



Life Insurance in a Qualified Plan



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A wise man once told me “Few people have a problem understanding the need for insurance, but nobody enjoys paying for it.” Do you have a client who has an existing pension plan or plans to install one soon? Would you like to offer life insurance to your client, but feel that the cost may drive your client away from the plan with life insurance? Well thankfully there is a way to “lessen” the pain of paying for life insurance—we call it “Qualified Life.”

What better way to get life insurance than by paying for it with pre-tax dollars? Using Security Mutual’s Pension Customizer WL or our Unisex UL portfolio, your client can obtain quality life insurance with a product that is specifically designed for pension plans.

Let’s say you’ve got a client, age 53, who wants to purchase \$200,000 of life insurance. The chart below will illustrate just how much cheaper it is in a qualified plan.

Pension Life		Non-Qualified
\$5,195	Premium	\$5,195
0	Income Taxes	3,739
-135	Initial Tax on PS58	-0
\$5,330		\$8,934

Age 53, Preferred Non-Smoker, \$200,000
40 percent combined tax bracket

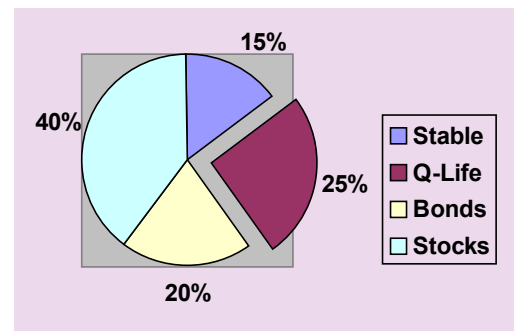
An added bonus is the availability of Security Mutual’s Easy Issue Application for life insurance contracts up to \$500,000. A nice feature is that there are no added premiums, loads or fees for the program. This makes the purchase of life insurance in a qualified plan easy for you and your client.

For more information on Security Mutual’s “Easy Issue” program please refer to our “Build a Better Retirement Plan: Easy Issue Life Insurance” flyer 0011482XX).

Q-Life as an Asset Class

Life insurance should be viewed by each participant as an asset, not as an expense. That’s because the cash values of whole and universal life can be a good choice for some of the client’s “safe money” allocation.

Once life insurance is viewed as an asset, selling cash value products becomes easy and convenient. Once again, our Easy Issue program makes it even better.



What Plans Can Have Life Insurance In Them?

All qualified plans (other than IRA’s) are eligible for life insurance! Let’s take a look at the different types of plans and how life insurance can be added to each:

In Defined Benefit Plans we must remember that the life insurance is dictated by the plan formula. Just because a client may desire \$2 million of life insurance, doesn’t necessarily mean they can have it. The trustee (who is often the plan sponsor) determines whether the plan will include an “enhanced survivor benefit” (life insurance). This makes it one sale, to the trustee.

Whole Life and Universal Life are used in traditional defined benefit plans. A nice benefit of using the whole life in a 412(e)(3) plan is the addition of Security Mutual's Flexible Premium Annuity Rider. With the FPA Rider your client is able to lock into the current guaranteed rate for the life of the contract. Without the life insurance your client cannot purchase the FPA Rider, but will instead have to purchase the Flexible Premium Annuity. For more information on Defined Benefit and 412(e)(3) information, please visit our qualified plans website at www.smlplans.com.

In Defined Contribution Plans, each participant will normally elect whether or not they will allocate some of their retirement funds to purchase life insurance. Remember that the life premium must be less than 50 percent of the contribution for whole life or less than 25 percent of the contribution for universal life. Profit Sharing Plans may use "aged money" provisions that allow these basic limits to be surpassed. SAI's prototype plans contain these provisions.

How Can I Present These Concepts to My Clients?

Now that we've discussed some technical aspects let's get down to business and review how you can put all of this knowledge to work.

SEP Approach

Simplified Employee Pension plans (SEP-IRAs). Yes, that's right—SEP Plans. SEPs don't allow life insurance as a benefit or investment and that's one of their downfalls. A bigger issue—at least for the business owner—is that all employee participants get the same thing (0 – 25 percent of pay).

Although total employer contributions can't exceed 25 percent of "eligible payroll," a profit sharing plan

can often skew benefits to the owner (perhaps as high as 100 percent of pay or \$51,000) and life insurance can then be made a permitted investment.

We suggest that every client who has a SEP-IRA deserves a pension design study to see if we can improve on the basic plan design and add a vesting schedule. Life insurance can then be easily introduced once the plan is established. Better yet, the SEP-IRA assets can now be "rolled over" to the new profit sharing plan and used without limit to buy life insurance as IRA rollovers are deemed "aged money."

Existing 401(k) Plans

A great idea when approaching clients is to ask these questions:

- "Do you have an existing 401(k) plan?"
- "Does the plan allow for self-direction?" (Of course, they all do).
- "Are you looking for better diversification under ERISA 404(c)?" (This suggests diversification of investments to minimize sponsor liability for the investment choices of each participant).

If the client answers "yes" to any of these questions, he or she may be a perfect candidate for qualified life in the 401(k) plan. You can discuss the aspects of the life insurance cash value as a viable asset class and a way to significantly increase the client's income tax free benefits to his or her heirs.

As mentioned earlier, SML's "Easy Issue" application is a great tool by which to arrange for life insurance in a qualified plan. It's easy and makes the process virtually painless.

What To Do At Retirement?

Life insurance must be removed from the plan at retirement. However, unlike group insurance or other employer-provided benefits that may

expire when your client retires, qualified life insurance may be continued. Options to continue coverage beyond retirement include those listed below. Please refer to form 0010417XX, "Beyond Retirement or Separation From Service", for further details.

Distribute the Policy

The cash value from the policy would be taxed less the "PS 58" basis. This is similar to a "Split Dollar Roll-out" strategy.

Sell the Policy

The trustee, can sell the policy for the fair market value to the participant or perhaps to a "Grantor Trust." or business partner. The buyer then owns the life policy and continues it outside the plan. There is no taxable event.

Exchange the Policy

Security Mutual offers a unique provision that allows your client to exchange the policy in their pension plan for a new contract outside that plan at a risk class that is substantially comparable to the class assigned to their original contract, regardless of their health at the time of the exchange.

What Does This Mean for Me?

As an agent, qualified life allows you to provide life insurance for your clients, where appropriate. Your client will appreciate the "easy issue" as well as your expertise. For more information visit our qualified plans website at www.smlplans.com.

If you'd like to see qualified life in action please complete an SML Fact Finder (0010297XX) and fax it to us at 607-773-2007.

