



## What Happens at Age 100? Or AFTER Age 100?

**Question:** Lately, I've been asked a lot about whether a particular life insurance contract provides for extended maturity. Can you tell me what extended maturity is, why it's important, and how it is generally handled?

**Answer:** Yes, but first let's review a little background. As a result of improvements made in medical science, more people are living past age 100. This has led clients and their advisors to become increasingly aware of the need for lifetime death benefit protection that extends beyond age 100.

Maturity is a concept that was originally used more with endowment contracts than life insurance policies. Maturity referred to the point where life insurance coverage would terminate, at which time the policy owner was required to take the face amount of the endowment contract in cash, either in a lump sum or in installments paid over time. The endowment proceeds were taxed as a lifetime distribution, with any gain taxed as ordinary income.

The design of a traditional whole life insurance policy is similar to that of an *endowment at age 100* contract since any life insurance coverage essentially stops at age 100, when the policy cash value equals the initial face amount of life insurance coverage.

*This material has been prepared to assist our licensed financial professionals and clients' advisors. It is designed to provide general information in regard to the subject matter covered. It should be used with the understanding that Prudential is not rendering legal, accounting or tax advice. Such services should be provided by the client's own advisors.*

*Life insurance is issued by The Prudential Insurance Company of America, Newark, NJ and its affiliates. Like most insurance policies, our policies contain exclusions, limitations, reductions of benefits and terms for keeping them in force. A licensed financial professional will be glad to provide you with costs and complete details.*

Prudential, Prudential Financial, the Rock logo, and the Rock Prudential logo are registered service marks of The Prudential Insurance Company of America and its affiliates.

It is this termination of life insurance coverage and the potential taxation of policy cash values as living proceeds that is a concern to producers and advisors. If an insured lives to age 100, a maturity of life insurance coverage could result in adverse tax consequences.

Many carriers have addressed this concern by developing maturity extension provisions or by simply not specifying a maturity date in their life insurance contracts.

### IMPORTANT NOTE:

Many carriers (including Pruco Life) are beginning to revise their guaranteed UL products using the 2001 CSO mortality table. Policies using the 2001 CSO mortality have charges and expenses to attained age 121. For these policies, any *extended maturity* provisions would become effective AFTER attained age 121.

**Question:** How do carriers handle maturity extension? Is it a policy provision, an extra cost rider, or a noncontractual current practice?

**Answer:** This varies from carrier to carrier, and can even vary by product for some carriers. In recent years, many carriers have revised their new policies to include contract language that

QUESTIONS? CALL ADVANCED MARKETING

©2007 The Prudential Insurance Company of America  
751 Broad Street, Newark, NJ 07102-3777  
IFS-A092852 Ed. 11/07 Exp. 11/09



Prudential

provides for extended maturity. Some carriers offer extended maturity as a rider that must be added to the contract and generally has an additional premium. Other carriers have no specific contract provisions and extend maturity as a current practice.

**Question:** The prior question indicates that many newer policies offer riders or have contract language that address extended maturity. What about older policies that do not have any riders or contract language for extended maturity?

**Answer:** Even though many existing policies have no contract language regarding extended maturity, many carriers DO have a current practice and specific procedures for handling policies where the insured lives to age 100. Generally, this current practice – while not guaranteed – is very similar to the extended maturity provisions contained in new policies.

**Question:** So, what DOES happen at attained age 100? Or at attained age 121? How does extended maturity really work?

**Answer:** While there are some differences based on the type of life insurance policy and carrier, here's a general overview of what happens at attained age 100 (attained age 121 for 2001 CSO policies):

- Premium payments are no longer accepted.
- Administrative charges and expenses stop.
- Cost of insurance charges stop.
- Policy loans will remain unless repaid, and loan interest will continue to be charged.
- Most routine policy transactions are still allowed (transfers, loans, etc.).
- At the death of the insured (or second insured for survivorship coverage), policy proceeds will be treated as a life insurance death benefit for tax purposes.
- For variable policies, asset-based charges for mortality and expense (M&E) and investment management fees (IMFs) will

continue if money remains invested in any of the variable investment options. These charges can be avoided if money is reallocated to the fixed-rate account. Some carriers require that all funds be transferred to a fixed-rate account at age 100. (Pruco Life does NOT require this. The contract fund may be left in the policy owner's allocated investment options, or reallocated, if desired.) The policy's cash value will continue to reflect investment earnings and, where applicable, interest earnings.

- If the policy owner surrenders the policy for its net cash value, any gain over cost basis would be reportable as taxable income. Policy owners should consult with their own advisors regarding any legal, accounting, or tax questions.

**Question:** What about policies with secondary guarantees or no-lapse guarantees? Does coverage continue beyond age 100? Or age 120?

**Answer:** The short answer is YES. As long as all requirements for maintaining these secondary guarantees have been met, the death benefit continues after age 100.

**Question:** What about policies WITHOUT any guarantee? Suppose a policy barely lasts to age 100/121 with only a few dollars of cash value. Does any coverage continue beyond age 100/121?

**Answer:** This depends on whether the policy uses 1980 CSO mortality or 2001 CSO mortality. For policies using 1980 CSO, as long as the policy survives to age 100 with a positive surrender value, the death benefit continues after age 100. For policies using 2001 CSO mortality, charges and expenses will continue beyond age 100. As long as the policy survives to age 121 with a positive surrender value, the death benefit continues after age 121.

**Question:** What happens to term blends or term riders at age 100? Does any rider coverage continue beyond age 100?

**Answer:** Generally NO. With most carriers, coverage provided by term riders – if not replaced by policy cash value or other means - generally ends at age 100 and is NOT included in any extended maturity death benefits.

**Question:** How much of the death benefit continues beyond age 100/121?

**Answer:** Again, there are some differences based on the type of life insurance policy, the carrier, and, perhaps, the state of issue. Here's a general overview of how the *amount* of death benefit after age 100/121 is determined:

- For policies with a *level* death benefit, the death benefit after age 100/121 will generally be the greater of the basic insurance amount or the net cash value.
- For policies with a *variable* death benefit, the death benefit after age 100/121 will generally be the basic insurance amount plus any net cash value.
- For policies with a *premium return* death benefit, the death benefit after age 100 will generally be the basic insurance amount plus accumulated net premiums plus any applicable interest factor applied to premium payments. `Note: the lifetime no-lapse guarantee is generally NOT available for UL products with a type C death benefit.
- For *whole life* policies where the guaranteed cash value equals the initial face value at age 100, the death benefit after age 100 will generally be equal to the policy's cash value.
- For Prudential policies with a variable death benefit that use a tabular contract fund, the death benefit beyond age 100 is the basic insurance amount plus any cash value in excess of the tabular fund.

**Summary:** One of the fastest growing segments of the US population (by percentage increase) is people over age 90. So it comes as no surprise that today's savvy life insurance customer – whatever the age – is looking into the future and asking the *age 100* question. Producers and their carrier partners should be ready with answers.