

GAO

Briefing Report to the Honorable
Fortney H. (Pete) Stark, House of
Representatives

October 1987

TAX POLICY

Taxation of Single Premium Life Insurance







General Government Division

B-229198

October 16, 1987

The Honorable Fortney H. (Pete) Stark
House of Representatives

Dear Mr. Stark:

On June 29, 1987, you requested that we provide information on the sales, features, and tax treatment of single premium life insurance. This report supplements a briefing given to you and your staff on October 13, 1987.

As you requested, we examined (1) single premium life insurance as a tax-favored investment, (2) the growth in sales of single premium life insurance products and their magnitude compared to sales of non-single premium life insurance products, and (3) potential approaches for changing the tax-favored status of single premium life insurance products. Appendix I provides details on the scope and methodology of our work.

Appendix II outlines the results of our work and potential approaches for changing the tax-favored status of single premium life insurance. The policies, which allow a single premium to be paid up-front, combine death benefits with tax-free accumulation of income. Policyholders can also obtain loans against the policies at little or no cost because the income on funds invested is used to offset the interest charged to borrowers. Expressed in another way, the policies provide a device for capturing investment income without reflecting it on an income tax return. The attractiveness of these features, especially in light of recent congressional actions to limit the tax-favored status of other financial vehicles like annuity contracts and Individual Retirement Accounts, has caused dramatic growth in sales of new single premium life insurance products. Between 1984 and 1986, single premium life sales grew 318 percent, from a little over \$1.0 billion to over \$4.3 billion. At the same time, ordinary premium sales grew 13.3 percent, from \$8.3 billion to \$9.4 billion.

Although single premium life insurance meets the definition of life insurance for tax purposes, the policies may be inconsistent with congressional efforts pertaining to life insurance and investments. For example, tax law changes in

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the Deficit Reduction Act (DEFRA) of 1984 eliminated the tax-favored status of endowment life insurance products because of their heavy investment orientation. Likewise, DEFRA brought about the full taxation of distributions from Single Premium Deferred Annuities, which are similar to single premium life insurance products.

Should Congress decide to change the tax status of single premium life insurance we present two alternatives. One alternative would treat loans from single premium life insurance policies in the same manner as distributions from annuity contracts, under which that part of a policy loan that represents return on investment is considered as taxable income in the year withdrawn. The other alternative would change the definition of life insurance such that single premium contracts no longer qualify for favorable tax treatment if policy loans reduce the death benefit below a certain level. Appendix III illustrates the latter alternative in greater detail.

We hope you will find this information useful in your deliberations on the taxation of single premium life insurance policies. As agreed with your staff, we will make this information available to other interested parties upon request. If you have any questions regarding this material, please contact Mr. Natwar Gandhi of my staff on 376-0023.

Sincerely yours,



Jennie S. Stathis
Associate Director

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ABBREVIATIONS

GAO	General Accounting Office
LIMRA	Life Insurance Marketing and Research Association
NALU	National Association of Life Underwriters
ACLI	American Council of Life Insurance

OBJECTIVES, SCOPE, AND METHODOLOGY

Our objective was to examine the sales, design, and tax-treatment of single premium life insurance and provide information on the (1) tax-favored investment status of single premium life, (2) increases in sales of single premium life products relative to other life insurance products, and (3) potential approaches for changing the tax-favored status of single premium life products.

To examine the tax-favored status of single premium life insurance, we reviewed laws and regulations pertaining to the taxation of life insurance products. We discussed tax considerations on single premium life insurance with officials from the Office of Tax Policy, the Department of the Treasury; the National Association of Life Underwriters (NALU); and the American Council of Life Insurance (ACLI) in Washington, D.C. We also discussed the features, sales, and taxation of single premium life insurance with officials at selected insurance companies in Hartford, Connecticut. Furthermore, we collected data on the sales of various non-insurance investment products from the Federal Reserve Board.

To examine the sales of single premium life and other life insurance products, we used studies provided by the Life Insurance Marketing and Research Association (LIMRA). We also used LIMRA data on buyers and characteristics of single premium life policies. LIMRA is a life insurance association founded by American and Canadian companies to study common problems of life insurance marketing and management and is recognized as a principal source of insurance industry sales and marketing statistics. In 1985, LIMRA's 262 member companies received 83 percent of the total premium income for direct-written life insurance policies sold in the United States. This included 81 percent of total single premium life receipts.

LIMRA studies that we used in our work included the following:

- 1985, United States Ordinary Premium Net Gain. This report, published in 1987, covers ordinary life premium income of insurance companies operating in the United States. LIMRA obtained the data from a number of sources, including annual statements of life insurance companies and LIMRA surveys.
- Single Premium Life: A Hot Performer. This study, published in 1986, covers single premium life sales and

characteristics of products for 13 companies that offer single premium whole life and 5 companies that offer single premium variable life. The study did not reflect single premium life insurance sales or products for the entire life insurance industry.

