ADVANCED PLANNING

INSURANCE STRATEGIES THAT HELP PROTECT THE FUTURE OF YOUR BUSINESS

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WE CAN HELP PROTECT THE FUTURE OF YOUR BUSINESS WITH THESE LIFE INSURANCE STRATEGIES.

In today's competitive environment, you know the challenge of attracting and retaining quality people for the continued success of your business. At the same time, you recognize the current benefits that your business provides to both you and your family. Are you making the key decisions today that will help ensure your business's future and the financial wellness of your family?

What are your concerns?

- Are you counting on your business for retirement income?
- Could your business continue without you or another key person?
- If you sold your business today, could you get the value you want?
- Would your family be able to maintain their current standard of living if something unexpected happened to you?

Perhaps, it's time to engage your financial professional to help you with arrangements that address such needs as:

1. BUSINESS CONTINUATION

2. EXECUTIVE COMPENSATION

3. YOUR RETIREMENT

Thousands of entrepreneurs have relied on the business funding strategies that The Prudential Insurance Company of America and its affiliates (collectively, "Prudential") have helped put into place. In conjunction with counsel from your attorney, accountant, and other members of your team, we can help with strategies for you and your business.

1. BUSINESS CONTINUATION

Many small, family-held businesses fail to survive beyond the first generation because the owners neglected to build and fund solutions for the disposition of their business at their deaths or retirements, or should they become disabled.

A closely held business may want to set priorities for its financial protection areas. One of the first priorities is to ensure the future of the business if the primary drivers of success die prematurely.

HAVE YOU THOUGHT ABOUT YOUR BUSINESS'S FUTURE?

The place to start is the buy-sell agreement.

A buy-sell agreement

Drafted by your attorney, the buy-sell agreement assures a market for your business should you die, become disabled, or leave the business. It does this by predetermining the business price, identifying the future buyer(s), and creating a legal obligation between you, as the business owner, and the buyer(s). While the buy-sell agreement creates a contractual obligation for you to sell and the purchaser to buy, its successful completion requires that the needed funds be available when a triggering event occurs.

There are a number of ways to structure and fund a buy-sell agreement. Life and disability insurance policies, when structured properly, can help provide the confidence that funds will be available to complete the buyout.[1]

[1] The availability of disability insurance policies varies by carrier and state.

Key employee protection

You may depend on the talents, managerial skills, and experience of a key employee. If that key employee is lost because of a disability or death, the financial loss to your business can be devastating. Creditors may become nervous about continuing to extend credit. The goodwill that you have worked so hard to establish may be diminished by a change in management. You can help protect your business from such a loss through the use of life or disability insurance.[1]

Life insurance proceeds or disability income benefits will be paid to the business to be used to help meet debt obligations, offset lost sales, or cover the expenses associated with recruiting, hiring, and training a replacement for a key person.

PROPERLY STRUCTURED, NON-QUALIFIED PLANS:

- Do not have to include all employees; they may be offered just to key executives
- May be individualized to meet the specific needs of a key executive
- Can be designed to replace deferrals lost to qualified plan limitations
- Are not subject to the early withdrawal tax penalty

2. EXECUTIVE COMPENSATION

Non-qualified deferred compensation arrangements

Having the right executive compensation in place can help you attract and retain key people. You can offer various plans, including those tied to life insurance or disability insurance. Many options provide benefits for both your business and the key employee.

These arrangements have gained in popularity as companies have come to realize that the addition of a non-qualified benefit arrangement to a compensation package helps attract and retain key executives.

In its simplest form a non-qualified deferred compensation arrangement is merely an unfunded, unsecured promise to pay a stated dollar amount at some point in the future.

Properly structured, a non-qualified plan allows an employee to defer the receipt of taxable wages or bonuses until some future year, when the employee may be in a lower income tax bracket. Amounts (and any earnings) accrued under a non-qualified plan are not deductible by the employer until the year in which they are included in the employee's income, and then only to the extent that these amounts represent reasonable compensation.

While non-qualified plans do not offer the same tax advantages as qualified plans, they are not subject to many of the restrictions imposed on tax-qualified plans. Therefore, they can be extremely flexible.

