

Service

1035 Exchange Life Insurance Process Overview

1035 EXCHANGE DEFINITION

An exchange of a (non-qualified) life insurance policy, endowment contract, annuity contract, or long-term care contract for another policy or contract that meets the requirements of Section 1035 of the Internal Revenue Code.

The benefit to the policy/contract owner: They do not have to currently pay income tax on the inside gain on the policy/contract given up. The income tax consequences are deferred until the money is distributed from the new policy or contract.

Conditions for Qualifying 1035 Exchange

- Same insured(s) AND policyowner(s). A 1035 Exchange will not be processed if we are aware of an ownership change occurring in the six months preceding the request being initiated.
- Prudential requires the new policy to have a \$50,000 minimum face amount.
- The total cash value being exchanged must be equal to or greater than \$1,000.
- If there is an existing policy loan, verify prior to submission that the other carrier loan can be transferred or mirrored to Prudential.
 - NOTE: See Mirrored Loan section.
- If one policy has funds going into multiple policies, it is considered a split and an indemnity letter is required. Once an exchange has been initiated, no additional policies can be added to the request.
- A survivorship policy must be exchanged for another survivorship policy and cannot be exchanged for a single life policy unless one of the insureds is deceased.
- Full exchanges must take place between the two insurance companies via an irrevocable assignment to the insurer of the old contract; the client cannot receive a check and apply the proceeds to the purchase of the new policy or contract.
- An endowment, annuity, or long-term care contract cannot be 1035 exchanged into a life insurance policy.

KEY REMINDERS

Absolute Assignment and Other Forms

An Absolute Assignment form is required for all 1035 exchanges. While Prudential has a standard 1035 Exchange Absolute Assignment form, some carriers require their own company form, along with Prudential's form. It is important the Absolute Assignment and related 1035 Exchange forms be submitted to the Home Office at the time of the application to avoid potential delays in processing.

- Submit a form with the original signature for each carrier being replaced.
 - For insured and owner, provide the full name on each field. The word "same" is not acceptable on either line.
- For **corporate or business-owned** policies:
 - Include the full name, signature, and title of the company officer.
 - A Resolution of the Business on company letterhead confirming that the individual(s) signing is/are authorized to sign on behalf of the corporation.
- For **trust-owned** policies:
 - Trustees must sign in accordance with the trust agreement.
 - Include the full name AND date of the trust on the owner line.
 - Indicate "trustee" next to the authorized owner's signature.
- **Community Property states** require a spouse's signature, along with the insured and policy owner. These states are AZ, CA, ID, LA, NV, NM, TX, WA, and WI.
- A box must be checked on **page 2, Policy Statement**. If the first box is checked, Prudential will require a policy statement or illustration of the original policy with the external replacing company.

Other Forms

All state and company replacement forms must be completed.

- Prudential's Absolute Assignment Form and Important Notice Regarding Replacement are required.

NOTE: Some carriers require their own company form and will not accept the Prudential form. Others require originals. See "1035 Exchange Helpful Hints" for more information.

Good Health Statement (GHS)

On non-prepaid cases, a signed 1035 Exchange GHS will be required upon approval on 1035 exchanges when the approval is more than 30 days from the Medical Declaration (Exam or Client Interview/Part II date, whichever is later). Prudential will not request funds from the replacing company until the GHS form is received. The form must be signed AFTER the underwriting approval date. A GHS is not required on pre-paid cases, and once signed, is good for 30 days.

eSignatures: While eSignature utilization has expanded, many carriers require original signatures on their 1035 Exchange forms. Prudential allows eSignatures on 1035 Exchange paperwork when completed through our approved electronic submission platforms. Northwestern mutual will not take e-signed Northwestern Surrender forms (only Absolute Assignments).

Currently, we are aware of the following carriers that accept eSignatures on 1035 Exchange paperwork:

- Investor Life
- Lincoln Benefit (Variable Only)
- Northwestern Mutual
- Phoenix
- Prudential

Service

KEY REMINDERS

Policy Value

If the amount of proceeds or timing of receipt of the 1035 Exchange proceeds differs from the original illustration assumptions, the actual Contract Fund and No-Lapse Guarantee (if applicable) will be different than illustrated.