- Single Premium Life: The Story Continues. This study, published in 1987, updates Single Premium Life: A Hot Performer and provides sales data through 1986. The study also describes some demographic data from LIMRA's 1985 U.S. Buyer Study.

We also used LIMRA data on 237 single premium life insurance policies sold to adult buyers, age 15 and over, by companies that contributed to LIMRA's 1985 U.S. Buyers Study. Because the single premium life policies data is a subset of the larger buyers' study, LIMRA's data on the 237 single premium contracts do not represent the universe of all single premium policies sold during 1985. However, LIMRA believes that the data is an indicator of the characteristics of buyers of single premium life policies during that year. We did not test the adequacy or accuracy of the data reported by LIMRA and the companies that provided the information.

To further analyze single premium products, we used publicly available data collected by A.M. Best Inc. and published in the June 1987 Life and Health Edition of Best's Review. This study, titled Single-Premium Whole Life Policy Comparison, provides information on the features of 42 single premium fixed-rate life policies and 13 single premium variable-rate life policies as of March 6, 1987. Best's data was compiled from a survey of approximately 99 companies that sell single premium products. We did not test the adequacy or accuracy of the data reported by the companies or by Best. The policies listed by Best do not represent the universe of single premium products sold by life insurance companies.

To provide information on approaches for changing the tax status of single premium life insurance, we reviewed a pamphlet titled Description of Possible Options to Increase Revenues prepared for the Committee on Ways and Means. This pamphlet, prepared by the staff of the Joint Committee on Taxation with the staff of the Committee on Ways and Means and published on June 25, 1987, provides a brief description of possible options to increase revenues in a variety of areas, including insurance policies. We discussed alternatives with insurance industry officials, reviewed industry documents pertaining to single premium life insurance tax treatment, and examined selected

single premium life policies submitted to the District of Columbia Department of Insurance. We also examined available insurance company illustrations of actual single premium life policies on the market. We did not examine the effect of the alternatives on other types of ordinary life insurance policies.

Our review was conducted between June and September 1987 and was performed in accordance with generally accepted government auditing standards.

OUTLINE ON THE RESULTS OF OUR WORK

OBJECTIVES

PROVIDE INFORMATION ON

- SINGLE PREMIUM LIFE INSURANCE AS A TAX-FAVORED INVESTMENT;
- THE GROWTH IN SALES OF SINGLE PREMIUM LIFE PRODUCTS RELATIVE TO SALES OF NON-SINGLE PREMIUM LIFE INSURANCE; AND
- APPROACHES FOR CHANGING THE TAX-FAVORED STATUS OF SINGLE PREMIUM LIFE INSURANCE.

METHODOLOGY

FOR THIS REPORT, WE

- REVIEWED PERTINENT LAWS AND REGULATIONS;
- DISCUSSED SINGLE PREMIUM LIFE ISSUES WITH THE DEPARTMENT OF THE TREASURY AND INSURANCE INDUSTRY OFFICIALS;
- COLLECTED AND ANALYZED INDUSTRY DATA ON SINGLE PREMIUM SALES, BUYERS, AND POLICY FEATURES; AND
- COLLECTED AND EXAMINED SINGLE PREMIUM POLICIES FROM THE DISTRICT OF COLUMBIA INSURANCE DEPARTMENT.

