

How life insurance
can help you protect
your loved ones and
your retirement dreams.

THE ROLE OF LIFE INSURANCE
IN SUPPLEMENTING YOUR
RETIREMENT INCOME



PROTECTING YOUR RETIREMENT DREAMS

You've worked hard to earn the type of living that can take you to a comfortable retirement. You shouldn't have to work hard to protect it.

If you're like many people actively preparing for retirement, you're probably taking full advantage of all the traditional vehicles—401(k) account, IRAs, company plans, and savings accounts. What you may be overlooking is the role that life insurance can play in protecting your retirement dreams.

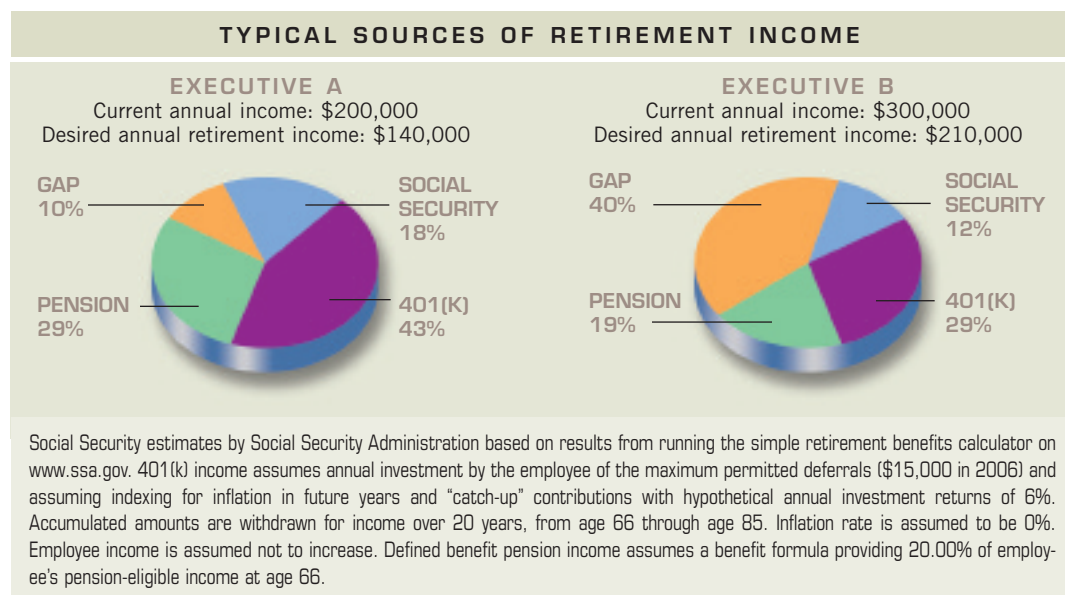
Through the important generally income tax-free¹ death benefit it provides (according to IRC §101(a)),¹ life insurance can help your family members:

- ▶ Maintain their current lifestyle and standard of living.
- ▶ Fund important events, like an education or wedding.
- ▶ Keep your business or farm in the family.
- ▶ Pay estate settlement costs.

As a secondary benefit, a permanent life insurance policy may also help to provide you with **supplemental income in your retirement years**. A permanent policy allows you to accumulate cash value on a tax-deferred basis and potentially to access that cash value in a tax-advantaged manner for any need you choose.²

The need for supplemental retirement income After you reach the maximum annual contributions allowed on your retirement plans and accounts, such as your 401(k) account and IRAs, you may still need to look at other options that can help you fund the kind of retirement you envision.

Consider the following example of two executives, both age 45, who want to retire with 70% of their current annual income:



¹ There are some exceptions to this general rule, including certain changes in policy ownership and payment of any additional interest at death.

² Life insurance policy cash values are accessed through withdrawals and policy loans, which will reduce cash values and the death benefit, may have tax consequences, and may impact any guarantee against lapse.

Life insurance as a solution In addition to providing a valuable death benefit, permanent life insurance may provide a source of tax-favored income to supplement your existing retirement plans. Unlike many qualified retirement plans, life insurance generally does not limit the amount of premiums that you can pay³ or have early withdrawal penalties. Permanent life insurance provides other valuable benefits, such as:

- ▶ **An income tax-free death benefit** to protect your family and assets, generally free of federal income tax.
- ▶ **Tax-deferred cash value growth** within the policy, which is not subject to income tax.
- ▶ **Tax-advantaged access to cash value**, which provides the potential to access cash value for any need you choose, including supplementing your retirement income.³
- ▶ **No 10% federal income tax penalty for accessing cash value before age 59½**, putting you in control of when you access your cash value.³

Important Points to Consider Before accessing your policy's cash value, you should consider these points and discuss them with your tax advisor.

- ▶ Loans and withdrawals can adversely affect your policy: they will reduce the policy cash value and the death benefit amount payable to your beneficiary and can shorten or negate any guarantee against lapse that you have in effect.
- ▶ Fluctuations in policy performance may prevent the amount of accumulation anticipated and may have an adverse effect on policy values. This may result in the cash value being insufficient for you to continue taking money from the policy and even require that you pay more premiums to keep the policy in force.
- ▶ Withdrawals are generally taxable only if you withdraw more money than the amount of premiums you've paid ("cost basis").
- ▶ If you have an outstanding loan and do not make the payments necessary to keep your policy in force, you will have the option to:
 - ▶ Pay additional premiums to maintain the policy. Depending on your age, the mortality charges (pure cost of insurance) may be much higher and increasing, resulting in the need to pay higher premiums.
 - ▶ Surrender the policy and lose your valuable coverage. Depending upon your age, you could face a high tax bill because the gain is calculated as the amount of cash value received, including loans, minus the amount of premiums you've paid.

For example, if your loan exceeds your cost basis by \$50,000 and you then allow it to lapse, that \$50,000 will be taxable. If you're in the 28% tax bracket, you'll pay over \$14,000 in federal income tax if the policy lapses or is surrendered before the insured dies.

³ There are limits to the amount of contribution you can make in relation to the death benefit under the tax law definition of life insurance. There are also limits on the amount of contribution in relation to the death benefit without your policy being classified as a modified endowment contract (MEC). Generally, withdrawals are taxable if you withdraw more money than the amount of premiums you've paid ("cost basis"). If your policy is a MEC, then distributions (including loans) are taxed on a less favorable basis, with distributions coming first from taxable gain, then return of cost basis. Distributions from MECs prior to age 59½ may also be subject to a 10% federal income tax penalty. There may be charges associated with withdrawals, and some withdrawals may trigger surrender charges.



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