Receipt of Proceeds

Generally, the proceeds are received within three to four weeks of initiation of the 1035 Exchange. This can vary, depending on the carrier. See "1035 Exchange Helpful Hints" for more information. Companies legally have six months before the funds must be sent out per IRS Guidelines.

Policy Issue

Generally, if the policy is not prepaid, it will not be issued until receipt of the 1035 Exchange funds. A policy can never be issued ahead of an exchange if the Definition of Life Insurance is GPT (Guideline Premium Test).

Modified Endowment Contract (MEC)

If a contract that is being replaced is a Modified Endowment Contract (MEC), a 1035 Exchange will not change this status. The new life insurance contract will also be a MEC, and a MEC Acknowledgment form will be required.

Offer Acceptance

Once underwriting is complete, it is important to verify the application questions have not changed since the initial submission and confirm offer acceptance and the client's agreement to proceed. This is necessary to initiate the 1035 Exchange with the carrier being replaced. Once the proceeds are moved from the existing policy and that policy is canceled, reversals/reinstatements on internal exchanges are not possible. External reversals are dependent on the original company agreeing to accept the funds back and reinstate the policy. Once confirmation has been received to proceed with any exchanges, no additional policies can be added to the exchange request (i.e.- originally requested one policy to be exchanged and would now like to have another policy exchanged will not be accepted) due to IRS Single Integrated Transaction Regulations.

Accumulated Dividends

Proceeds from Accumulated dividends are not eligible for 1035 Exchange tax treatment as they are taxed

when credited to the original contract. If proceeds from Accumulated dividends are received, they will be treated as an additional drop in.

Mirrored Loans

If an existing policy loan is present on the replacing policy and the client would like to transfer/mirror that loan on the new Prudential policy, **verify prior to submission that the other carrier loan can be transferred or mirrored to Prudential.**

Pre-approval from Prudential is required to mirror an existing loan. Reach out to your Internal Wholesaler or Sales Desk for assistance.

NOTE: Mirrored loan funds are not loaded onto the policy until policy placement. Processing time may vary in relation to standard 1035 Exchange processing.

The following carriers do NOT allow loans to be mirrored in conjunction with the 1035 Exchange.

- AAFMA
- American National
- Canada Life
- Common Wealth
- Columbus Life
- Consec
- Crown Life
- Delaware Life
- Great West Life
- Guardian
- Jackson National
- Knights of Columbus Life
- Lafayette
- Lincoln Benefit Life Co
- Midland National
- New York Life (variable only)
- North American
- Ohio National
- One American
- Polish National Alliance
- Principal American National
- Protective
- RiverSource
- Security Mutual
- State Farm
- Transamerica
- USAA

Foreign Exchanges

We accept foreign policy exchanges so long as the foreign policy satisfies the U.S. definition of life insurance under Internal Revenue Code Section 7702. All foreign 1035 exchanges must be reviewed for approval and typically require the following:

- A signed letter from the carrier indicating the foreign contract meets the U.S. tax law definition of life insurance under Section 7702 of the Internal Revenue Code (i.e., cash value accumulation or guideline premium test). (This is in addition to all regular 1035 requirements.)
- Funds must be sent in U.S. dollars—conversion must be done prior to us receiving funds.
- Name, address, phone, and fax number of insurance company money is coming from.

Term Conversions

Contact our Change & Term Conversions team to see if eligible for a 1035 Exchange.

Split Exchanges

Corporate approval to allow for a split exchange is needed prior to application submission. An Indemnity Letter is required prior to the start of the exchange.

Still have questions? Check out our 1035 Exchange Frequently Asked Questions.

UNDERWRITING

1035 EXCHANGE LIFE INSURANCE PROCESS OVERVIEW

This material is designed to provide general information in regard to the subject matter covered. It should be used with the understanding that we are not rendering legal, accounting, or tax advice. Such services should be provided by the client's own advisors. Accordingly, any information in this document cannot be used by any taxpayer for purposes of avoiding penalties under the Internal Revenue Code.

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