TAX LAWS AFFECTING LIFE
INSURANCE CONTRACTS

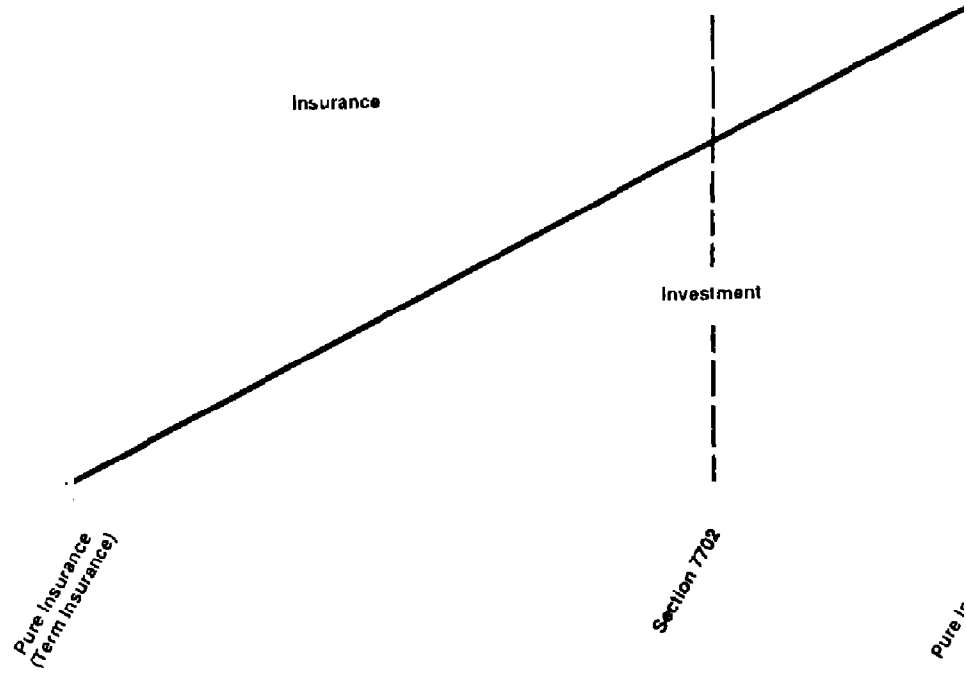
BECAUSE OF CONCERN OVER THE TAX ADVANTAGES OF INVESTMENT-ORIENTED LIFE INSURANCE, CONGRESS INCLUDED LANGUAGE IN THE DEFICIT REDUCTION ACT OF 1984 TO ADDRESS THE SALES OF LIFE INSURANCE PRODUCTS THAT

- OFFER EITHER GREATER INITIAL INVESTMENTS OR HIGHER INVESTMENT RETURNS, OR BOTH; AND
- MAXIMIZE THE ADVANTAGES OF TAX DEFERRAL INHERENT TO LIFE INSURANCE.

UNDER SECTION 7702 OF THE INTERNAL REVENUE CODE, FAVORABLE TAX TREATMENT IS AFFORDED TO POLICIES THAT MEET EITHER OF TWO STATUTORY TESTS:

- CASH VALUE ACCUMULATION TEST, IN WHICH THE CASH SURRENDER VALUE MAY NEVER EXCEED THE NET SINGLE PREMIUM NEEDED TO PAY ALL FUTURE BENEFITS.
- GUIDELINE PREMIUM/CASH VALUE CORRIDOR TEST, IN WHICH PREMIUMS CANNOT EXCEED GUIDELINE LEVELS, AND THE DEATH BENEFIT IS NOT LESS THAN A VARYING STATUTORY PERCENTAGE OF THE CASH SURRENDER VALUE.

Figure II.1: Life Insurance Versus Investment



TAX BENEFITS OF SINGLE
PREMIUM LIFE INSURANCE

SINGLE PREMIUM CONTRACTS FEATURE THE TAX-FREE ACCUMULATION OF INCOME WHICH IS SET ASIDE AND INVESTED TO FINANCE DEATH BENEFITS.

OTHER TAX BENEFITS INCLUDE:

- NEITHER THE POLICYHOLDER NOR THE BENEFICIARY IS EVER TAXED ON THE PROCEEDS OF THE POLICY IF IT IS PAID TO THE BENEFICIARY BY REASON OF DEATH OF THE INSURED, AND
- POLICY LOANS ARE NOT SUBJECT TO CURRENT TAXATION.

INVESTMENT ATTRIBUTES OF SINGLE
PREMIUM LIFE INSURANCE

SINGLE PREMIUM LIFE POLICIES DIFFER FROM OTHER LIFE INSURANCE CONTRACTS IN THAT A LARGE PREMIUM IS PAID UP-FRONT AND MORE FUNDS ARE IMMEDIATELY AVAILABLE FOR INVESTMENT. THUS,

- A SINGLE PREMIUM POLICY AFFORDS LARGER AND MORE RAPID INSIDE BUILD-UP, AND
- THE POLICYHOLDER IS ABLE TO REALIZE MORE QUICKLY THE TAX ADVANTAGE TRADITIONALLY RESERVED FOR LIFE INSURANCE PRODUCTS.

FEATURES OF SINGLE PREMIUM
LIFE INSURANCE CONTRACTS

AT LEAST 45 COMPANIES OFFER ONE OR MORE TYPES OF SINGLE PREMIUM PRODUCTS THAT PROVIDE

- FAVORABLE TAX TREATMENT INHERENT TO LIFE INSURANCE;
- MARKET-SENSITIVE, COMPETITIVE RATES OF RETURN THAT ACCRUE ON CASH VALUES; AND
- LOW COST OR EVEN NO-COST LOANS AGAINST THE INTEREST ACCRUED.

