Achieve Your Goals
In a Tax-Efficient Way

Investment and Insurance Products:
Not Insured by FDIC, NCUSIF, or Any Federal Government Agency. May Lose Value. Not a Deposit of or Guaranteed by Any Bank, Credit Union, Bank Affiliate, or Credit Union Affiliate.

1022820-00010-00 Ed. 05/2021

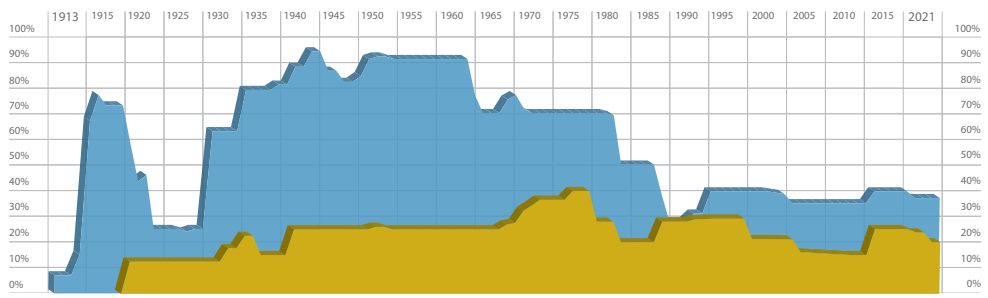
Prudential

What will your taxes be in the future?

If you're actively planning for your retirement, taxes should be a major element of consideration.

Taxation is unpredictable ... will they go up or down?

HISTORICAL HIGHEST MARGINAL INCOME TAX RATES AND CAPITAL GAINS TAX RATES



Sources: Tax Policy Center, Urban Institute & Brookings Institution

Current Highest Rates (2021)

- **Marginal Ordinary Income Tax Rate: 37.0%**
- **Current Capital Gains Tax Rate: 20.0%**

Average Highest Rate (through 2020)

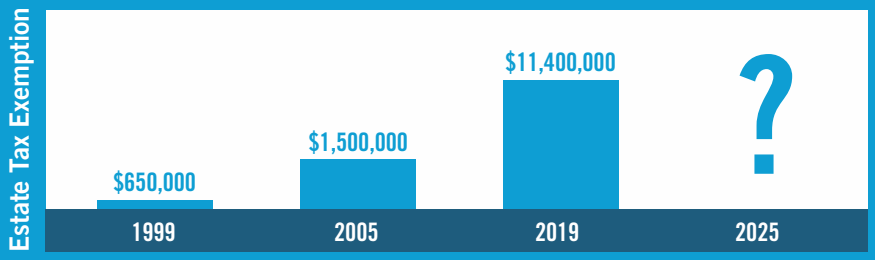
- **Ordinary Income Tax Rate: 57.5%**
- **Capital Gains Tax Rate: 23.14%**

How will each of your retirement savings vehicles be taxed upon retirement? It's hard to know precisely how much you will pay in taxes when you're in your retirement years, because taxes are unpredictable. Even a minor change in taxes could have a significant impact on your retirement.

What Will Happen With Your Estate?

Much like income taxes and capital gains taxes, estate taxes have had their share of great fluctuations in the past; the future is anyone's guess.

Over the past 20 years, there have been 6 major changes, revisions, repeals, reenactments, etc. of the federal estate tax laws.



Whatever the federal estate tax exemptions and rates are now, it is most likely not what they are going to be in the future.

Be prepared for the effect of estate taxes and the impact they can have on your estate.

Life Insurance Is a Powerful Financial Product to Help You Get What You Want and Need

The fact is that protection is at the very heart of life insurance. It's in your best interest to understand the full value of life insurance, including the tax benefits. Taxes have a major impact on the money you will have later in life and on what your family will be able to access after you die. So, when you need life insurance, make sure you're looking at all the ways it can help you.

Ask yourself:

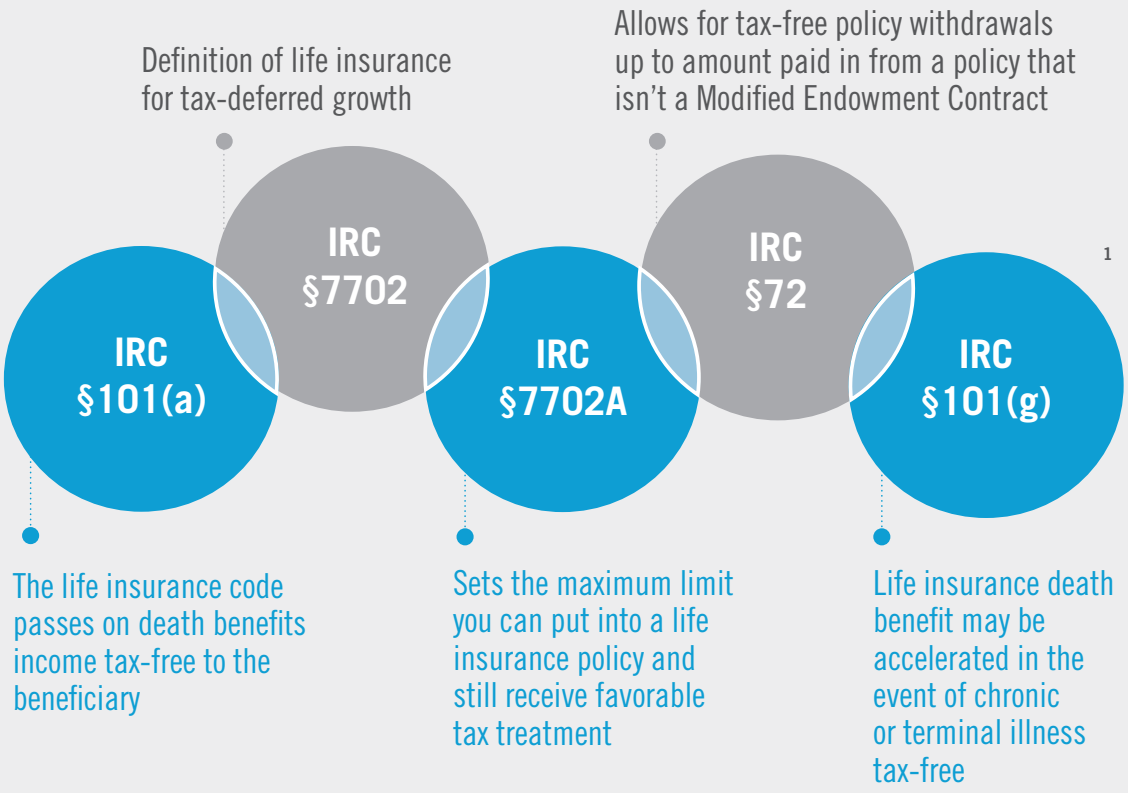
Are you interested in protecting your loved ones in a way that provides tax advantages that can help improve overall financial wellness?

Did you know that life insurance can ...

- Help you leave a larger legacy
- Be designed to address retirement income needs
- Be an additional asset to draw from in the event of chronic or terminal illness

The 5 main Internal Revenue Tax Code sections that put the power in life insurance are how you can help make your financial goals a reality.

Time-Tested IRC Tax Codes



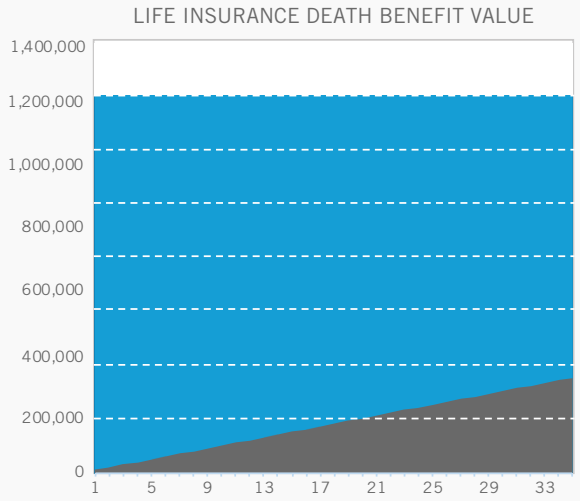
Tax-Free: Death Benefit and Growth Potential

The first tax code section is IRC §101(a). This ensures that your beneficiaries will receive 100% of the death benefit of your life insurance policy. It's very simple.

Death benefit = $1,200,000, beneficiary gets $1,200,000

Tax-Free Death Benefit IRC §101(a)

Life insurance makes 100% of your policy death benefit available once the policy is issued



Male 45, preferred non-tobacco, hypothetical Indexed UL policy, $10,000 annual premiums for 35 years.

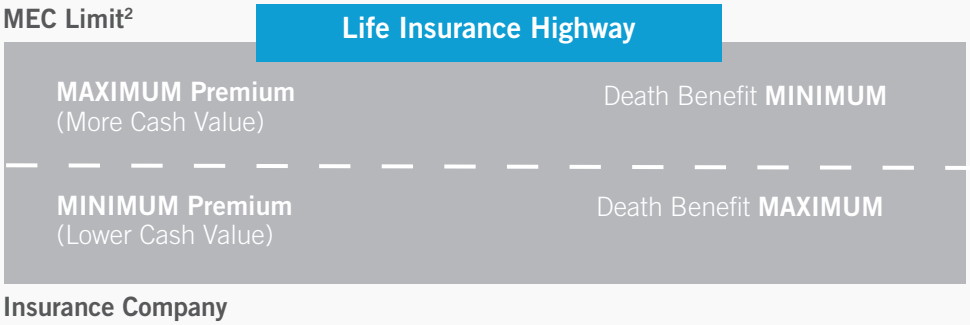
Tax-Free Death Benefit
Premiums Paid

Have Options for Retirement Income

The next tax code section that puts power in your policy is IRC §7702. This allows for tax-deferred growth in your policy if it's one that can grow cash value. In this type of policy, you can choose to pay more than your base premium to drive cash value growth potential. Any cash value growth could be used later in life for additional income. In order to maintain the favorable tax-advantaged status, though, there is a limit on the amount you pay above your base premium.[2] Speak with your financial advisor about which policies might be best for you.