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[1] The availability of disability insurance policies varies by carrier and state.

This flexibility has manifested itself in a wide array of plan designs and funding arrangements. Traditional non-qualified deferred compensation arrangements are generally structured in one of three ways:

DEFERRED COMPENSATION ARRANGEMENT

Under a traditional deferred compensation arrangement, the participating executive elects to defer receipt of compensation earned until some time in the future.

SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN (SERP)

Under a SERP, a business agrees to make defined contributions or provide defined future benefits for the employee with no change in the employee's current compensation. A SERP acts as "golden handcuffs," tying the participant to the business, since benefits are subject to forfeiture if specified conditions are not met.

DEATH BENEFIT ONLY (DBO) PLAN

A death benefit only plan provides supplemental survivor income benefits for a selected employee's beneficiaries should the employee die prior to retirement.

THE BENEFIT OBLIGATION

While a non-qualified compensation arrangement cannot be funded without causing current taxation to the employee, the prudent employer sets aside funds as benefits accrue to provide for future cash flow needs and to increase the participant's confidence that the "promise to pay" will be honored.

Other non-qualified executive benefit arrangements

In addition to establishing plans that can help provide financial wellness in retirement, you may want to offer additional benefits for executives whom you consider key to your operation. Each of the following life insurance arrangements can be an invaluable benefit for a key executive who has a need for death benefit protection.

EXECUTIVE BONUS ARRANGEMENT

This type of arrangement is simple, is easy to administer, and can be used to provide life and/or disability insurance benefits to key executives.

EXECUTIVE BONUS ARRANGEMENT USING LIFE INSURANCE

The employee usually applies for and owns the policy, naming family members or other heirs as beneficiaries. Premiums paid by the business are treated as additional compensation to the employee and, where reasonable, are deductible by the business. Additional dollars are often added to the bonus to cover any income taxes so that the arrangement results in no out-of-pocket cost for the employee.

If the executive should die, income tax-free policy death benefits are payable to their named beneficiaries; or where needed, the accumulated cash value can be used to supplement retirement income.[2]

In addition to establishing plans that can help provide financial wellness in retirement, you may want to offer additional benefits for executives whom you consider key to your operation.

[2] A policy's cash values may consist of both guaranteed and nonguaranteed elements. Nonguaranteed cash values will reflect actual policy earnings and expense deductions, both of which can be expected to change over time. Life insurance policy cash values are accessed through withdrawals and/or policy loans. Loans are charged interest; they are usually not taxable. Withdrawals are generally taxable to the extent they exceed basis in the policy. Loans that remain unpaid when the policy lapses or is surrendered while the insured is alive will be taxed immediately to the extent of gain in the policy. For policies that are Modified Endowment Contracts (MECs), distributions (including loans) are taxable to the extent of income in the policy; a 10% additional tax may apply. Consult your tax advisor for advice about your own situation.

RESTRICTIVE EXECUTIVE BONUS ARRANGEMENT

In situations where it is important to tie the executive to the business, an employer might want to take the bonus arrangement a step further by structuring it as a restrictive executive bonus arrangement (REBA).

In a REBA, the employee owns the policy while the employer pays the premium cost. However, the employee's ability to exercise many policy rights is limited through the use of a restrictive endorsement placed on the underlying policy. The restrictive endorsement acts as "golden handcuffs" as it remains in effect until the employee meets the terms negotiated in a separate employment contract.

SPLIT-DOLLAR ARRANGEMENT[3]

A split-dollar arrangement is essentially a technique where an employer and an employee agree to share the premium, death benefit, and cash value in a permanent life insurance policy.

There are a number of variations of split-dollar arrangements. In all of them, the payment of premiums makes it easier for the executive to obtain coverage. For the business, a split-dollar arrangement allows for cost recovery and effectively functions as golden handcuffs because the employee is obligated to repay the business for the amount of premiums advanced.