A STUDY OF SINGLE PREMIUM SELLERS CONDUCTED BY A.M. BEST IN MARCH 1987 SHOWED THE FOLLOWING:

- 42 COMPANIES OFFERED PRODUCTS THAT PAID POLICYHOLDERS A FIXED RATE ON CASH VALUES THAT RANGED FROM 7 TO 10 PERCENT.
- 13 COMPANIES OFFERED PRODUCTS WITH A VARIABLE RATE WHEREBY CASH VALUE APPRECIATION WAS TIED TO THE PERFORMANCE OF SELECTED INVESTMENT FUNDS.
- 71 PERCENT OF THE COMPANIES WITH FIXED-RATE PRODUCTS OFFERED ZERO NET-COST LOANS WHEREBY THE INTEREST RATE CREDITED TO THE POLICY ON BORROWED FUNDS EQUALED THE RATE CHARGED TO BORROW.
- 95 PERCENT OF THE COMPANIES THAT OFFERED A FIXED-RATE PRODUCT CHARGED A SUBSTANTIAL PENALTY TO SURRENDER THE POLICY DURING THE FIRST 3 TO 5 YEARS. GENERALLY, THE PENALTY DECLINED UNTIL NO FEE WAS CHARGED AFTER THE 9th OR 10th YEAR.

A STUDY CONDUCTED BY LIMRA IN 1986 SHOWED SIMILAR RESULTS FOR 18 COMPANIES THAT SOLD BOTH FIXED AND VARIABLE PRODUCTS. LIMRA ALSO INDICATED THAT

- 5 OF THE 13 COMPANIES WITH FIXED-RATE PRODUCTS OFFERED IMMEDIATE POLICY LOANS; AND
- 6 OF THE 13 COMPANIES WITH FIXED-RATE PRODUCTS OFFERED A "BAILOUT PROVISION" WHEREBY THE SURRENDER CHARGE WAS WAIVED IF SPECIFIC MARKET CONDITIONS, SUCH AS A 1 PERCENTAGE POINT OR MORE DROP IN THE INTEREST RATE BELOW THE GUARANTEED RATE, THREATENED THE INVESTMENT.

SALES OF SINGLE PREMIUM LIFE
INSURANCE PRODUCTS

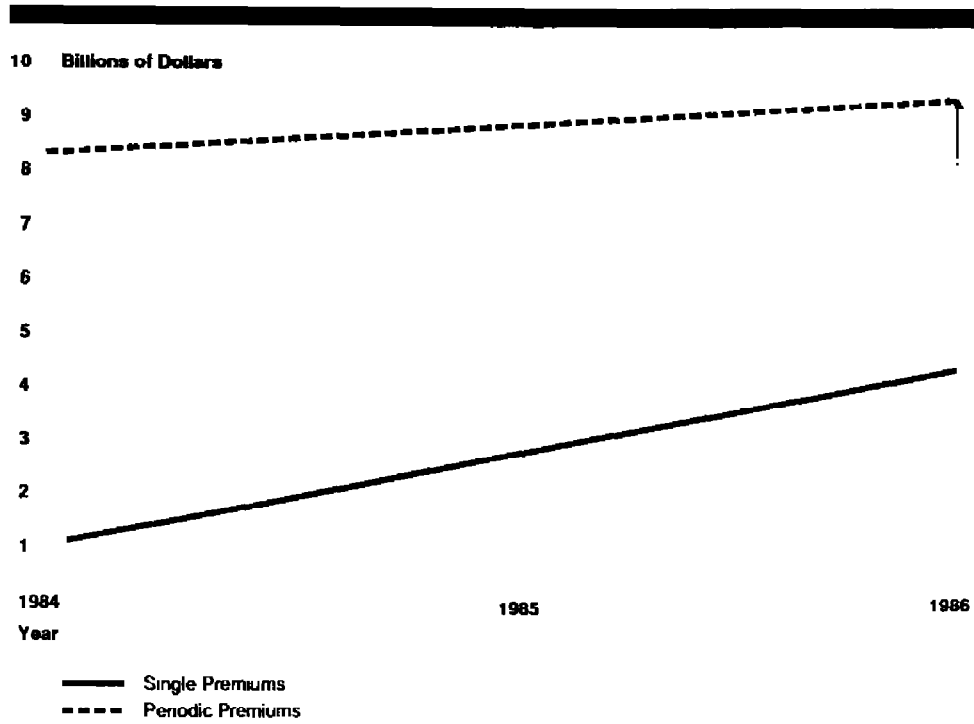
SINGLE PREMIUM SALES GREW 318 PERCENT BETWEEN 1984 AND 1986, FROM ABOUT \$1.0 BILLION TO OVER \$4.3 BILLION. ACCORDING TO LIMRA,

- STOCKBROKERS CAPTURED 52 PERCENT OF THE MARKET SHARE FOR SINGLE PREMIUMS IN 1986; AND
- THROUGH JUNE 1987, SINGLE PREMIUM LIFE SALES REACHED AN ESTIMATED \$4.4 BILLION.

