Change Your SEP-IRA to a Micro(k)® and CHANGE YOUR LIFE!

A Micro(k)® may be an ideal plan design should you have personal or business life insurance needs. Unlike a SEP-IRA, a Micro(k)® can allow for life insurance insuring you or someone in whom you have an insurable interest. If you have a need for life insurance, buying your life insurance coverage within your qualified plan can "Change Your Life."

Consider the Following . . . *Jim Smith, age 40, a manufacturer's representative, averages $100,000 of Net Profit reported on Schedule C. He is considering purchasing a $500,000 cash value life insurance policy with a $5,000 annual premium to enhance his family's security and to save more for retirement. Jim is funding his SEP-IRA at the current maximum. Let's compare his current strategy of funding his SEP-IRA and buying the life insurance with after-tax dollars to a Change Your Life alternative: simply adding $5,000 of salary deferrals to a new Micro(k)® program and allocating these assets to secure the necessary life insurance coverage:*

Advantage #1: More Efficient Cash Flow

	SEP-IRA	Micro(k)®	Difference
Schedule C Income	$ 100,000	$ 100,000	
Salary Deferral (Q-Life Premium)	0	**5,000**	
Max. Employer Contribution	18,642	18,642	
Retirement Plan Contribution	**$ 18,642**	**$ 23,642**	
After Tax Life Premium	**$ 5,000**	0	
Program Total Cost	$ 23,642	$ 23,642	
Less Income Tax Deduction @30%	- 5,593	- 7,093	
Net Cost of Program	**$ 18,049**	**$ 16,549**	**$ 1,500**

Advantage #2: Pre-Tax Dollar Life Insurance Purchase & Tax Savings

	Non-Qualified	Micro(k)®	Difference
Life Premiums	$ 5,000	$ 5,000	
Income Taxes @ 30%	2,143	165*	
Total Earnings Required	**$ 7,143**	**$ 5,165**	**$ 1,978**
"Change Your Life" Advantage			**$ 3,478**

**Adding life insurance to the plan will result in an additional amount of income tax due on the "cost" of the economic benefit (often referred to as PS 58 cost). In addition, a portion of the death benefit may be taxable. Typically, the pure insurance portion of the pre-retirement death benefit (death benefit less any cash value) is received by the named beneficiary income tax free. The client should consult a professional tax advisor to determine how this is treated for his/her form of business.*

By purchasing the needed life insurance within his retirement plan, Jim gains added current state and federal income tax savings of $1,500. Because he can use pre-tax dollars to secure the coverage vs. buying the life insurance outside his plan, he also has $1,978 more initially to spend on other obligations. Adding life insurance to your retirement plan can Change Your Life, too.

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