GROUP TERM CARVE-OUT

This concept enables an employer to provide permanent life insurance to an executive on a selected basis without having to comply with the nondiscriminatory provision normally affecting standard group life coverage. Under this arrangement, selected executives are excluded or "carved out" of the employer's group life insurance plan for death benefit amounts over $50,000. Individual permanent life insurance contracts are substituted—policies that can accumulate cash values during the employee's working years that can later be used to help supplement retirement income.[2]

A prudent employer sets aside funds as benefits accrue to provide for future cash flow needs.

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[3] The Sarbanes-Oxley Act makes it a crime for publicly traded companies to, directly or indirectly, enter into a loan with certain directors and executive officers. It is unclear whether the Act applies to split-dollar arrangements. Clients should contact their tax or legal advisors for the most recent developments.

LIFE INSURANCE FUNDING

Life insurance is frequently used to fund executive benefit and buy-sell arrangements. Why? Because it's a versatile financial instrument that covers the risk of premature death by providing an immediate death benefit and also offers an opportunity for income tax-deferred cash value growth and tax-favored withdrawals and loans.[2]

In addition, the death benefit life insurance provides is generally received free of income tax under IRC §101(a); however, for employer-owned contracts issued after Aug. 17, 2006, death proceeds will be subject to income tax except where specific employee notice and consent requirements are met, and certain exceptions apply.

Since there are many valid business uses of life insurance, legislation provides a number of exceptions that, if met, provide income tax-free death benefits. The exceptions apply only where the employee receives notice of, and consents to, the policy in writing prior to policy issue.

Meeting the notice and consent requirements is a critical first step to avoiding taxation of death benefits. Employer-owned contracts must also fall within one of these exceptions:

EXCEPTION 1

The insured was either an employee at any time during the 12-month period prior to death or a director, a highly compensated employee, or a highly compensated individual[4] at the time the contract was issued.

EXCEPTION 2

The amount received at the death of the insured is paid to a family member or an individual (other than an applicable policyholder) who is the designated beneficiary of the insured, or where the policy proceeds are used to purchase an interest in the business from a family member, beneficiary, trust, or estate.

Life insurance policies can still provide income tax-free death benefits to help meet business goals, but the key to a successful plan is following the rules.

Life insurance is frequently used to fund executive benefit and buy-sell arrangements.

[4]Highly compensated employee. A highly compensated employee is an individual who: (a) Owned more than 5% of the interest in your business at any time during the year or the preceding year, regardless of how much compensation that person earned or received, or (b) For the preceding year, received compensation from you of more than $150,000/$155,000 if the look-back year is 2023/2024, indexed for inflation in future years, and, if you so choose, was in the top 20% of employees when ranked by compensation.

3. FINANCIAL WELLNESS IN RETIEMENT

Today, more small business owners are concerned about having enough money to fund their retirements. And today's employees are very aware of the value retirement benefits add to their compensation packages.

Prudential offers a broad spectrum of insurance and financial products to support employer-sponsored tax-qualified and non-qualified retirement plans.

Tax-qualified retirement plans

In general, tax-qualified plans enjoy a combination of income tax and asset protection benefits that are not available in other retirement arrangements. Your business is entitled to a current income tax deduction for the amounts contributed to the qualified plan, and your employees are not taxed on these amounts, or on any investment earnings, until the benefits are actually received—generally at retirement. In addition, benefits are held by a separate trust that is beyond the reach of your business creditors, providing added confidence to participants because they know that future benefits will be paid.

Tax-qualified retirement income plans come in many forms:

DEFINED BENEFIT PLAN

A defined benefit plan promises a predetermined retirement benefit to your employees, in the form of either a certain dollar amount or a specific percentage of compensation. Since you, as the employer, make the promise to pay a certain sum in the future, it is your business that assumes the risk of investment performance.

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DEFINED CONTRIBUTION PLAN

Each participant in a defined contribution plan has a separate account in the benefit trust. The actual retirement benefits received depend on how much was contributed to the plan during the participant's working years, whether the employer added matching contributions (i.e., in the case of elective deferral plans), and the investment gains and earnings. In a defined contribution plan, the investment risk is shifted to the employees.

