



REBAs Provide Employers with Golden Handcuff Opportunities

Do you have business prospects that have hinged their success on the efforts of one key executive? Have they come to the realization that it is time to groom a replacement but the *clock is ticking too fast*? Do they need a retention tool to help them through this transition period? If so, a restrictive executive bonus arrangement (REBA) may provide a solution.

FACTS: Manny Parker, age 55, is the dynamic and charismatic CEO of Laser Technologies, Inc., a leading provider of surgical lasers in the medical industry. For the last 10 years, he has shaped the company by producing cutting edge equipment, controlling costs, and developing marketing strategies. Not only does he bring business acumen to the table, but he is also a *true leader* who motivates and rallies the staff.

Recently he came to the board of directors to discuss the possibility of early retirement since he has met his *magic 75 formula* (i.e., age 55 plus twenty years with the company). The board realizes his departure could jeopardize the company's future. Transition planning has been put into effect and leaders to replace Manny are being trained, but his departure is too quick. The company needs more time to train successor management. And they need to have access to Manny's creativity and solutions during this period. Here's how a REBA would work to help solve this problem.

SOLUTION: Laser Technologies, Inc. agrees to pay a \$15,000 annual premium on a PruLife® Custom Premier II variable universal life (VUL) insurance policy to be personally owned by Manny. The Company will *double bonus* Manny \$20,833 (assuming a tax bracket of 28%) for 15 years so Manny will have no out-of-pocket costs. The policy on Manny's life will be structured with an increasing (option B) death benefit and funded sufficiently to encourage cash value growth.

In return for this zero-cost death benefit protection, Manny will execute a policy endorsement that restricts his right to access cash values for the earlier of 15 years or his release by Laser Technologies, Inc. Manny's employment

agreement is amended to require he remain an active CEO of the company for a period of five years and then serve on the board of directors for another ten years. If Manny leaves Laser Technologies, Inc. before the end of his employment agreement, the death benefit remains in place, but he cannot withdraw, borrow, or surrender cash value, or use the policy as loan collateral until age 70.

It is a win-win situation! Laser Technologies, Inc. has ensured Manny's active leadership at the helm of the company for a five-year transition period. In addition, they have kept his expertise tied to the company as a director for another ten years. All this at a minimal annual cost!

As for Manny, he is the owner of a valuable PruLife® Custom Premier II VUL policy. Not only do his heirs have the benefit of death proceeds, which are generally income tax free under I.R.C. § 101(a) should something happen to Manny, but once Manny meets the term of the employment agreement, he has unrestricted access to the policy cash value.* Note: A REBA must be structured carefully in order to achieve the desired results. Legal and tax counsel should be consulted prior to establishing the arrangement.

PruLife® Custom Premier II is an attractive product for funding a REBA. Important product features include:

- **Competitive cash accumulation** and access to a broad spectrum of variable investment options, plus a fixed-rate option.
- **Rolling commissionable target premium** allows first-year compensation to be paid during the first 24 policy months until Commissionable Target Premium is reached. (Not available in NY).

ILLUSTRATION ON NEXT PAGE

* Loans and withdrawals reduce cash values and death benefits, may affect guarantees against lapse, and may have tax consequences.

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Prudential

Client Consideration, Male, 55, Preferred Best

\$250,000 PruLife® Custom Premier II

Type B (Variable) Death Benefit for 15 years; Type A (Fixed) Death Benefit thereafter, Guideline Premium Test

Non-guaranteed results based on a Hypothetical Annual Gross Rate of Return of 10.00% (Net 9.37%)@ and Current Charges.

