



## Removing the Roadblocks Using Impaired Risk Split Dollar

Has a client's health problems prevented you from placing a case? If your client works for a business who is willing and able to contribute to the cost of a permanent life insurance policy, a split dollar arrangement using PruLife® Custom Premier II VUL may be just the answer.<sup>1</sup>

**Facts:** The prospects are three business owners who agree to have the company pay for \$1,000,000 of life insurance for each owner. Policies were illustrated assuming good health.

Unfortunately, after underwriting, it is determined that the youngest owner, John, has a significant health impairment. The two older owners do not want the business to pay more than originally proposed. They believe John should pay the difference in premiums. John disagrees. The entire case is in jeopardy if a solution can't be provided. A solution to the problem uses the flexibility of the PruLife® Custom Premier II and impaired risk split dollar.<sup>1</sup>

**Solution:** The Company can establish a non-equity endorsement split dollar arrangement. Under the terms of the agreement, the business is the owner and John is assigned an interest in the death benefit equal to the \$1,000,000 amount. The arrangement can be structured to continue as long as coverage is needed. In addition, if the company chooses to do so, it can bonus the policy cash values to John at retirement (subject to reasonable compensation limits). Finally, to help maintain the original proposed premium and similar pattern of death benefits it's possible to blend PruLife® Custom Premier II with the Target Term Rider.

During the term of the split dollar agreement, the company is able to maintain the desired financial results for all of the participants. Also, since the insured's personal cost is based on a uniform table used for split dollar term rates not increased by health impairments, John's personal cost is kept at the level originally illustrated.<sup>2</sup>

<sup>1</sup> 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 talk to their legal or tax advisors for the most recent developments.

<sup>2</sup> The economic benefit is calculated using either the rules in Notice 2002-8 or the rules in other IRS guidance, as applicable.

This training material has been prepared to assist our licensed financial professionals. It is designed to provide general information in regard to the subject matter covered. It should be used with the understanding that Prudential is not rendering legal, accounting or tax advice. Such services should be provided by the client's own advisors.

FOR INTERNAL USE ONLY. NOT FOR USE WITH THE PUBLIC.

If the company elects to bonus the policy to John at the termination of the split dollar arrangement, John can access the policy values to pay the taxes due.<sup>3</sup> If the policy cash value is insufficient to pay the taxes and to maintain the policy, the business can contribute the difference; or the face amount may be reduced. Whatever the design priority is – there is the flexibility to offer a solution!

PruLife® Custom Premier II contains the features to meet the needs of those clients considering split dollar arrangements. The product includes:

- ◆ **Three death benefit options**, including the option "C" return-of-premium death benefit option with interest;
- ◆ **Target Term Rider** providing the flexibility to dial-in premiums (within limits) to respond to unexpected ratings; and
- ◆ **Rolling commissionable target premiums** allowing first-year compensation to be paid during the first twenty-four months until the Commissionable Target Premium is reached. (Not available in NY)

The attached illustrations show the before and after scenarios.

### ILLUSTRATIONS ARE ATTACHED

<sup>3</sup> Life insurance policy cash values are accessed through withdrawals and/or loans. Loans are at interest. Unpaid loans and withdrawals cause a reduction in cash value and death benefits and may affect any guarantee against lapse. In general, loans are not taxable, but withdrawals are taxable to the extent they exceed basis in the policy. Loans outstanding at policy lapse or surrender prior to the death of the insured will cause immediate taxation to the extent of gain in the policy. For policies, which are Modified Endowment Contracts, distributions (including loans) are taxable to the extent of income in the policy, and an additional 10% federal income tax penalty may apply.

PruLife® Custom Premier II is issued by Pruco Life Insurance Company, except in New York, where it is issued by Pruco Life Insurance Company of New Jersey, and is offered through Pruco Securities LLC. All are Prudential Financial companies located in Newark NJ.

QUESTIONS? CALL ADVANCED MARKETING

©2006 The Prudential Insurance Company of America  
751 Broad Street, Newark, NJ 07102-3777  
IFS-A075938 Ed. 02/06 Exp. 08/07

**Prudential**  **Financial**

Split Dollar Ledger Statement  
 Male 45, Preferred Non-Smoker  
 \$1,000,000 PruLife® Custom Premier II  
 Type C (Premium Return) Death Benefit for 15 years; Type A (Fixed) Death Benefit thereafter,  
 Cash Value Accumulation Test  
 Non-Guaranteed results based on Hypothetical Annual Gross Rate of 10% (Net 9.30%)@ and Current Charges.

