

# 1035 Exchange Reminders

## 1035 Exchanges

More complicated than normal New Business applications – Please allow the extra time necessary for processing!

- Qualifications for a 1035 Exchange
  - Same Insured and Policyowner
  - New policy must have minimum \$50,000 Face Amount
  - Total cash value being exchanged must be equal to or greater than \$1,000
  - Existing policies must be Active (not on Extended Term)
  - The contract we are exchanging cannot have any outstanding policy loans. For exceptions, prior approval by Underwriting Management is required before acceptance of a contract with an existing loan for purposes of a 1035 Exchange.
  - We do not allow partial exchanges. Example: We cannot accept partial funds from another carrier.
  - See Highlighter for full list of requirements
- Submit Absolute Assignment form(s) with pre-issue forms. Some external companies have their own requirements (wet signature, own form, client must contact directly, etc.)
  - 1035 Exchange Decision requirement – Review with client, then respond. **1035 Exchanges cannot be reversed, nor will a Not Taken or Free Look reverse a 1035 Exchange.**
  - Once the client signs the Absolute Assignment form and replies to the 1035 Decision Task, Prudential is legally obligated to proceed with the 1035 transaction, even if the client changes their mind
- 1035 Good Health Statement – Required on all COD 1035 Exchanges when the Medical Declarations (Part II of full paper application or Client Interview) date reaches 30 days and there are other outstanding pre-issue requirements, including the 1035 Exchange Decision requirement.
  - The “1035 Exchange Good Health Statement” must be obtained prior to issue. There are no exceptions to obtain at delivery to protect the client and Prudential.
  - A 1035 should be requested at the Point of Sale or prior to Issue – Please note that submitting a new Sales Illustration with 1035 amounts will not add this to the policy. An Unplaced change must be submitted.

- New policy will issue
  - Internal or External 1035/CVAT/Prepaid – Will issue prior to receipt of funds with collection of MIP at delivery if requested
  - External 1035/CVAT/COD – Will issue after 1035 funds are received
  - Internal or External 1035/GPT/Prepaid or COD – Will issue after 1035 funds are received
- Allow sufficient time for receipt of funds
  - Internal – Timeframe is approximately 3 – 5 business days after cancellation of the internal policy
  - External – Varies by company (may take up to 60 days or more)
- Illustrations
  - If the policy issues after the 1035 funds have been applied, the Sales Illustration must reflect the exact amount of funds
- 1035 Exchange with Accumulated Dividends
  - Accumulated Dividends are not eligible for 1035 tax treatment and are treated as a first year drop-in only on the Sales Illustration
  - Accumulated Dividends dropped in may cause a MEC (exceed 7-pay limit). Please note any Accumulated Dividend withdrawals must be requested on the original case prior to moving forward with the 1035.
- Mirrored Loans
  - For external exchanges please confirm the following:
    - Amount of the existing loan
    - Was the loan paid off as intended
    - Is the prior policy a MEC? If so, the new policy will be.
    - If prior policy is an endowment, the prior carrier will decline the exchange
  - If a loan is to be paid off first, it is the responsibility of the producer to verify this has been done (internal and external exchanges) prior to replying to the 1035 Decision Task
  - Once the 1035 funds have applied and the policy is placed, the mirrored loan can be added to the new policy, which normally takes 3 – 5 business days
  
- 1035 Decision Task

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- Once we have been advised to proceed with the 1035 and the existing policy (s) has been cancelled, it cannot be reversed
- Free Look Period (Right to Cancel Contract)
  - If the client wishes to cancel the contract during the Free Look period, all funds (including 1035 funds) will be returned to the owner and will be subject to possible tax gains

Please review the attached highlighters for more detailed information regarding cases involving 1035 Exchange transactions.

- [FAQs: What is a 1035 Exchange?](#)
- [1035 Exchange Process Overview](#)
- [1035 Exchange Helpful Hints](#)

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