LIMRA AND A.M. BEST ATTRIBUTE THE GROWTH OF SINGLE PREMIUM LIFE INSURANCE TO ITS ATTRACTIVE FEATURES AS WELL AS RECENT LEGISLATIVE INITIATIVES TO TAX INVESTMENT AND ANNUITY PRODUCTS UNDER THE TAX REFORM ACT OF 1986 AND THE TAX EQUITY AND FISCAL RESPONSIBILITY ACT OF 1982.

FIGURE II.2 COMPARES THE GROWTH OF SINGLE PREMIUM AND PERIODIC PAY LIFE INSURANCE PRODUCTS BETWEEN 1984 AND 1986. TABLE II.1 COMPARES THE GROWTH OF THESE PRODUCTS RELATIVE TO SALES OF SELECTED INVESTMENT PRODUCTS.

Figure II.2: Growth of Single and Periodic Premiums (1984 to 1986)



Source: Data used in the preparation of this graph obtained from LIMRA.

Table II.1:
Growth of Single Premium Life Insurance Sales
Compared to Sales of Periodic Pay Ordinary Life
Insurance and Selected Investment Products
 (\$ in Millions)

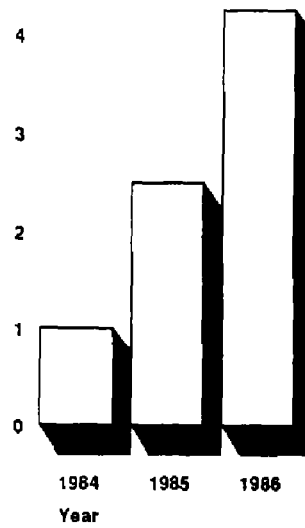
	<u>1984</u>	<u>1986</u>	<u>Rate of growth</u> <u>for 2-year period</u>
Single Premium	\$ 1,032	\$ 4,316	318.2%
Periodic Pay Life	8,300	9,400	13.3%
IRA/Keogh (in banks)	96,791	155,753	60.9%
New IRA/Keogh Accounts ^a	28,241	25,817	(8.6%)
Certificates of Deposit (1 to 2-1/2 years)	154,269	188,791	22.4%
New CDs (1 - 2-1/2) ^a	57,597	3,132	(94.6%)
Certificates of Deposit (2-1/2 years and up)	293,743	313,833	6.8%
New CDs (2-1/2 and up) ^a	(24,020)	3,721	----

^aNew accounts reflect the difference or net change between total accounts at the end of the year and total accounts at the end of the previous year.

Source: Data used in the preparation of this table obtained from LIMRA and the Federal Reserve Board.

Figure II.3: Growth of New Single Premium Sales (Excluding Paid-Up Additions)

5 Billions of Dollars



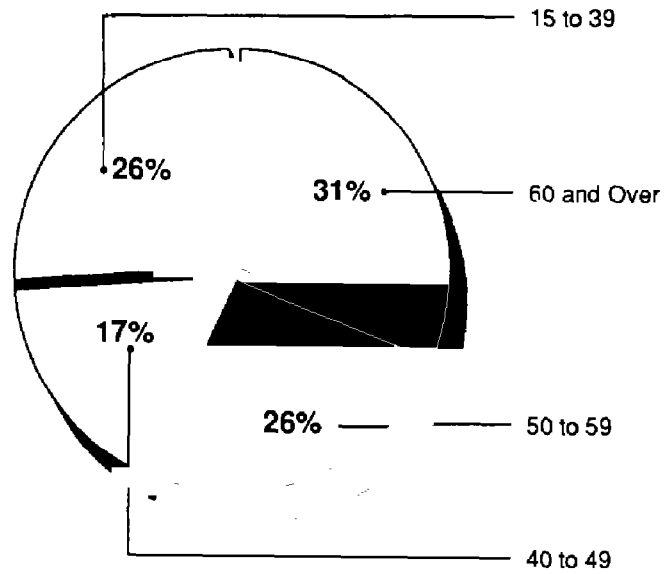
Source: Data used in the preparation of this graph obtained from LIMRA.

