LIFE RESOURCES

Understanding the "No-Lapse Guarantee" in SUL Protector

FREQUENTLY ASKED QUESTIONS

The Lapse Protection Rider, or No-Lapse Guarantee Rider, is a key element of Pruco Life Insurance Company's current PruLife® SUL Protector product. This rider provides an adjustable no-lapse guarantee on the current SUL Protector policies.

What is a "no-lapse guarantee"?

Many SUL policies offer some additional protection against lapse, or a secondary level of death benefit guarantee beyond the primary guarantees included in the policy.

- *Primary* guarantees maintain the death benefit based on maximum charges and/or minimum interest crediting. Typically, this requires a positive cash value.
- *Secondary* guarantees may be provided by a policy provision or by a rider that prevents policy lapse regardless of changes in the policy's interest-crediting rate, cash surrender value, or policy charges and expenses.

What are the main types of secondary guarantees, or no-lapse protection?

There are two main types of secondary guarantees:

- **Premium-based guarantees**
  These are based on payment of some specified premium (net of withdrawals) on a timely basis. Typically, actual premiums paid are compared with premiums due, and both are accrued at interest. If the required amount of premium is paid on or before a specified time, the policy will not lapse and the death benefit is guaranteed. **Note**: Premium-based guarantees will not protect a policy from lapse if the policy has excess contract debt.
- **"Shadow"-account-based guarantees**
  These are satisfied by paying enough premium into the policy to maintain a positive no-lapse guarantee value, or "shadow" account. This value is not available for loans or withdrawals and is not available as a surrender value. It is simply a tool to determine whether the secondary guarantee is in effect. As long as the no-lapse guarantee value calculation produces a positive value (and there is no excess contract debt), the policy will not lapse and the death benefit is guaranteed. This type of guarantee usually allows for an adjustable duration guarantee.

Which type is used in Pruco Life Insurance Company's currently issued SUL Protector policies?

For currently issued policies, Pruco Life Insurance Company is using a **premium-based** test for the first 10 contract years for SUL Protector, and then a **"shadow" account** method thereafter. We calculate this value using a set of guaranteed assumptions, which can never be changed, regarding cost of insurance charges, premium loads, and crediting rates. We apply these guaranteed assumptions to the actual premiums paid to determine this shadow account, which we call the "no-lapse guarantee value" (NLGV). As long as the NLGV is greater than zero (and there is no excess contract debt), the policy will remain in effect until the next monthly anniversary.

It is important to remember that the NLGV and the actual contract fund value are separate and distinct items. Actual contract fund performance will have no impact on the NLGV, and the NLGV is not available to the policyowner for loans or withdrawals.

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What factors can impact the NLGV?

There are many factors that can affect the NLGV. These factors are similar to those affecting the current fund value. Premiums and withdrawals are the primary drivers of the NLGV. Paying lower premiums generally results in lower fund values. Taking loans or withdrawals or paying premiums after the due date will also generally reduce fund values. These actions will also reduce the NLGV or shadow account and will, in most cases, decrease the length of the guarantee period.

Can the NLGV be restored? Is there any *catch-up* provision?

For currently issued SUL products, it is possible to restore the NLGV with sufficient premium payments and interest. As described in the prior question, payment of premiums has an immediate and direct effect on both the actual contract fund and the NLGV shadow account. Upon request, we can notify the owner of the required catch-up premium if a policyowner falls behind or skips premium payments and wants to restore the original length of the no-lapse guarantee. This catch-up premium can be a lump sum payment, an ongoing level premium, or a specified number of additional payments. In addition, we will provide an annual statement to the policyowner that indicates whether the no-lapse guarantee is in effect. The in-force illustration is the best tool to provide this information.

How is the no-lapse guarantee reflected on illustrations?

SUL Protector is marketed with a presentation of guaranteed values rather than an illustration in all new business presentations and some in-force ledgers. As such, the ledgers and values reflected are representing the guaranteed values and, therefore, the no-lapse guarantee on the product is being presented.

For some in-force ledgers, an illustration is used and will have a symbol that indicates whether the no-lapse guarantee is in effect. When you review an illustration, note whether the "less than" (<) symbol appears next to the death benefit columns. The < indicates the no-lapse guarantee is in effect, assuming the premiums are paid as illustrated.

What happens to the no-lapse guarantee at attained age 121? How about *after* age 121?

No-lapse means *no-lapse*; the no-lapse guarantee is available for the life of both insureds for SUL Protector. Provided there is not an outstanding policy loan, if a policy remains in force through attained age 120 as a result of the no-lapse guarantee, coverage will continue beyond age 120—even if the current account value is zero. After age 121, we will stop deducting all policy charges and will no longer accept premiums.

The contract may not qualify as life insurance under federal tax law after the insured has attained age 100 and may be subject to adverse tax consequences. A tax advisor should be consulted before the insured chooses to continue the contract after reaching age 100.

Is it possible to prepay the no-lapse guarantee?

Yes. Just as it is possible to catch up by paying a lump sum, an ongoing annual premium, or an additional payment for a certain number of years, it is possible to prepay the no-lapse guarantee by paying a lump sum, an ongoing annual premium, or an additional payment for a certain number of years. Furthermore, the no-lapse guarantee can be prepaid for any duration that the policyowner desires.

For example, it is possible for a policyowner to make three equal annual payments that will provide a no-lapse guarantee to age 90 or to age 100.

Clients should understand that using this strategy might cause a policy to become a modified endowment contract subject to additional tax consequences.*

What about Section 1035 exchanges? Is it possible to execute a Section 1035 exchange and provide a lifetime guarantee against lapse with only the exchanged cash value?

Yes. Just as it is possible to catch up or prepay the no-lapse guarantee by paying a lump sum in cash, it may be possible to execute a Section 1035 exchange and select a face amount such that the transferred cash value will provide a no-lapse guarantee for any desired duration, even a lifetime guarantee against lapse.

* Federal tax law limits the amount of premium contributions that can be made to a policy in order for it to retain certain tax advantages. When premium contributions exceed this limit, the policy is classified as a modified endowment contract (MEC). Distributions from MECs (such as loans, withdrawals, and collateral assignments) are taxed less favorably than distributions from policies that are not MECs to the extent there is gain in the policy. For distributions from a MEC prior to age 59½, a federal income tax penalty may apply to the extent there is gain in the policy. However, death benefits are still generally received income tax-free pursuant to IRC §101(a). The death benefit will be reduced by any withdrawals or loans (plus unpaid interest). Clients should consult a tax advisor.

PruLife SUL Protector is issued by Pruco Life Insurance Company in all states except New York, where it is issued by Pruco Life Insurance Company of New Jersey. Both are Prudential Financial companies located in Newark, NJ.

Guarantees are based on the claims-paying ability of the issuing company.

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