonforfeiture interest rate in most contexts. This will increase the likelihood that the product will be approved and increase the product's shelf life.

**Trilogy Actuarial Solutions LLC**

Trilogy Actuarial Solutions is available to assist your organization with the issues identified in this paper. You may contact us by phone, email, or through our website. We would be happy to schedule a time to review your situation and collect the information that we need to develop a specific proposal at no expense or obligation to you.

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