SINGLE PREMIUM LIFE
INSURANCE BUYERS

A 1985 LIMRA STUDY ON THE VARIOUS CHARACTERISTICS OF BUYERS AGED 15 AND ABOVE WHO PURCHASED 237 SINGLE PREMIUM LIFE INSURANCE POLICIES SHOWED THAT

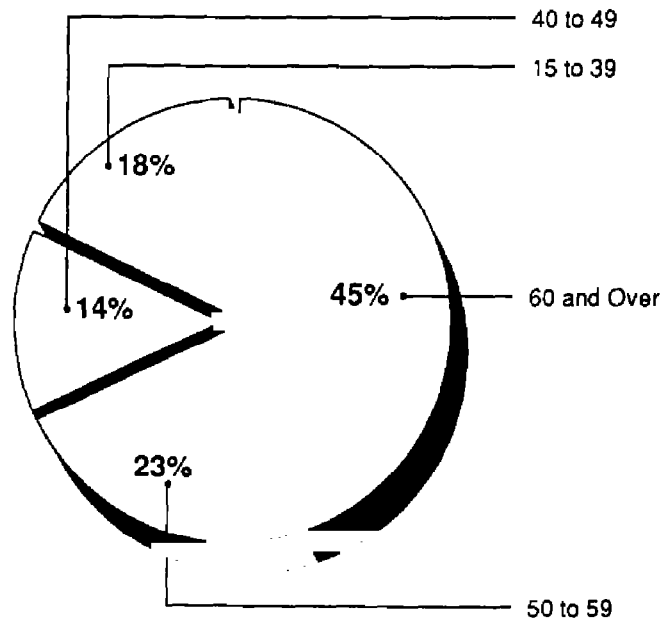
- THE AVERAGE SINGLE PREMIUM WAS \$31,000 FOR A POLICY THAT PROVIDED AN \$82,000 DEATH BENEFIT; AND
- FOR ALL PERIODIC PAY ORDINARY LIFE INSURANCE POLICIES, THE AVERAGE PREMIUM WAS \$548 FOR A POLICY THAT PROVIDED A \$58,840 DEATH BENEFIT.

Figure II.4: Percent of Policies Sold by Age Group (237 Policies Sold in 1985)



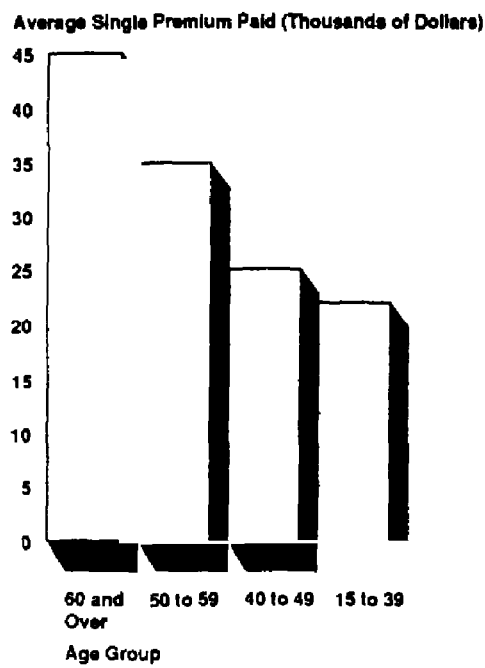
Source: Data used in the preparation of this graph obtained from LIMRA.

Figure II.5: Single Premiums Paid by Age Group (237 Policies Sold in 1985)



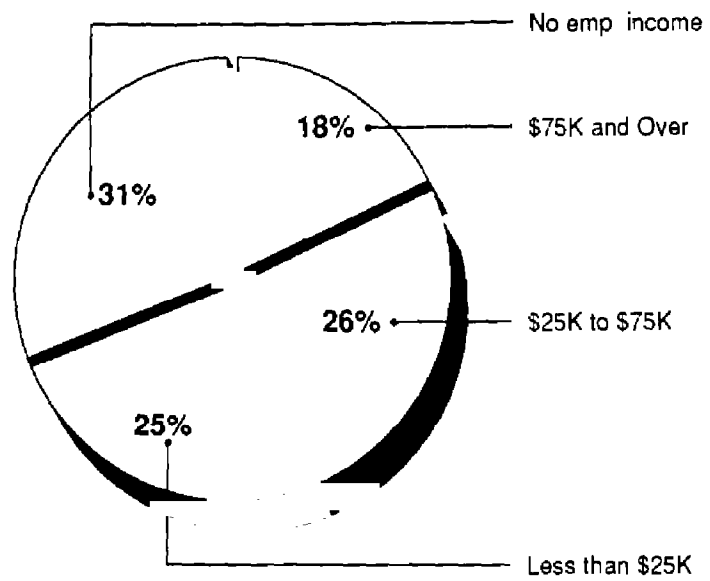
Source: Data used in the preparation of this graph obtained from LIMRA.

