

Premium Deposit Fund (PDF) Frequently Asked Questions

The following information has been prepared to help you understand the benefits of Penn Mutual's Premium Deposit Fund.

1. What is a Premium Deposit Fund?

A Premium Deposit Fund (PDF) is an account that allows your clients to prepay policy premiums with one lump sum without causing the policy to become a Modified Endowment Contract. Each year, premium is transferred from the account to the policy.

The Premium Deposit Fund is available for many new and existing whole life, universal life and variable universal life products. It is available for single life and survivorship products.

2. What are some of the benefits of Penn Mutual's Premium Deposit Fund?

- It allows your clients to prepay future policy premiums on a discounted basis
- Since the Premium Deposit Fund is separate from the policy value, it can be set up to accept a large deposit without jeopardizing the policy's favorable tax treatment or violating Guideline Premium Test limits
- Deposits into the account earn an interest rate declared for the month at the time of receipt.
- The interest rate that will be in effect on the account as of May 1, 2024 is 5.50%

3. Is the interest earned on funds in the Premium Deposit Fund taxable?

Yes, the interest earned on the account is taxable to the owner, and reported to the IRS.

4. What tools does Penn Mutual offer to promote the Premium Deposit Fund?

There is a Premium Deposit Fund illustrated sales concept available through the Penn Mutual Life Solutions Illustrator (LSI). It shows how the fund works and calculates the deposit that will be put into the account based on illustrated assumptions.

The concept can be used for:

- All new business illustrations for permanent life insurance policies
- Many permanent life insurance in-force policies
- Paid-Up Additions Rider (PUAR) premium on whole life policies

5. Is the Premium Deposit Fund included if the policy is collaterally assigned?

Yes, the collateral assignment of a life insurance policy would include the Premium Deposit Fund.

6. Is the Premium Deposit Fund protected from creditors?

No, the PDF is separate from the life insurance policy and not protected from creditors.

7. How are the accounts established?

You must run the Life Solutions Illustrator report on the Premium Deposit Fund. This supplemental illustration is used to calculate the values for the account and populate the Premium Deposit Fund Agreement, which is required to establish the account.

8. Can the account be used with the PUA riders on whole life?

The account can be used with all versions of the PUA riders. It must first be used to pre-pay the entire base premium before it can be used to pre-fund the PUA rider premium. The pre-funded PUA rider premium must be less than or equal to the Annual Payment Limit.

Please note, the Premium Deposit Fund is not available with the older generation whole life products introduced prior to Guaranteed Choice Whole Life.

9. What are the limitations of the Premium Deposit Fund?

The following limitations apply:

- Only permanent life insurance policies (new business or inforce)
- Not available with 1035 exchange premium or tax qualified money
- Number of pre-paid years must be between 2-10 years
- Policy cannot be a MEC
- Policy mode must be annual and the annual premium from the PDF must be allocated to the policy on the policy anniversary
- For universal life products, the PDF may only be used for situations where the lump sums would have caused the UL policy to become a MEC or fail to meet the IRS definition of life insurance
- For whole life products, the PDF number of years cannot exceed paid-up age or the policy payment period
- Withdrawals from the PDF occur only in the following circumstances:
 - To pay premiums once per year
 - When the policy is lapsed/surrendered
 - Upon the death of the insured
 - Upon the policy owner's request to terminate the account
- Account owner must be the policy owner (for administrative and taxation purposes)
- There is a \$10 million annual premium limit on funds going into the Premium Deposit Fund account
- The total Premium Deposit Fund limit for all years is \$20 million.

10. How is compensation paid to the financial professional for premiums paid into the account?

There is no compensation paid to the financial professional for deposits into the PDF. Compensation is paid when premiums are transferred into the policy.

11. Is the interest rate guaranteed once premium is placed in the account?

Yes, if the current rate changes, the new rate will only apply to new premiums to the account.

12. Is the account available in all states?

Yes, the PDF is available in all states.

13. What happens to the Premium Deposit Fund when the policy owner dies?

If the policy owner dies, there is no impact to the PDF. All money remains in the account and transfers to the new owner.

14. What happens to the Premium Deposit Fund when the insured dies?

If the insured dies, the money in the PDF is included in the claims settlement.

15. Who can I contact with questions?

For New Business Illustrations you can contact the Life Sales Desk at 1-800-818-8184 (option 4), and for inforce policies please call Adviser & Client Services at 1-800-873-7654.

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