Defined contribution plans have begun to dominate the qualified retirement landscape because they shift the risk of investment performance away from the business, are more easily administered, and are easier for plan participants to understand. These are some of the more common defined contribution plans:

- **Profit-sharing plan:** Profit-sharing plans are a popular choice among small business owners with fluctuating cash flow because they allow the business owner to decide how much (up to 25% of total compensation of participating employees, with individual employee compensation for contribution purposes limited by tax law, indexed for inflation) or how little to contribute to the plan each year, depending on company performance.
- **Money purchase plan:** In this plan, the employer's contributions are mandatory and are usually based on a set percentage of each employee's compensation.
- **401(k) plan:** Some plans may allow after-tax contributions that are not put in a Roth account. A 401(k) is a form of profit-sharing plan that allows plan participants to save for retirement using pre-tax dollars. (Certain plans may also allow after-tax or Roth contributions.) To encourage participation, employers may provide matching contributions. Employer contributions are deductible but are limited to no more than 25% of the total compensation of the participating employees, with individual employee compensation for contribution purposes limited by tax law, indexed for inflation.

- **Employee Stock Ownership Plan (ESOP):** An ESOP is a qualified defined contribution plan and is similar to a profit-sharing plan. An ESOP is required by law to invest primarily in the stock of the sponsoring employer, essentially making the employees owners in the company. The employer benefits not only because of the ability to deduct contributions (within prescribed limits) but also because the ESOP can be used as a conduit for borrowing money from a bank or other lending institution for a variety of business purposes. In turn, employees share in the business value that they helped to build.

SIMPLIFIED EMPLOYEE PENSION PLAN (SEP)

A SEP is a simplified alternative to a profit-sharing plan under which an employer makes contributions to IRAs of employees. Employee and employer contributions are subject to the same limitations as profit-sharing plans.

SIMPLE RETIREMENT PLAN

A SIMPLE plan is one of the easiest and most convenient methods for a small business to provide retirement income to owners and employees.

A SIMPLE plan can be structured as a group of IRAs or as a 401(k) plan. It can be implemented by any small business that has 100 or fewer employees and that does not maintain another tax-qualified retirement plan.

APPEAL OF A TAX-QUALIFIED RETIREMENT INCOME PLAN

Employee: Has the opportunity for increased retirement savings.
Employer: Contributions are tax deductible, within limits, in the year they are made.

Tax-qualified plans enjoy a combination of income tax and asset protection benefits not available in other retirement arrangements.

SOME OTHER CONSIDERATIONS

The real appeal of tax-qualified retirement income plans is their tax efficiency. For the employee, a qualified plan provides the opportunity for increased retirement savings through tax deferral on contributions and investment earnings, as well as rollover opportunities. For the employer, contributions are tax-deductible, within limits, in the year they are made.

The trade-off for the tax advantages of qualified plans is strict adherence to tight legislative guidelines, such as:

- No discrimination—the qualified plan must cover all eligible employees
- Benefits cannot favor highly compensated employees
- Prescribed vesting schedules
- Limitations on employer and employee contributions
- Limitations on the compensation considered for plan contributions
- Limitations on the benefits distributed annually

"REVERSE DISCRIMINATION"

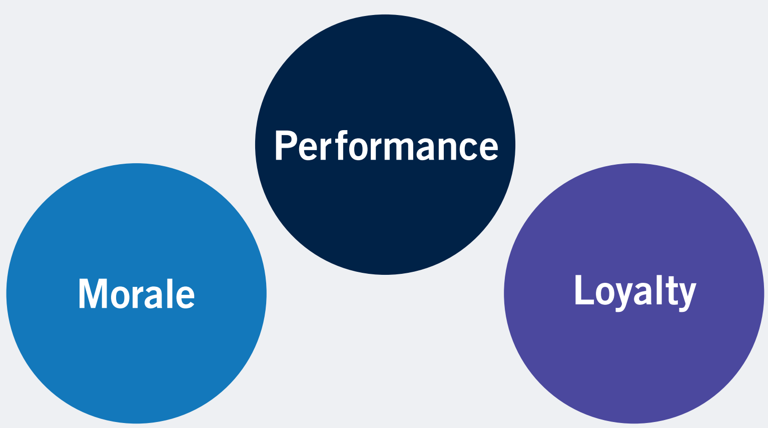
In effect, the limits on benefits and contributions have created reverse discrimination in many qualified plans as they fail to provide the same ratio of preretirement income to postretirement income for high-income earners as they do for the rank-and-file workers. For this reason, many small business owners like you are looking for a solution to this retirement dilemma. One potential answer is the addition of non-qualified plans to the retirement strategies your business has in place.