Figure II.6: Average Single Premium by Age Group (237 Policies Sold in 1985)



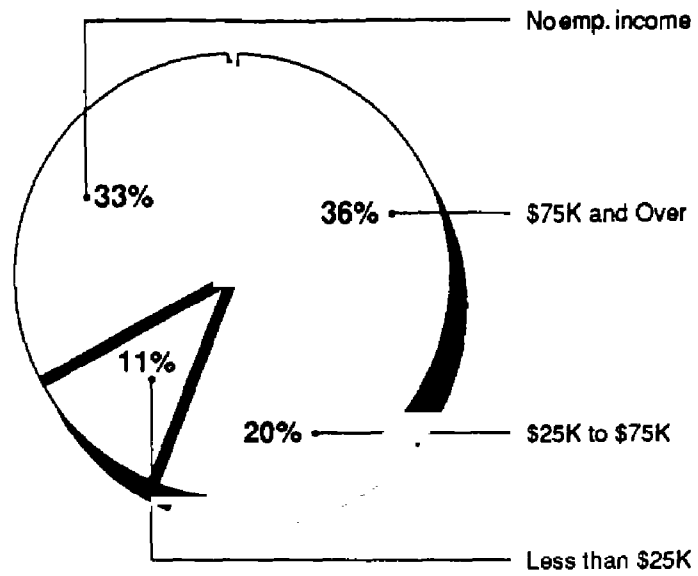
Source: Data used in the preparation of this graph obtained from LIMRA.

Figure II.7: Percent of Policies Sold by Emp. Income (237 Policies Sold in 1985)



Source: Data used in the preparation of this graph obtained from LIMRA.

Figure II.8: Single Premiums Paid by Emp. Income (237 Policies Sold in 1986)



Source: Data used in the preparation of this graph obtained from LIMRA.

Figure II.9: Average Single Premium by Emp. Income (237 Policies Sold in 1985)



Source: Data used in the preparation of this graph obtained from LIMRA.

TAX POLICY ISSUES CONCERNING
SINGLE PREMIUM LIFE INSURANCE

INDUSTRY OFFICIALS MAINTAIN THAT SINGLE PREMIUM LIFE INSURANCE SHOULD RETAIN ITS TAX-DEFERRED STATUS BECAUSE:

- THE PRODUCT IS INSURANCE AS DEFINED BY LAW.
- THE LIFE INSURANCE COMPONENT OF SINGLE PREMIUM PRODUCTS DOES NOT MAKE THEM GOOD INVESTMENTS RELATIVE TO PURE INVESTMENT PRODUCTS, SUCH AS MUTUAL FUNDS AND MUNICIPAL BONDS.
- POLICYHOLDERS BUY SINGLE PREMIUM LIFE PRODUCTS FOR LIFE INSURANCE PROTECTION AND NOT AS TAX-SHELTERED INVESTMENTS.

THE ATTRIBUTES AND FEATURES OF SINGLE PREMIUM LIFE INSURANCE MAY BE INCONSISTENT WITH CONGRESSIONAL EFFORTS PERTAINING TO LIFE INSURANCE AND INVESTMENTS.

- SINGLE PREMIUM LIFE INSURANCE IS GEARED TOWARD INDIVIDUALS WITH HIGHER INCOME LEVELS AND MAY PROVIDE OPPORTUNITIES FOR TAX-SHELTERING.

- SINGLE PREMIUM LIFE INSURANCE POLICIES TEND TO BE SIMILAR TO SINGLE PREMIUM DEFERRED ANNUITY CONTRACTS, BUT WITHDRAWALS FROM ANNUITY CONTRACTS DO NOT GET THE SAME FAVORABLE TAX TREATMENT AFFORDED SINGLE PREMIUM LIFE POLICIES.

ALTERNATIVE APPROACHES TO CHANGE
THE TAX STATUS OF SINGLE PREMIUM
LIFE INSURANCE

- CHANGE THE CORRIDOR TEST SO THAT SINGLE PREMIUM CONTRACTS NO LONGER QUALIFY IF POLICY LOANS REDUCE THE DEATH BENEFIT BELOW A CERTAIN LEVEL.

- TREAT POLICY LOANS IN THE SAME MANNER AS DISTRIBUTIONS UNDER ANNUITY CONTRACTS. THUS, LOANS OR DISTRIBUTIONS FROM INCOME WOULD BE TREATED AS TAXABLE INCOME IN THE YEAR WITHDRAWN.

