



Using Target Term Rider To Enhance Funding For A Buy-Sell Arrangement

The coordination of a business owner's personal retirement needs and business needs is key to a successful exit strategy. When there is a key employee that the business owner wants to retain, you may want to consider the following strategy.

Facts: Calvin, age 50, has built a successful food manufacturing and distribution business with the help of two key employees, Ben and Jerry. Calvin is concerned that another company may steal them, so he wants to put golden handcuffs on these two – almost irreplaceable – individuals.

Calvin has transferred a small equity interest to Ben and Jerry and would transfer more, but his advisors have convinced him that the drawbacks of owning a minority interest outweigh the psychological benefits to Ben and Jerry. Besides, Calvin is counting on supplementing his retirement income by selling his \$4,000,000 business interest when he reaches 65.

A stock redemption buy-sell agreement funded with life insurance can help Calvin achieve his objectives of retaining Ben and Jerry, and can provide him with supplemental income for his retirement.

Solution: To tie Ben and Jerry to the company and provide Calvin a purchaser for his business, Calvin will enter into a stock redemption agreement to sell his interest to the business at his death or retirement, thereby making Ben and Jerry the new owners. The business will purchase and be the owner and beneficiary of a \$4 million policy on Calvin's life.

A variable life insurance policy funded to the 7-Pay non-MEC limit combined with a Target Term Rider will help maximize the policy's cash value. This strategy will give Calvin the opportunity to

help Ben and Jerry with the lifetime purchase of the business, further tying them to the business, while Calvin retains control over the policy and its values.

At retirement, the buy-sell will be executed on an installment basis. Ben and Jerry, as the new owners of the business, can access the policy values on a tax-favored basis by taking withdrawals down to basis, and then loans thereafter¹ to help with the installment payments. If Calvin dies prior to retirement the death proceeds can be used to redeem his stock.

PruLife[®] Custom Premier II VUL is well suited to meet the cash accumulation objectives of this arrangement. First, the combination of competitive mortality costs, the design of the policy loads and fees, and the array of variable investment sub-account options potentially provide clients an excellent cash accumulation policy. Second, the Target Term Rider provides the flexibility to enhance cash value accumulation and help reach a client's premium tolerance level.

ILLUSTRATION ON NEXT PAGE

¹ Withdrawals and loans reduce policy cash values and death benefit, may affect any policy guarantees against lapse, and may have tax consequences. A reduction in death benefit may cause the policy to become a Modified Endowment Contract (MEC). Distributions, including loans, from a MEC receive less favorable tax treatment than policies that are not classified as MECs. This also applies to distributions made within 2 years prior to the policy becoming a MEC.

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Prudential  **Financial**

Basic Ledger Statement
 Male 50, Preferred Best
 \$4,000,000 PruLife® Custom Premier II, Includes \$3,200,000 Target Term Rider
 Type C (Premium Return) Death Benefit, Cash Value Accumulation Test

Note: Illustrated First Year Cash Value is 93% of premium paid!

Hypothetical non-guaranteed results							
			10.00% (Net 9.30%)@ and Current Charges			10.00% (Net 8.95%)@ and Maximum Charges	
Year	Age	Annual Contract Outlay	Contract Fund	Net Cash Value	Net Death Benefit	Net Cash Value	Net Death Benefit
1	50	258680	254553	240551	4258680<	189212	4258680<
2	51	258680	532493	518491	4517360<	408612	4517360<
3	52	258680	835246	821244	4776040<	645139	4776040<
4	53	258680	1165266	1151264	5034720<	900069	5034720<
5	54	258680	1528027	1514025	5293400<	1174877	5293400<
6	55	258680	1923947	1912278	5552080<	1473515	5552080<
7	56	258680	2360028	2350849	5810760<	1795687	5810760<
8	57	0	2571165	2564319	5810760	1899784	5810760
9	58	0	2801603	2797091	5810760	2010094	5810760
10	59	0	3053295	3051116	6045523	2126998	5810760
Total		1810760					
11	60	0	3327742	3327742	6389264	2250791	5810760
12	61	0	3626682	3626682	6781896	2379986	5810760
13	62	0	3951864	3951864	7192392	2517193	5810760
14	63	0	4305411	4305411	7620578	2663018	5810760
15	64	0	4689114	4689114	8112167	2818310	5810760
16	65	0	5105709	5105709	8628647	2984195	5810760
17	66	-650000	4851026	4851026	8004193	2453214	5160760
18	67	-650000	4573571	4573571	7363449	1870044	4510760
19	68	-650000	4414510	4270954	6787225	1228241	3856444
20	69	-650000	4756312	3938155	6506564	520200	3181843
Total		-789240					
21	70	-650000	5086685	3573015	6116358	END‡	END‡
22	71	-650000	5402330	3171587	5710682		
23	72	-650000	5699923	2729876	5237842		
24	73	-650000	5977105	2244837	4695450		
25	74	-650000	6224734	1706616	4134263		
26	75	-650000	6442926	1114596	3434050		
27	76	0	6668256	1174748	3441955		
28	77	0	6900819	1237012	3445274		
29	78	0	7140612	1301227	3443411		
30	79	0	7387696	1367291	3435846		
Total		-4689240					

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