



Group Term Carve Out Using REBA

Do you have business clients that provide large amounts of group term insurance for their executives or who would like to do more for their key executives by providing them with portable, cash value life insurance? Do they feel there is a need for “golden handcuffs” to keep those key executives from going to a competitor? And would they like to deduct the premiums? If so, consider a group term carve out plan using a restricted executive bonus arrangement (REBA).

FACTS: Advanced Micro Widgets (AMW), Inc., is a profitable business in the highest corporate income tax bracket, 35%. AMW manufactures miniaturized widgets and competes in a competitive market for both sales and executive talent. The company has an outstanding team of creative executives; however, the owners are concerned that the executives might be recruited away by a competitor. AMW provides very competitive salaries and an attractive benefit package, including a large amount of group term insurance. The business owners would like to know if there is anything else they can do that would reward these executives and help keep them with the company. They would like to get a tax deduction for any program they adopt.

SOLUTION: A permanent, cash value life insurance may be substituted for the current group term insurance, turning the insurance into a supplemental benefit plan that is tax deductible to the business and that will serve as “golden handcuffs.”

A restricted executive bonus arrangement (REBA) is a discriminatory benefit arrangement in which a business agrees to bonus an executive the premiums on a permanent life insurance policy owned by, and insuring, the executive. If properly structured, the payment of the premium by the business is deductible as compensation expense. The executive reports any employer-paid premium as income. The employer can enhance the benefit by including additional cash in the bonus to cover the income and payroll taxes generated by the arrangement.

In return for the bonus, the executive agrees to a policy endorsement, which restricts his access to policy cash values for a stated period of time. At the end of the time period, the endorsement is removed, and the executive has full access to the policy cash values. Note: A REBA must be structured carefully in order to achieve the desired results. Legal and tax counsel should be consulted prior to establishing the arrangement.

A REBA affords a number of attractive benefits for both the business and the executive:

For the business: The business can provide this benefit to selected key executives on a discriminatory basis if desired. Bonuses can be custom designed to meet the needs of the business and each executive. With a properly structured REBA, bonused dollars are deductible and the business retains enough control to encourage the executive to remain with the firm.

For the executive: The executive receives a permanent and portable death benefit as well as the peace of mind that comes with the knowledge that life insurance protection will not terminate because of a disability or at retirement. In addition, after the expiration or release of the policy endorsement, the executive can access cash value on a tax-favored basis to help supplement a variety of income needs.¹

PruLife® Custom Premier II is an attractive product for funding a REBA. Important product features include:

- ◆ **Competitive cash accumulation** and access to a broad spectrum of variable investment options, plus a fixed-rate option.
- ◆ **Rolling commissionable targets** allow first-year compensation to be paid until Commissionable Target Premium is reached during the first twenty-four policy months (N/A in NY).

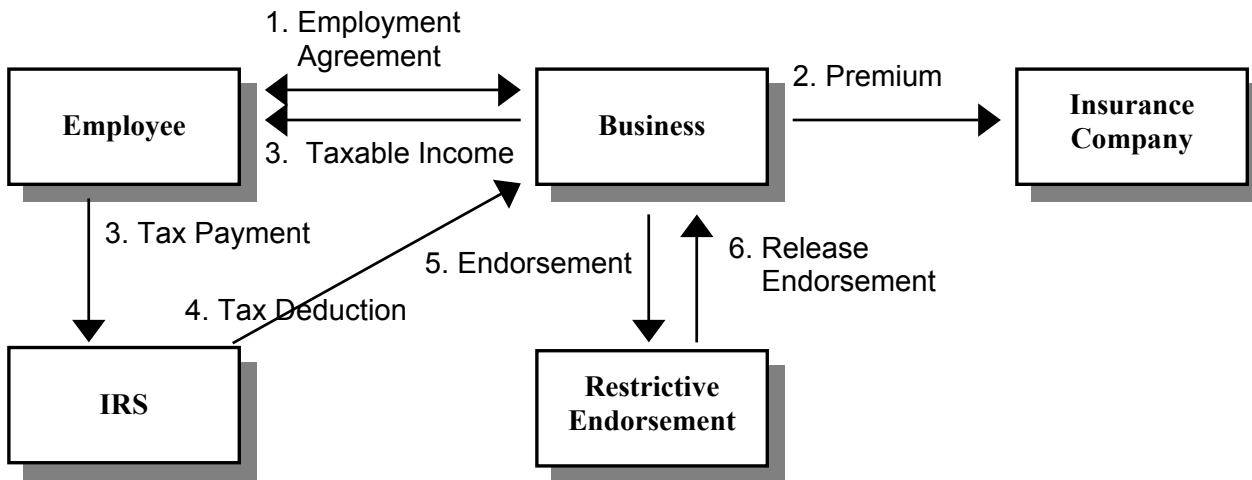
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¹ Loans and withdrawals reduce cash values and death benefits, may affect any policy guarantees against lapse, and may have tax consequences.

PruLife® Custom Premier II is issued by Pruco Life Insurance Company in all states except in New York, where it is issued by Pruco Life Insurance Company of New Jersey, and offered through Pruco Securities, LLC. All guarantees are based on the claims-paying ability of the insurer. For more information about PruLife® Custom Premier II, including charges and expenses, see the prospectus.

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The Structure of Restrictive Executive Bonus Arrangement (REBA)



1. The employer and executive agree that personal life insurance protection should be added to the executive's compensation. Legal counsel modifies or drafts an employment contract where the employer agrees to pay life insurance premiums in exchange for the executive's unsecured promise to continue to make his/her services available to the employer.
2. The business pays premiums to an insurer for an insurance policy owned by the executive.
3. The bonused amount is included in the executive's gross income for the current year. The executive reports the bonused income and pays the appropriate tax.
4. The business receives an income tax deduction in the year the bonus is paid and included in the executive's income.
5. A restrictive endorsement is placed on the contract. This endorsement restricts the employee's access to the policy values, but gives the employee the right to name and change the beneficiary and receive the entire death proceeds.
6. Once the executive has fulfilled the terms of the employment agreement the endorsement is released.