



Let's talk about...Grandfathering and the new tax legislation

Effective January 1, 2017 new tax legislation will come into effect. This legislation may have an impact on *policies issued before January 1, 2017* if certain changes are made to the policy *after December 31, 2016*.

Existing policies already in place before January 1, 2017 will be grandfathered, meaning that the new tax legislation will not apply, so long as certain policy changes are not made on or after January 1, 2017.



Below is a list of changes that can be made to a policy as well as whether grandfathered status will be affected. All transactions are subject to terms and conditions as specified in the contract.

Action	What is this?	Does it affect grandfathered status?
Addition of a rider or coverage	Addition of a rider or coverage means adding an additional coverage to an existing policy. In some cases the addition can be on an existing or newly insured person.	YES. Additional coverages require underwriting and will therefore cause the entire policy to lose its grandfathered status.
Cancellation of a coverage or rider	This refers to taking a coverage or rider off of an existing policy.	NO. Cancellation of a coverage or rider does not impact the grandfathered status of a policy.
Change in date of birth	In some cases a date of birth may have been incorrectly recorded on the policy.	NO. If a date of birth has been incorrectly recorded, the policy will not lose its grandfathered status
Change of coverage type	Change of coverage type means a change in cost of insurance, from annual renewable term with level or increasing death benefit to level cost of insurance with an increasing death benefit.	NO. If the change does not require any medical underwriting, the policy will maintain its grandfathered status. If, however, there is an increase in the Net Amount At Risk (NAAR), the change in cost of insurance from annual renewable term to level cost of insurance may require medical underwriting. If the change requires underwriting then the entire policy will lose its grandfathered status.
Change in risk classification (smoking status)	Changing the risk classification of coverage from smoker to non-smoker.	NO. If the risk classification is changed from smoker to non-smoker, the policy will not lose its grandfathered status.
Converting a term to a universal life policy	This is the conversion of a term policy, or rider, to an eligible universal life policy without evidence of insurability. A policy fee will apply.	YES. When the entire policy is converted, the policy will lose its grandfathered status. However, in the case of partial conversions where some portion of the term coverage is converted to an eligible universal life policy and the rest of the term coverage remains in place, the remaining term policy will maintain its grandfathered status while the new universal life policy issued will lose its grandfathered status.
Gender change	In some cases the gender of the client may have been recorded incorrectly.	NO. If there is a gender change, the policy will not lose its grandfathered status.

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Guaranteed Insurability Option	This option automatically increases the face amount of the policy at a specified time.	NO. All of <i>ivari</i> 's guaranteed insurability options were prescribed prior to 2017, and at the time that the policy was issued. As a result, when the guaranteed insurability option is exercised, the policy will not lose its grandfathered status.
Joint first-to-die switch to joint last-to-die	Starting in policy year 10,* this option allows the client to exchange a joint first-to-die coverage for joint-last-to-die coverage without evidence of insurability. * Subject to terms and conditions as specified in the contract.	NO. If this option is exercised the policy will not lose its grandfathered status.
Policy split or Severance Option	This option allows a coverage on a multiple life policy to be split off the policy and issued as a standalone policy. A policy fee will apply.	YES. <i>ivari</i> considers the coverage that is being split from the original policy to be a newly issued policy so it will lose its grandfathered status. However, the original policy, and its respective coverages, (if applicable) will maintain grandfathered status.
Reduction or removal of a rating	Reduction or removal of a rating from an existing coverage.	NO. Even though the policy is medically underwritten to change from substandard to standard rating, the policy will not lose its grandfathered status.
Reinstatement of a policy or coverage	This is the reinstatement of a lapsed policy.	NO. Reinstatement of policy or coverage does not impact the grandfathered status.
Renewal of term coverage	Term 10 and Term 20 plans are renewable every 10 and 20 years respectively, and a Term 30 plan is renewable to a Term 100 permanent plan.	NO. Renewal of term coverage will not result in the loss of grandfathered status.
Replacement	Replacement allows an existing policy to be replaced with a new one. Typically the new policy is a different type of insurance than the current policy being replaced.	YES. This will require underwriting and therefore will cause the policy to lose its grandfathered status.

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Single Life Insurance Option	This option allows the joint coverage to be split into two or more separate single life coverages, depending on the number of joint insureds under the original coverage, without evidence of insurability.	YES. Since a new policy is being created, the new policy will lose its grandfathered status.
Substitution of life insured	This option allows for a life insured on a policy to be substituted with another life insured.	YES. Since a new life insured is being added, medical underwriting is required and therefore the policy will lose its grandfathered status.
Survivorship Option	Within ninety (90) days of the death of first joint insured, this option allows, the surviving joint insured(s) to apply for single life insurance coverage without evidence of insurability.	YES. Since a new policy is created, the policy will lose its grandfathered status.
Term exchange	<p>Term exchange option allows Term 10 clients to exchange their Term 10 coverage for either a Term 20 or Term 30 coverage.</p> <p>Exchanging Term 10 for Term 20 coverage</p> <p>Exchanging Term 10 for Term 30 coverage</p>	<p>NO. <i>ivari</i> does not consider a Term 10 to Term 20 exchange a change in type of insurance. Therefore when exchanging a Term 10 policy for a Term 20 policy, the Term 20 policy will not lose its grandfathered status.</p> <p>YES. <i>ivari</i> considers exchanging a Term 10 for a Term 30 to be a change in type of insurance as the Term 30 plan renews to a Term 100 permanent plan. In this case, the Term 30 policy will lose its grandfathered status.</p>
Transfer of ownership	This is a transfer of ownership of the policy from one policyowner to another.	NO. The policy will not lose its grandfathered status.



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