Year #	Age	EMPLOYER			EXECUTIVE				Net Cash Value	Net Death Benefit
		Annual Bonus Paid	Annual – Tax Benefit	A/T = Cost of Bonus	Net Annual Outlay	Annual – Bonus Received	Tax + Due on Bonus	Executive = Annual Outlay		
1	55	20833	7083	13750	15000	20833	5833	0	6773	262533<
2	56	20833	7083	13750	15000	20833	5833	0	20702	276462<
3	57	20833	7083	13750	15000	20833	5833	0	35896	291656<
4	58	20833	7083	13750	15000	20833	5833	0	52472	308232<
5	59	20833	7083	13750	15000	20833	5833	0	71550	326478<
6	60	20833	7083	13750	15000	20833	5833	0	92343	346375<
7	61	20833	7083	13750	15000	20833	5833	0	116449	369649<
8	62	20833	7083	13750	15000	20833	5833	0	142800	395104<
9	63	20833	7083	13750	15000	20833	5833	0	171427	422899<
10	64	20833	7083	13750	15000	20833	5833	0	202660	453236<
Total		208333	70833	137500	150000	208333	58333	0		
11	65	20833	7083	13750	15000	20833	5833	0	236796	486796<
12	66	20833	7083	13750	15000	20833	5833	0	273385	523385<
13	67	20833	7083	13750	15000	20833	5833	0	313266	563266<
14	68	20833	7083	13750	15000	20833	5833	0	356705	606705<
15	69	20833	7083	13750	15000	20833	5833	0	404032	654032<
16	70	0	0	0	-55000	0	0	-55000	379772	599032<
17	71	0	0	0	-55000	0	0	-55000	353349	544032<
18	72	0	0	0	-55000	0	0	-55000	324540	489032<
19	73	0	0	0	-55000	0	0	-55000	293068	434032
20	74	0	0	0	-55000	0	0	-55000	258588	377482
Total		312500	106250	206250	-50000	312500	87500	-275000		

< Indicates the No-Lapse Guarantee is in effect for the entire policy year.

Investors should consider the investment objectives, risks, and charges and expenses carefully before investing in the contract and/or underlying portfolios. The prospectus of the contract and/or the underlying portfolios contains information relating to investment objectives, risks, and charges and expenses as well as other important information. A copy of the prospectus may be obtained from www.prudential.com. Your clients should read the prospectus carefully before investing.

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**Non-guaranteed results based on a Hypothetical Annual
Gross Rate of Return of 10.00% (Net 9.37%)@ and Current Charges.**

Year	Age	EMPLOYER			EXECUTIVE				Net Cash Value	Net Death Benefit
		Annual Bonus Paid	Annual – Tax Benefit	A/T = Cost of Bonus	Net Annual Outlay	Annual – Bonus Received	Tax + Due on Bonus	Executive = Annual Outlay		
21	75	0	0	0	-55000	0	0	-55000	220959	319179
22	76	0	0	0	-55000	0	0	-55000	179877	259069
23	77	0	0	0	-55000	0	0	-55000	135048	197095
24	78	0	0	0	-55000	0	0	-55000	86158	133200
25	79	0	0	0	-55000	0	0	-55000	32850	67324
26	80	0	0	0	0	0	0	0	34903	56111
27	81	0	0	0	0	0	0	0	37292	58380
28	82	0	0	0	0	0	0	0	39772	61581
29	83	0	0	0	0	0	0	0	42329	64880
30	84	0	0	0	0	0	0	0	44943	68258
Total		312500	106250	206250	-325000	312500	87500	-550000		
31	85	0	0	0	0	0	0	0	220959	71624
32	86	0	0	0	0	0	0	0	179877	74998
33	87	0	0	0	0	0	0	0	135048	78337
34	88	0	0	0	0	0	0	0	86158	81593
35	89	0	0	0	0	0	0	0	32850	84713
36	90	0	0	0	0	0	0	0	34903	87637
37	91	0	0	0	0	0	0	0	37292	85275
38	92	0	0	0	0	0	0	0	39772	83286
39	93	0	0	0	0	0	0	0	42329	81890
40	94	0	0	0	0	0	0	0	44943	81354
Total		312500	106250	206250	-325000	312500	87500	-550000		
41	95	0	0	0	0	0	0	0	80763	87466
42	96	0	0	0	0	0	0	0	87074	94022
43	97	0	0	0	0	0	0	0	93844	101049
44	98	0	0	0	0	0	0	0	101104	108575
45	99	0	0	0	0	0	0	0	108880	116630
Total		312500	106250	206250	-325000	312500	87500	-550000		

Internal Use Only

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