UNDERSTANDING IUL AND IVUL CAPS AND RATES

Factors that Impact Changes

First, a short introduction to IUL and IVUL, and why the caps and rates on these products change.

Indexed Universal Life (IUL) and Indexed Variable Universal Life (IVUL) policies are life insurance products that offer the ability to earn interest on cash value tied to the performance of a stock market index like the S&P 500®. Unlike money invested directly in equities, cash value allocated to IUL and IVUL Index Accounts and Strategies has a range of downside protection but also has a limit on the upside potential when the index grows and lower cost of options due to low volatility.

It's important to understand how an index account or strategy credits interest and how that can change.

There are 3 components to the process: (1) the underlying index; (2) the downside protection — either a floor or a buffer; (3) the upside potential, often limited by a cap, step rate, participation rate, or spread.

- The first component, the value of the underlying index, changes with the market, independent of the insurance company.

To deliver on the interest crediting promise, the insurance company hedges this liability using derivatives, such as options, on the underlying index.

- The second component, the downside protection, is guaranteed not to change.
- However, the third component, the upside potential, will change over time because the cost of those derivatives changes depending upon market conditions.*

** It's important to note that the insurance company can change these rates only prior to a segment starting; it cannot change them after a segment has been created.*

Prudential has a disciplined process for tracking hedge costs and budgets when making decisions to set the upside potential elements; caps, step rates, participation rates, and spreads. When conditions allow, the upside potential elements, such as a cap, improve. If conditions are not favorable, the cap decreases. Historically, Prudential has moved the element that impacts the upside potential in both directions.

The following provides answers to common questions about how and why the upside potential changes over time.

Q. How are the upside potential rates determined?

A. There are two key factors that influence the elements of the upside potential that can be offered. Prudential has a disciplined process to manage these elements. Our goal is to balance two key factors:

Hedge Budgets

The assets invested in the general account to back the index product are used to create a hedge budget. The higher the investment returns, the greater the hedge budget available to back the index credits. If investment returns are lower, then less budget is available and the upside is more limited.

Hedge Costs

The hedge costs, primarily the cost of options, also has an impact on how much upside can be offered to policyholders. The cost of options is impacted by multiple factors, including the level or amount of the upside potential. For example, options that provide a 13% cap cost more than options that provide a 10% cap. Another factor that impacts the cost of options is market volatility. If volatility increases, the cost of options also increases. If volatility decreases, the cost of options also decreases, which means we may be able to provide a higher cap. When setting the cap or participation rate, the company tries to match the hedge budget to the hedge costs (the price of the options). **Cap changes are not used to make additional profit.**

Q. Is this how both the IVUL and IUL products work?

A. **Yes**. However, the hedge costs between the index strategies are often different because the crediting potential in down and up markets is also different. For example, an index crediting strategy that uses a Buffer will generally have lower overall hedge costs for the package of options being used because there is downside risk that allows for more upside potential.

Additionally, it's likely that IVUL products have more frequent changes and the size of the changes are greater since the hedge costs change more.

Finally, the investment strategy and portfolio backing of an IVUL product are different from those of an IUL product so the Hedge Budgets will be different and may react to a changing interest rate environment.

Q. How often are these rates reviewed?

A. We review the factors that influence caps and rates on an ongoing basis. You can expect to see changes as often as quarterly, but we reserve the right to make changes to future segment values when needed. Because of this, you can expect to have segment caps and other values vary over the course of the client's policy.

Q. When are rates likely to change?

A. Insurance companies match the interest crediting promise by taking measures to balance option costs and hedge budgets in the current environment. Cap and participation rates change over time due to a misalignment between how much is available for a hedge budget and the cost of the options contracts.

This chart shows the general approach to determining values based on market volatility and interest rates.

Low long-term interest rates / High market volatility	High long-term interest rates / High market volatility
• Smaller hedge budget to buy options • Higher cost of options due to high volatility	• Higher hedge budget to buy options • Higher cost of options due to high volatility
Result	**Result**
Negative impact to Caps, Participation Rates, Step Rate, and Spread.	Caps. Participation Rates, Step Rate, and Spread can be positively impacted or negatively impacted depending on whether higher interest rates offset options cost.
Low long-term interest rates / Low market volatility	**High long-term interest rates / Low market volatility**
• Smaller hedge budget to buy options • Lower option costs due to low market volatility	• Higher hedge budget to buy options • Lower cost of options due to low volatility
Result	**Result**
Caps. Participation Rates, Step Rate, and Spread can be positively impacted or negatively impacted depending on whether the lower options cost can offset the smaller hedge budget	Positive Impacts to the Cap, Participation Rate, Step Rate, and Spread.

Q. What is Prudential's history of IVUL cap changes?

A. FlexGuard Life was launched in November 2022 with an 18% cap on the Buffer and Cap strategy. Every quarter since it was launched, the cap has changed. It increased in Q1 2023 up to 21% but has decreased each quarter since then down to 18.5%, then 16.5%, and in Q4 15.5%. Buffered strategies will have frequent changes, but in the first year in market, Prudential has both increased and decreased caps as dictated by changes to the hedge budget and hedge costs.

Q. What about IUL cap changes?

A. Prudential has been offering IUL products since 2012. The IUL products have seen both cap increases and decreases. This period generally experienced interest rates declining until recently, which has limited hedge budgets. Additionally, hedge costs have increased with more volatility in recent years. So, while Prudential has been able to increase caps, decreases in caps have been more common.

Q Are caps and rates adjusted to help Prudential profit?

A. We do not profit from hedging. Our goal is to remain neutral.

Q Do any of these values have minimums?

A. Yes, all elements of the index strategies have contractual minimums. These vary by product and can be found in the contract.

Q Where can I find information on the caps/rates?

A. Prudential announces cap and rate changes via our Life Essentials newsletter a few weeks before changes are made. You can also find information on PruXpress.

Who's Your Rock?

For additional information on IUL or IVUL products, or to discuss an opportunity please contact your local wholesaler or the national sales desk at **800-800-2738 option 1**.

Clients should consider the investment objectives, risks, and charges and expenses carefully before investing in the contract and/or underlying portfolios. The initial summary prospectus for the contract, the prospectus for the index strategies, and the prospectus or summary prospectus for the underlying portfolios (collectively, the "prospectuses") contain this information as well as other important information and may be obtained by contacting your Prudential Life wholesaler or from prudential.com. Clients should read the prospectuses carefully before investing.

It is possible to lose money by investing in securities.

Prudential FlexGuard® Life is issued by Pruco Life Insurance Company and offered through Pruco Securities, LLC (member SIPC). Both are Prudential Financial companies located in Newark, NJ.

Product and riders subject to state approvals. Not available in NY.

Buffers are available on index-crediting strategies only. Variable investment options are available but do not offer protection levels.

Investing in Prudential FlexGuard's index strategies does not represent a direct investment in an index.

All guarantees and benefits of the insurance policy are backed by the claims-paying ability of the issuing insurance company and do not apply to the underlying investment options. Policy guarantees and benefits are not backed by the broker-dealer and/or insurance agency selling the policy, nor by any of their affiliates, and none of them makes any representations or guarantees regarding the claims-paying ability of the issuing insurance company.

This material is being provided for informational or educational purposes only and does not take into account the investment objectives or financial situation of any clients or prospective clients. The information is not intended as investment advice and is not a recommendation about managing or investing a client's retirement savings. Clients seeking information regarding their particular investment needs should contact a financial professional.

ISG_FL_ILI1523_01

Prudential