Advisory Fee Deduction Program

PROTECTIVE® INVESTORS BENEFIT ADVISORY VARIABLE ANNUITY

In New York, the product offered is Protective® Investors Benefit Advisory Variable Annuity NY.

Protective refers to Protective Life Insurance Company and Protective Life and Annuity Insurance Company.

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Program overview

The Advisory Fee Deduction Program is an automated process for deducting advisory fees from annuity contracts and remitting them to the advisor providing advice for managing the assets. The program is designed to be consistent with an IRS Private Letter Ruling (PLR) clarifying that advisory fees deducted from the contract will not be treated as an amount received by the contract owner.[1]

While the IRS does not allow a tax deduction of advisory fees on nonqualified accounts, such fees charged for the management of certain annuities are considered "integral to the operation of the contract" and, in accordance with the PLR, are not taxed as income to the contract holder.

Program benefits

Automated
Eliminates manual billing process.

Transparent
Easy for clients to understand that the fee is coming directly from the annuity.

Direct
No need to deduct fee from separate brokerage accounts.

Benefit friendly
Advisory fee deduction has no impact on living and death benefit guarantee values.

No 1099
Consistent with recent PLRs and eliminates tax-reporting requirements for the end client.

Compatible
Advisory fee can be deducted in advance or in arrears.

Get started in three easy steps

1. **Complete fee authorization form**
Specify rate percentages and frequency (quarterly or annually)

2. **Provide payment instructions**
ACH, check, mailing address if not already provided

3. **Select billing process start date**
The start date you select is the beginning of the billing period

- Recent PLRs mean that advisory fees are not likely subject to taxation when withdrawn from nonqualified variable annuity contracts, **providing a potential tax advantage to clients**.
- "Last in, first out" tax treatment of an annuity allows for the advisor fee to potentially **reduce the overall tax liability** to the end client.

The program in action

There are some possible advantages to deducting an advisory fee directly from an annuity, including reduced overall taxes paid. Additionally, since most other nonqualified investments enjoy a stepped-up cost basis at death, there is a potential benefit for beneficiaries when fees are deducted from an annuity.

How it works

- A new client has a variable annuity with a $500,000 cost basis. You manage the annuity for 10 years and charge the client 1% in annual advisory fees.
- You are also managing their brokerage account consisting of mutual funds and can choose to deduct the 1% advisory fee for the annuity directly from the annuity account or from the brokerage account.
- Assumes 0% annual growth and no fees except advisory fee in both accounts.

Comparison of annuity advisory fees

Annuity advisory fees deducted from the annuity	
Annuity account value	$700,000
Annuity advisory fees	$66,933
Remaining annuity account value	$633,067
Cost basis	$500,000
Taxable gain	$133,067

Annuity advisory fees deducted from a brokerage account	
Annuity account value	$700,000
Annuity advisory fees	$0
Remaining annuity account value	$700,000
Cost basis	$500,000
Taxable gain	$200,000

Deduction of annuity advisory fees from the annuity would reduce the taxable gain of the annuity by 100% of the deducted fees, or $66,933.

Deduction of annuity advisory fees from a brokerage account would reduce both gains and cost basis, resulting in less tax advantage.

Additional considerations

- Advisor fees cannot exceed 1.50% annually for contracts without an optional living benefit, death benefit or both. For contracts with optional benefits, advisory fee deductions cannot exceed 1.00% annually.
- Fees charged by an advisor must only pertain to the advice given on the annuity contract from which the fees are deducted.
- The fee must be remitted to the advisor directly by the insurance company in accordance with an agreement that is signed by the advisor and contract owner.

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[1]A PLR is based on a specific set of facts and is issued to a specific taxpayer. While a PLR may be an indication of the IRS's current position on an issue, by law, a PLR cannot be cited by other parties as precedent unless regulations to the contrary are issued. Protective Life Insurance Company and its affiliates cannot provide legal advice and cannot guarantee the same result as the PLR.

Protective refers to Protective Life Insurance Company (PLICO), Omaha, NE, and its affiliates including Protective Life and Annuity Insurance Company (PLAIC), Birmingham, AL. Variable products distributed by Investment Distributors, Inc. (IDI), a broker-dealer and principal underwriter of registered products issued by PLICO and PLAIC, its affiliate. IDI is located in Birmingham, AL.

Product guarantees are backed by the financial strength and claims-paying ability of the issuing company.

Carefully consider the investment objectives, risks, fees and expenses of the annuity and/or the investment options. Contact us for a prospectus, a summary prospectus and disclosure document, as available, containing this information. Read them carefully before investing.

Protective does not offer or provide investment, fiduciary, financial, legal or tax advice or act in a fiduciary capacity for any client. Please consult with an attorney or tax advisor as needed.

Variable annuities are long-term investments intended for retirement planning and involve market risk and the possible loss of principal. Investments in variable annuities are subject to fees and charges from the insurance company and the investment managers. Diversification neither assures a profit nor eliminates the risk of experiencing investment losses.

Withdrawals may be subject to income tax and, if taken prior to age 59½, an additional 10% IRS tax penalty may apply. More frequent withdrawals may reduce earnings more than annual withdrawals. Withdrawals reduce the annuity's remaining death benefit, contract value, cash surrender value and future earnings.

Protective Investors Benefit Advisory variable annuity is a flexible premium deferred variable and fixed annuity contract issued by PLICO in all states except New York under policy form series VDA-P-2006. SecurePay Pro benefits provided by rider form number VDA-P-6057. Policy form numbers, product availability and product features may vary by state.

Protective Investors Benefit Advisory Variable Annuity NY is a flexible premium deferred variable and fixed annuity contract issued by PLAIC in New York under policy form series VDA-A-2006-500. SecurePay Pro benefits provided under rider VDA-A-6057.

Investors should carefully consider the investment objectives, risks, charges, and expenses of a variable annuity, any optional protected lifetime income benefit, advisory fees and the underlying investment options before investing. This and other information is contained in the prospectuses for a variable annuity and its underlying investment options. Investors should read the prospectuses carefully before investing. Prospectuses may be obtained by contacting Protective at 800-456-6330.

Not FDIC/NCUA Insured	Not Bank or Credit Union Guaranteed	Not a Deposit
Not Insured By Any Federal Government Agency		May Lose Value

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