

Protective Life and Annuity Insurance Company
Protective Life Insurance Company¹
P.O. Box 830619, Birmingham, AL 35283-0619

NOTICE REGARDING THE TAX TREATMENT OF MODIFIED ENDOWMENT CONTRACTS

The policy for which you have applied may fall under the definition of a Modified Endowment Contract (a "MEC") as defined in Section 7702A of the Internal Revenue Code (the "Code"). Section 7702A sets limits on the amount of premium that may be paid on life insurance policies. If the premium paid exceeds the specified limits, or certain changes are made to the policy benefits, the policy will be classified as a Modified Endowment Contract, resulting in the following tax treatment.

MECs retain some of the tax advantages of Life Insurance:

- The death benefits are generally payable to beneficiaries free of federal and state income taxes.
- The cash value is generally allowed to accumulate on a tax deferred basis, so long as it remains in the contract.

You should be aware that with a MEC,

- Any cash distributions, withdrawals or loans made from a MEC (other than at the death of the insured) will be included in your taxable income at the time it is received, to the extent that the policy value exceeds your investment in the contract.
- Collateral assignment of a MEC as security for a loan is considered a distribution for income tax purposes.
- Distributions will also be subject to a 10% penalty tax (on amounts included as income) unless:
 - you have attained age 59½; or
 - you have become disabled; or
 - you have arranged for distributions by a method allowed by the Code that is not subject to the penalty tax.
- Distributions from a MEC owned by a Trust may not be eligible for any of these exceptions from the 10% penalty tax on income.

The tax treatment discussed above does not constitute tax, legal or accounting advice. The Company makes no guarantee regarding the tax treatment of any policy or of any transaction involving a policy. Tax advice on these transactions or topics should be sought from an independent professional tax advisor.

I hereby acknowledge that I have read this disclosure and understand that the plan of insurance applied for may be a Modified Endowment Contract and as such would be subject to the special tax treatment as outlined above.

Insured's Signature

Date

Policyowner's Signature (if other than the insured)

Date

Agent's Signature

Date