**As Originally Illustrated**

Year #	Age	EMPLOYER				EXECUTIVE		
		Net Annual Outlay	Split \$ Annual Outlay	Cash Value	Death Benefit	Split \$ Annual Outlay	Cash Value	Death Benefit
1	45	14239	14239	0	14239	612	0	1000000<
2	46	14239	14239	2970	28478	668	0	1000000<
3	47	14239	14239	13472	42717	732	0	1000000<
4	48	14239	14239	24943	56956	792	0	1000000<
5	49	14239	14239	37632	71195	852	0	1000000<
6	50	14239	14239	54086	85434	920	0	1000000<
7	51	14239	14239	75234	99673	1008	0	1000000<
8	52	14239	14239	98119	113912	1124	0	1000000
9	53	14239	14239	122625	128151	1280	0	1000000
10	54	14239	14239	148863	148863	1451	0	993527
Total		142390	142390			9439		
11	55	14239	14239	177024	177024	1626	0	979605
12	56	14239	14239	204848	204848	1808	0	966020
13	57	14239	14239	234824	234824	1977	0	950283
14	58	14239	14239	267125	267125	2111	0	932221
15	59	14239	14239	302086	302086	2209	0	911499
16	60	-120834	-74755	0	0	0	192867	1092751
17	61	0	0	0	0	0	205145	1092751
18	62	0	0	0	0	0	218041	1092751
19	63	0	0	0	0	0	231489	1092751
20	64	0	0	0	0	0	245583	1092751
Total		92751	138830			19170		
21	65	0	0	0	0	0	260264	1092751
22	66	0	0	0	0	0	275689	1092751
23	67	0	0	0	0	0	291912	1092751
24	68	0	0	0	0	0	309023	1092751
25	69	0	0	0	0	0	327125	1092751
26	70	0	0	0	0	0	345018	1092751
27	71	0	0	0	0	0	363286	1092751
28	72	0	0	0	0	0	381938	1092751
29	73	0	0	0	0	0	401047	1092751
30	74	0	0	0	0	0	420677	1092751
Total		92751	138830			19170		
31	75	0	0	0	0	0	440866	1092751
32	76	0	0	0	0	0	461560	1092751
33	77	0	0	0	0	0	482665	1092751
34	78	0	0	0	0	0	504010	1092751
35	79	0	0	0	0	0	525415	1092751
36	80	0	0	0	0	0	546837	1092751
37	81	0	0	0	0	0	568092	1092751
38	82	0	0	0	0	0	589281	1092751
39	83	0	0	0	0	0	610415	1092751
40	84	0	0	0	0	0	631399	1092751
Total		92751	138830			19170		

Internal Use Only

It is very important that only complete ledgers are used in any client presentation. You may not show illustration excerpts to clients nor may you write anything on an illustration unless as required by the NAIC Illustration Model Regulation. The above excerpts and annotations shown here are to help you understand this discussion.

Split Dollar Ledger Statement  
 Male 45 - Rated Non-Smoker Class C  
 \$1,000,000 PruLife® Custom Premier II Includes \$500,000 Target Term Rider  
 Type C (Premium Return) Death Benefit for 15 years; Type A (Fixed) Death Benefit thereafter,  
 Cash Value Accumulation Test  
 Non-Guaranteed results based on Hypothetical Annual Gross Rate of 10% (Net 9.30%)@ and Current Charges

**After Underwriting & Blending with TTR**

Year #	Age	Annual Premium Outlay	EMPLOYER			EXECUTIVE		
			Split \$ Annual Outlay	Cash Value	Death Benefit	Split \$ Annual Outlay	Cash Value	Death Benefit
1	45	16184	16184	1871	16184	612	0	1000000
2	46	16184	16184	13950	32368	668	0	1000000
3	47	16184	16184	26894	48552	732	0	1000000
4	48	16184	16184	40790	64736	792	0	1000000
5	49	16184	16184	55950	80920	852	0	1000000
6	50	16184	16184	73820	97104	920	0	1000000
7	51	16184	16184	94969	113288	1008	0	1000000
8	52	16184	16184	117433	129472	1124	0	1000000
9	53	16184	16184	141254	145656	1280	0	1000000
10	54	16184	16184	166286	166286	1454	0	995554
Total		161840	161840			9448		
11	55	16184	16184	192709	192709	1636	0	985315
12	56	16184	16184	218922	218922	1826	0	975286
13	57	16184	16184	246457	246457	2005	0	963935
14	58	16184	16184	275349	275349	2154	0	951227
15	59	16184	16184	306003	306003	2271	0	936757
16	60	0	-84966	0	0	122401	321583	1242760
17	61	0	0	0	0	0	337558	1242760
18	62	0	0	0	0	0	354087	1242760
19	63	0	0	0	0	0	371063	1242760
20	64	0	0	0	0	0	388169	1242760
Total		242760	157794			141733		
21	65	0	0	0	0	0	405287	1242760
22	66	0	0	0	0	0	422449	1242760
23	67	0	0	0	0	0	439740	1242760
24	68	0	0	0	0	0	457196	1242760
25	69	0	0	0	0	0	474467	1242760
26	70	0	0	0	0	0	488056	1242760
27	71	0	0	0	0	0	500047	1242760
28	72	0	0	0	0	0	510178	1242760
29	73	0	0	0	0	0	517791	1242760
30	74	0	0	0	0	0	522203	1242760
Total		242760	157794			141733		
31	75	0	0	0	0	0	545738	1242760
32	76	0	0	0	0	0	569710	1242760
33	77	0	0	0	0	0	593979	1242760
34	78	0	0	0	0	0	618307	1242760
35	79	0	0	0	0	0	642433	1242760
36	80	0	0	0	0	0	666274	1242760
37	81	0	0	0	0	0	689549	1242760
38	82	0	0	0	0	0	712342	1242760
39	83	0	0	0	0	0	734594	1242760
40	84	0	0	0	0	0	756085	1242760
Total		242760	157794			141733		

Internal Use Only

It is very important that only complete ledgers are used in any client presentation. You may not show illustration excerpts to clients nor may you write anything on an illustration unless as required by the NAIC Illustration Model Regulation. The above excerpts and annotations shown here are to help you understand this discussion.