ADJUSTING THE DEFINITION OF LIFE INSURANCE

Table III.1:
Statutory Table of Applicable Percentages To
Determine The Minimum Death Benefit
Under the Cash Value Corridor Test

<u>Attained age at the beginning</u> <u>of the contract year</u>		<u>Applicable percentages</u>	
<u>More than</u>	<u>But Not</u> <u>More than</u>	<u>From</u>	<u>To</u>
0	40	250%	250%
40	45	250	215
45	50	215	185
50	55	185	150
55	60	150	130
60	65	130	120
65	70	120	115
70	75	115	105
75	90	105	105
90	95	105	100

Source: Table obtained from Section 7702(d)(2) of the Internal Revenue Code.

Table III.2:
Sample Single Premium Life Policy
Without Borrowing

Male Age 55, Premium \$50,000,
 Initial Death Benefit \$121,978, Current Accum. Rate 8.75%

<u>Year</u>	<u>Accumulated Account Value</u>	<u>Death Benefit</u>	<u>Ratio of Death Benefit to Accum. Acc't Value</u>	
			<u>Actual</u>	<u>Statutory Minimum</u>
1	\$54,375	\$121,978	224%	150%
2	59,133	121,978	206	146
3	64,307	121,978	190	142
4	69,934	121,978	175	138
5	76,053	121,978	161	134
10	115,681	141,131	122	122
15	175,958	204,111	116	116
20	267,643	286,378	107	107

Source: Data used in the preparation of this table obtained from actual policy illustration and Section 7702(d)(2) of the Internal Revenue Code.

Table III.3:
Sample Single Premium Life Policy
With Borrowing

Male Age 55, Premium \$50,000,
 Initial Death Benefit \$121,978, Current Accum Rate 8.75%
 Amount borrowed equals interest earned in one year on original single premium.

Year	Accum. Acc. Val.	New loan at Beg. of Year	Cum. Loan at End of Year ^a	Death Benefit	Death Ben. After Loan	Ratio of Death Ben. to Accum. Acct. Val.		
						Act.	Minus Loan	Stat. Min.
1	\$54,375	\$0	\$0	\$121,978	\$121,978	224%	224%	150%
2	59,100	4,375	\$4,725	121,978	117,253	206	198	146
3	64,203	4,375	9,828	121,978	112,150	190	175	142
4	69,714	4,375	15,339	121,978	106,639	175	153	138
5	75,666	4,375	21,291	121,978	100,687	161	133	134
6	82,095	4,375	27,720	121,978	94,258	149	115	130
7	89,037	4,375	34,662	121,978	87,316	137	98	128
8	96,535	4,375	42,160	121,978	79,818	126	83	126
9	104,633	4,375	50,258	129,745	79,487	124	76	124
10	113,379	4,375	59,004	138,322	79,318	122	70	122
15	168,791	4,375	114,416	195,797	81,381	116	48	116
20	250,209	4,375	195,834	267,724	71,890	107	29	107

^aCumulative with interest.

Source: Data used in the preparation of this table obtained from actual policy illustration and Section 7702(d)(2) of the Internal Revenue Code.

Table III.4:
Effect of Borrowing on Sample Single
Premium Policy if Definitional
Changes Were Adopted

Male Age 55, Premium \$50,000, Initial Death Benefit \$121,978

Year	Accumulated account value at year-end ^a	New loan at beginning of year ^b	Cumulative loan at end of year ^c	Gross death benefit	Death benefit after loan	Ratio of death benefit after loan to accumulated account value	Statutory minimum percent
1	\$ 54,375	\$ 0	\$ 0	\$121,978	\$121,978	224%	150%
2	59,100	4,375	4,725	121,978	117,253	198	146
3	64,203	4,375	9,828	121,978	112,150	175	142
4	69,714	4,375	15,339	121,978	106,639	153	138
5	75,671	3,715	20,578	121,978	101,400	134	134
6	82,187	(6,565)	15,134	121,978	106,844	130	130
7	89,325	(8,059)	7,641	121,978	114,337	128	128
8	97,141	(7,641)	0	121,978	121,978	126	126
9	105,641	0	0	130,995	130,995	124	124
10	114,885	0	0	140,159	140,159	122	122
20	265,799	0	0	284,405	284,405	107	107

^aInterest is 8.75% for amounts not borrowed. Interest is 8.00% for amounts borrowed.

^bBorrowing is \$4,375 (8.75% interest on \$50,000) for the 2nd, 3rd, and 4th years. At beginning of the 5th year, the maximum loan available is \$3,715 in order to keep from violating the corridor test - using the death benefit after loan in the calculation. Thereafter, the loan must be reduced by cash payments at the beginning of the 6th, 7th, and 8th years. At the end of the 8th year and beyond, there is no outstanding loan.

^cCumulative with interest at 8%.

Source: Data used in the preparation of this table obtained from actual policy illustration and Section 7702(d)(2) of the Internal Revenue Code.

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