The key decisions you make today will have an impact on your company's performance, your employees' morale, and your executives' loyalty.

INVEST TIME TODAY TO PREPARE FOR TOMORROW.

Finding time to manage your company's strategic vision isn't easy. But it's best not to put it off.

How important are these factors to you?



Get started with your responses to our business needs worksheet.

Your financial professional is prepared to work with you and your advisors to create the programs that help meet the needs of your company, your employees and executives, your family, and you.

A FINANCIAL LEADER FOR OVER 145 YEARS

Prudential Financial is a worldwide financial leader with a long tradition of serving the public interest. Prudential Financial has approximately 50 million customers. The well-known Rock symbol is an icon of strength, stability, expertise, and innovation that has stood the test of time.

Prudential Financial companies serve individual and institutional customers worldwide and include The Prudential Insurance Company of America. We offer a variety of products and services, including a full range of solutions to help meet your business needs for a sound business insurance strategy and protection.

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IDENTIFYING THE STRATEGIES YOUR BUSINESS NEEDS

The Prudential Insurance Company of America, Newark, NJ.

NAME .... DATE ....

Check the boxes that reflect the present situation of your business:

GROWING BUSINESS VALUE	Yes	No	Not Sure	Not Applicable	Priority Concern
1. I have a team of specialized business advisors that I meet with regularly to discuss business financial results and marketing and operational plans.	☐	☐	☐	☐	☐
2. The business has in place procedure systems and efficient financial controls.	☐	☐	☐	☐	☐
3. The business has been valued recently by a certified appraiser.	☐	☐	☐	☐	☐
4. The key managers are able to meet today's challenges and exploit new opportunities.	☐	☐	☐	☐	☐
5. The business has established incentive plans to attract and retain key people, and they appear to be working.	☐	☐	☐	☐	☐
6. The managers in place are capable of running the business in the event of my absence/death. The business's continued existence is not dependent on me.	☐	☐	☐	☐	☐
PROTECTING BUSINESS VALUE					
1. A detailed review of the property and liability coverage of the business was conducted within the last two years; no gaps currently exist.	☐	☐	☐	☐	☐
2. Financial resources are in place to help ensure the payment of debt obligations of the business at my death.	☐	☐	☐	☐	☐
3. Provisions have been put in place to protect the business against losses caused by the departure/death of a key person.	☐	☐	☐	☐	☐
4. The business has a written plan and adequate financial resources for its continuation in the event something unexpected happens to me or a co-owner.	☐	☐	☐	☐	☐
5. I would get the value I want if I were forced to sell the business today.	☐	☐	☐	☐	☐
TRANSFER OF BUSINESS INTEREST					
1. I have determined how and when I will leave the business.	☐	☐	☐	☐	☐
2. I know my retirement income goal and what it will take to reach it.	☐	☐	☐	☐	☐
3. My retirement goal is not primarily dependent on the continued success or transfer of the business.	☐	☐	☐	☐	☐
4. I have reviewed my financial goals with my advisor(s) within the last year.	☐	☐	☐	☐	☐
5. I'm on target for achieving my retirement goal.	☐	☐	☐	☐	☐
SAFEGUARDING YOUR FAMILY'S FINANCIAL WELLNESS					
1. I regularly meet with my advisors to make sure my business plans and activities are coordinated with my personal goals.	☐	☐	☐	☐	☐
2. I want to explore strategies for minimizing the impact of taxes on my family.	☐	☐	☐	☐	☐
3. My business and estate documents, property ownership, and beneficiary designations were recently reviewed by legal advisor(s) to make sure they meet my objectives.	☐	☐	☐	☐	☐
4. Strategies that are not dependent on the business are in place to provide for my family in the event something unexpected happens to me.	☐	☐	☐	☐	☐

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