

‘The Times They are A-Changin’

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*“Come gather 'round, people
Wherever you roam
And admit that the waters
Around you have grown”*

Bob Dylan released his song, *The Times They Are A-Changin’*, back in 1964, and the last couple of days it’s been stuck in my head. In no industry do his words seem truer than in ours today.

If you haven’t already heard, the 2017 CSO tables are being introduced, which means the products I can offer to you today are about to change in a major way. The three-year phase-in period has come to an end and beginning January 1, 2020, every company will be required to use the new mortality table.

Mortality tables have been around for ages. They show the statistical probability of life expectancy across different ages, genders, and other life categories. The Commissioners Standard Ordinary Table (“CSO” for short) was first introduced in 1941. It was developed by actuarial organizations as a way to set a standard for life insurance reserve calculations, and it has a significant impact on how life insurance products are designed and priced.

The CSO table is used for calculating a policy’s minimum cash value, statutory reserves, and minimum death benefit-to-premium ratio. The last time the CSO was changed was back in 2001. With medical advancements, technology, and new lifestyle trends all leading to longer life expectancy, I’m surprised it took so long to update the CSO again. Today our industry has access to more data than ever before, thus allowing insurance companies to accurately base their product designs and decisions.

What will the 2017 CSO Affect?

Tax & Surplus Planning

The development of Guideline Premiums, Cash Value Accumulation Test (CVAT) factors, 7-Pay Premiums used in testing compliance with IRC Sections 7702 & 7702A

Development of new life insurance products

Maximum COI rates that can be used with interest-sensitive products

What does this mean for you? *Change*, and lots of it.

Companies across the board are updating, changing, and eliminating products. It’s happening so fast it’ll make your head spin. Most of our carries are touting smooth transitions but we all know that changes frequently come with their share of headaches. Some products are already gone, some require applications to be signed and in-house by the middle of October, and some companies have not even introduced their new compliant product guidelines. Like I said, don’t expect things to be smooth.

Mortality rates improved in the 2017 table, but these rates are only one of several factors used in product design and pricing. Therefore, I can't tell you if the premium rates will be better or worse. I can't tell you what changes may or may not be made to conversion privileges. What I can tell you is that permanent policies, especially those designed to maximize cash value growth are likely to be less efficient because the maximum premium that can be paid per dollar of death benefit will be lower.

If you have term insurance and want to diversify the time to do so is NOW.
If you'd like to use life insurance as a way to build tax free retirement, the time to do so is NOW.
If you've ever considered taking out a permanent policy for any reason the time to do so is NOW.

I'll leave you with Bob Dylan's words once again:

*"If your time to you is worth savin'
And you better start swimmin'
Or you'll sink like a stone
For the times they are a-changin'"*

Give me a call to discuss how these changes could affect insurance planning for you and your family. I can't predict what the future holds for life insurance products moving forward but it looks as if all permanent products will cost more moving forward. Morgan and I are making changes to our insurance portfolio and I recommend you consider doing the same.

Sources:

1. Principal Financial Services
2. "Are your company and products ready for the new standard mortality table?" by Bill Aguayo, SVP, Actuarial Services, Insurance Technologies

