



PruLife® Custom Premier II Combination Endorsement Split Dollar and SERP Arrangements

Do you work with key executives who are limited by the contributions that can be made to their qualified retirement plans? Do the executives have a need for pre-retirement life insurance coverage? Do any of the executives work for employers willing to provide an executive perk as long as the business can potentially recover its costs? If so, you may want to consider the following idea ...

Facts: Consider an executive who is frustrated by the amount he is permitted to save in his qualified retirement plan. He is also concerned that his group term life insurance coverage will not be sufficient to provide for his family. His employer does not want to lose him to the competition, so he is willing to provide an additional perk as long as it can be selectively limited to this executive. You suggest that all these objectives can be addressed with a combination split dollar and nonqualified deferred compensation arrangement.¹

Solution: The employer and executive enter into a nonqualified deferred compensation or SERP arrangement providing supplemental retirement income. In a separate transaction, the employer purchases a life insurance policy insuring the executive and a split dollar plan is implemented.

The split dollar plan is structured as a non-equity endorsement split dollar where the employer retains an interest in the policy cash value and death benefit equal to the greater of the cumulative premiums paid or policy cash value. Through a policy endorsement, the executive is given the right to name the beneficiary for the balance of the death benefit proceeds.

During the executive's employment, the employer pays the entire premium on the life insurance policy. The executive must report, as taxable income, an amount equal to the economic benefit.²

If the executive dies prior to retirement, both the executive's beneficiaries and employer receive death benefit that is generally income tax-free under IRC § 101(a). This helps to reimburse the business for its costs and provides the executive with life insurance protection at a lower out of pocket cost than a policy purchased on an individual basis.

At retirement, the split dollar agreement is terminated and the policy remains with employer. The employer then pays the executive the supplemental retirement benefits outlined in the deferred compensation agreement. To pay the promised benefits, the employer may use any asset available to the business; including the ability to access the cash values of the non-MEC policy on a tax-favored basis by taking policy withdrawals to basis, then loans.³ At the executive's death the employer receives the policy death benefit to help recover the costs of the arrangement.

PruLife® Custom Premier II VUL is a product worth considering for the individual executive benefit market. Features that make it attractive for this market include:

- High early cash values are possible using the Target Term Rider, minimizing the "hit to earnings."⁴
- Policy pricing, expense design and preferred loan rate after policy year 10 gives PruLife® Custom Premier II the potential for long-term cash value accumulation.³

CHART ON THE CONCEPT ATTACHED

¹ The Sarbanes-Oxley Act makes it a crime for publicly-traded companies to, directly or indirectly, enter into a loan with certain directors and officers. It is unclear whether the Act applies to split dollar arrangements. Clients should consult their legal or tax advisors.

² The economic benefit in a non-equity endorsement arrangement is equal to the value of the life insurance protection. The value of the life insurance protection is calculated using either the rules in Notice 2002-8 or the rules in other IRS guidance, as applicable.

³ Of course, withdrawals and loans will reduce policy values and death benefit; may affect any guarantees against lapse; and may have tax consequences.

⁴ A policy with a Target Term Rider also has the potential for lower cash values and death benefits than an all base policy with the same death benefit if current charges are raised.

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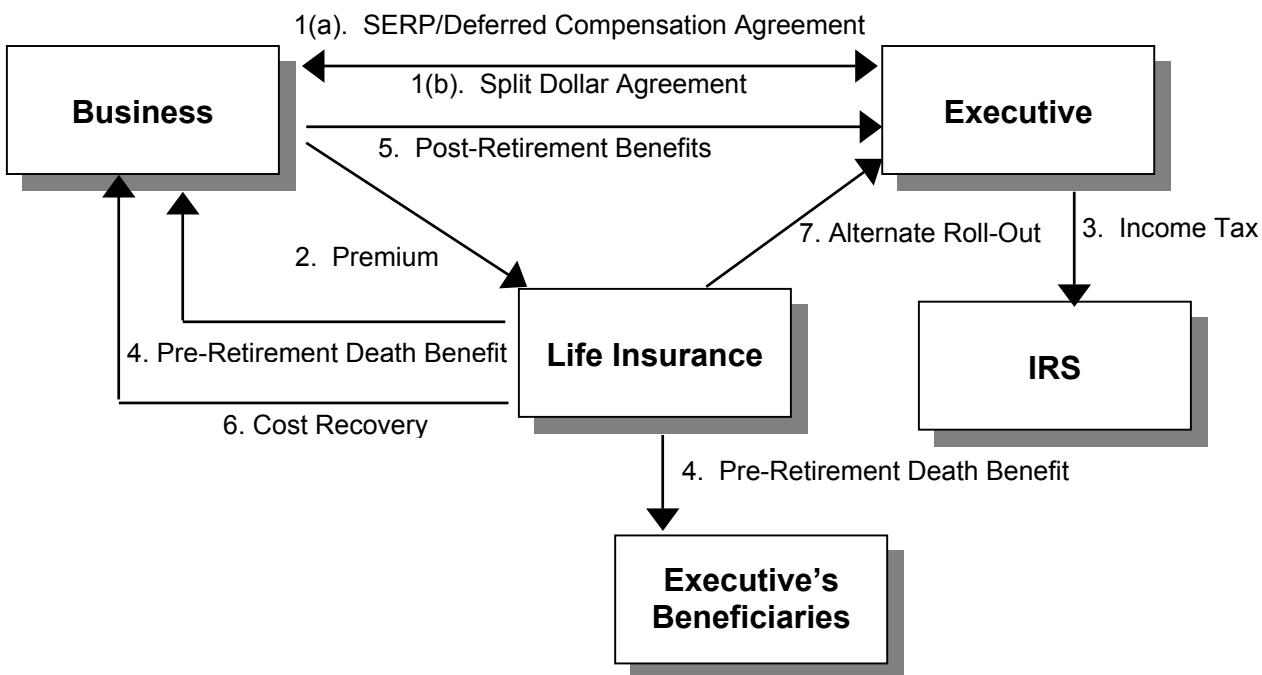
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751 Broad Street, Newark, NJ 07102-3777
IFS-A063557 Ed. 12/04 Exp. 11/06

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Split SERP



1. The executive and the business enter into two separate agreements: (a) a SERP/deferred compensation agreement and (b) a non-equity endorsement split dollar arrangement.
2. The business purchases a life insurance policy on the executive's life.
3. Yearly, the executive and the business pay premiums according to the terms of the split dollar; and the executive reports any economic benefit as taxable income.¹

If the Executive Dies Prior to Retirement:

4. Under the split dollar agreement, income tax free death benefit under IRC § 101(a) is paid to the business in an amount at least equal to the cumulative premiums paid with the executive's named beneficiaries receiving the remaining death benefit.

If the Executive Lives to Retirement:

5. At retirement the split dollar agreement is terminated. The business pays the executive the SERP benefits pursuant to the terms of the SERP agreement. If the executive dies during this payment period, any remaining payments are paid to the executive's beneficiaries.
6. Policy cash values may be accessed by the business to help provide the promised supplemental retirement benefits or the plan costs can be recovered at the executive's death.²
7. Alternatively, at retirement, where the executive has a continued need for death benefit, the executive can negotiate with the employer to have the policy "rolled out" through purchase or bonus.

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² Withdrawals and loans will reduce policy values and the death benefit, may affect any guarantees against lapse and may have tax consequences.