



SERPs Provide Supplemental Income Without Employee Contributions

Have the limitations of qualified plan funding reduced the ability of your corporate clients to provide highly compensated executives with retirement benefits consistent with corporate goals and objectives? Would your corporate clients be interested in providing a supplemental benefit to a selective group of key executives as long as it binds them to the company?

Facts: Your prospect, HealthCare Integrity, Inc. is a consulting company that detects and prevents fraud for the government. The company has 150 employees. Three of the employees are critical to the success of the business. As a result, they are highly sought after by the competitors.

HealthCare Integrity is willing to incur additional costs to keep them, but prefers to use the money in a way that ties the executives to the company. Their objective is to provide a benefit plan that acts as a “golden handcuff”, rather than paying higher salaries. HealthCare Integrity has asked for your help in identifying a solution.

Solution: You suggest a Supplemental Executive Retirement Plan (SERP) may be one way to provide a meaningful employee benefit, while creating a “golden handcuff”. You explain that a SERP is a contractual agreement under which the employer promises to provide the executive, or his heirs, supplemental income at some date in the future. At that future date the earnings become taxable to the employee and deductible to the employer. Prior to that time the employee has a mere unsecured promise and stands in the same position as all other general creditors in the event the employer becomes insolvent. Often the employer purchases, and owns, life insurance to help meet the future obligation.

CHART ILLUSTRATING CONCEPT ATTACHED

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.

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A SERP arrangement informally funded with life insurance provides the following benefits:

Employer

- No annual ERISA reporting
- Ability to pick and choose who participates
- Maintain full control of the policy cash values
- Ability to achieve tax-favored cash accumulation
- Tax deduction at the time benefits are paid to the employee
- Life insurance can be structured to help provide corporate cost recovery

Employee

- Avoids current taxation
- Tax deferred growth on the SERP account balance
- Helps to reduce the income gap caused by “reverse discrimination” associated with qualified plans

PruSelectSMIII is specially designed to help meet the needs of the employer who desires to informally fund the future benefit obligation. Product features include:

- Potential for high early cash surrender values to offset any charge to earning concerns
- Improved product pricing to provide strong cash value accumulation in all years
- 40 investment options and a new fixed account that provides choice in all asset classes
- 3 death benefit options & choice of CVAT or GPT
- Online access to cash value reports for both you and your corporate client

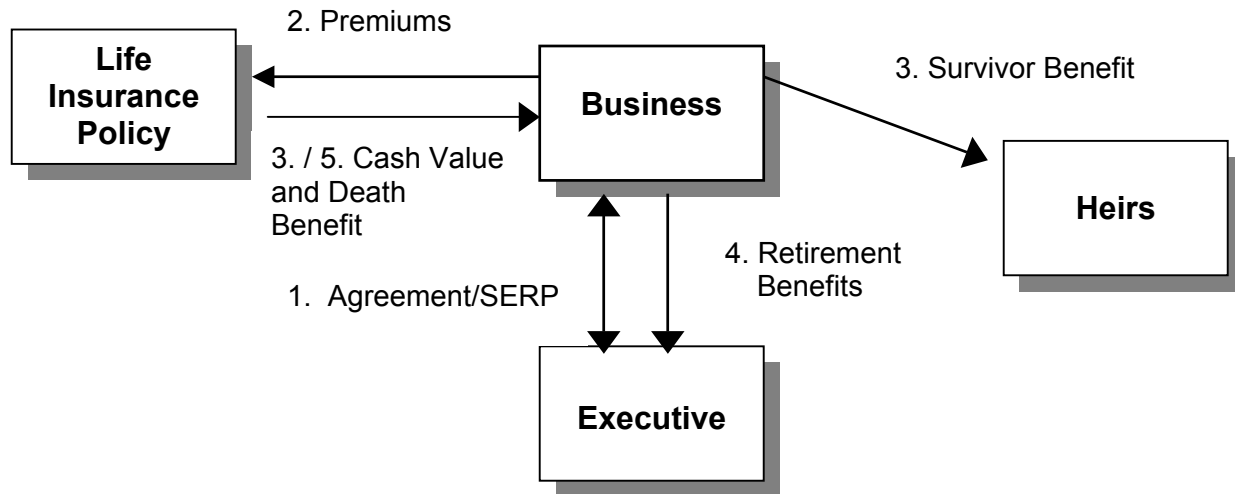
PruSelectSMIII is a variable universal life insurance policy issued by Pruco Life Insurance Company, except in New York and New Jersey, where it is issued by Pruco Life Insurance Company of New Jersey, both located at 213 Washington Street, Newark, NJ 07102 and is offered through registered representatives of Pruco Securities, LLC (member SIPC) 751 Broad Street, Newark, NJ 07102 or by registered representatives of broker-dealers with whom Pruco Securities, LLC has a selling agreement. All are Prudential Financial companies.

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A SERP Plan With Life Insurance



While the Executive is Employed ...

1. The business and the executive enter into a contract where the business agrees to provide pre- and post-retirement benefits.
2. The business purchases a life insurance policy on the executive's life. The employer is the owner and beneficiary of the policy.
3. If the executive dies prior to retirement, the policy pays income tax-free death benefit under IRC § 101(a) to the employer. The employer pays any survivor benefit owed to the executive's heirs. This payment is deductible by the employer and is taxed as ordinary income to the heirs.

When the Executive retires ...

4. The employer pays a retirement benefit that generally reflects the balance in the executive's bookkeeping account. This payment is deductible by the employer and is taxable as compensation to the executive or his heirs.

5. Policy cash values may be accessed by the business to provide retirement benefits. Or, the employer can pay the benefit from current earnings and recover the cost of the plan at the executive's death.¹

¹ Life insurance cash values are accessed through withdrawal and/or policy loans. Loans are generally not taxable but withdrawals are taxable to the extent they exceed basis in the policy. Unpaid loans and/or withdrawals cause a reduction in policy cash values and death benefits and may affect policy guarantees against lapse. Loans outstanding at policy lapse or termination, prior to death of the insured, will cause immediate taxation to the extent of gain in the contract. For policies that are Modified Endowment Contracts, distributions (including loans and withdrawals) will be taxed to the extent of policy earnings and the taxable amount may be subject to an additional 10% federal income tax penalty if taken prior to the contract owner's attaining age 59 ½. Consult your tax advisor for advice regarding your particular situation.