Tax-Free Growth and Access IRC §7702

Life insurance policy cash values grow on a tax-free basis

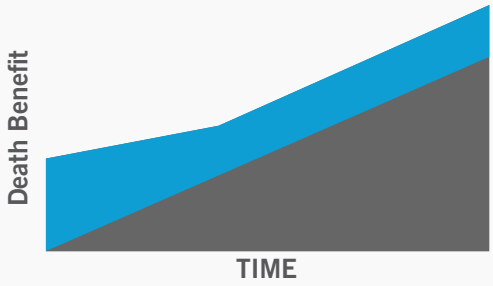


Get What's Important to You.

Life insurance policy charges are paid within your premium payments. These include the cost of insurance charges, administration fees, and charges for some of your riders, etc. How do these charges stack up with what you'll pay in taxes on your other retirement savings vehicles? Depending on your situation, the cost of life insurance could be significantly less than you would pay in taxes with another financial product. Also, as cash values grow in the policy, you will not pay more in charges as a result of the cash value growth.

Tax-Free Growth and Access IRC §7702

Life insurance policy cash values grow on a tax-free basis[3]



- **Death Benefit** — Charges paid on this amount.
- **Cash Value** — No charges on this amount.

… And as cash values grow, so can the death benefit.

And, since you've already paid taxes on the money you use to pay your insurance premiums, no additional taxes are due on the death benefit, including the portion related to the cash value accumulation.

Prepare for Chronic or Terminal Illness

As the incidents of chronic illness have risen, the need to pay for these health care expenses has, too. Several years ago, a subtle change was made in the tax code to allow you to accelerate your death benefit if you become chronically or terminally ill. This tax code section is IRC §101(g). Now you can add a rider to a policy to give you this benefit; sometimes there's an extra premium. With that rider, your death benefit can be used by YOU when you're alive. If you do use this living benefit under the terms of the rider, the net death benefit available for your beneficiaries will be reduced or possibly eliminated.

Tax-Free Acceleration of Death Benefit with IRC §101(g)

What assets will you use in the event of chronic or terminal illness?

7 out of 10 people over the age of 65 will experience a **chronic illness or disability.***

The U.S. spends nearly **$725 billion a year** on chronic illness:

- $7 billion is paid by Long-Term Care policies,
- $63 billion is paid by families out-of-pocket, but
- the majority of care ($450 billion) is provided by family members who are unpaid.**

Why liquidate an existing asset when you could use life insurance?

* *Alliance for Aging Research, The Growing Older Population, 03/18.*
** *National Bureau of Economic Research, 03/14.*

Choose Prudential and Be Confident

Prudential has the strong solutions to cover what you need today and want in the future. Insurance policies can protect you and your loved ones, and can help you with options for income in retirement, too … all in a tax-advantaged way. Take advantage of the unique power of life insurance to help make your goals a reality.

See for yourself how life insurance can work for you.
Ask your financial professional for an individualized illustration today.

[1]Sources: National Constitution Center at https://constitutioncenter.org/; Stat. Vol. 53, Part 1; Pub. L. 83-591; Stat. Vol. 64A; Pub. L. 99-514; Tax Reform Act of 1986; 100 Stat. 2085; The final measure is not officially called the Tax Cuts and Jobs Act. Its formal title is: "An Act to provide for reconciliation pursuant to titles II and V of the concurrent resolution on the budget for fiscal year 2018" or as "Pub. L. 115-97".

[2]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.

[3]Life insurance policy cash values grow tax-deferred and are potentially income tax-free. Cash values are accessed through withdrawals and policy loans. Withdrawals are generally taxable to the extent they exceed premiums paid into the policy. Any 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. Unpaid loans and withdrawals will reduce cash values and death benefits.

We do not provide tax, accounting, or legal advice. Clients should consult their own independent advisors as to any tax, accounting, or legal statements made herein.

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 client or prospective clients. The information is not intended as investment advice and is not a recommendation about managing or investing your retirement savings. If you would like information about your particular investment needs, please contact a financial professional.

Investment and Insurance Products:
Not Insured by FDIC, NCUSIF, or Any Federal Government Agency. May Lose Value. Not a Deposit of or Guaranteed by Any Bank, Credit Union, Bank Affiliate, or Credit Union Affiliate.

Life insurance is issued by The Prudential Insurance Company of America, Newark, NJ, and its affiliates.