

# Do You Have Any Clients with a Small Business?

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**O**ffer your small business owners more options.

**Review Your Book of Business.** Do you have any clients who have a small business? That business could be as simple as a school teacher who tutors; an art teacher who sells his or her work at art shows; or anyone who potentially earns money privately.

**So What?** Now let's see if that individual has an IRA or 403(b) (if over age 59 1/2 or retired), or a 401(k) from a previous job. Did you know that as a small-business owner that person can qualify for a Micro(k)? "So what?" you ask.

**Here's What!** Life insurance is not permitted inside an IRA or a 403(b) plan. In contrast, life insurance **is** permitted inside a 401(k) plan. By starting their own 401(k), clients can "roll over" all the money in the above-mentioned plan.

I recently had a client who had over \$400,000 in various qualified accounts. The client had a life insurance need but no means to fund a policy. Once rolled into a 401(k), this money is considered "aged money," and as such the client is free to use whatever portion of the funds he or she sees fit to acquire needed life insurance. In making this type of life insurance recommendation, you should be mindful of the client's retirement cash flow needs relative to his or her total resources.

For example, for a person with \$400,000, who could use \$100,000 toward life insurance, I was able to write a \$750,000 face amount life insurance policy with a \$16,000 premium. Future premium payments would be simple annual transfers from the 401(k).

**Here's the best part!** Security Mutual's product allows for a "Net-at-Risk" policy exchange for all qualified plans. What does that mean? The Net-at-Risk is the insurance company's risk in any policy. It is the difference between the death benefit and the cash value (see Form No. 0010417).

In the case mentioned above, I used a Unisex Capital UL because the client planned to retire in a few years. I designed the policy so that the cash value was equal to the premiums paid in Year 9, or \$144,000, based on current nonguaranteed assumptions. When the individual retires, the \$144,000 is transferred back into an IRA, and a new policy at the insured's attained age is issued up to a face amount of \$750,000 minus \$144,000, or \$606,000 (potentially a \$23,000 premium). No evidence of insurability is required and you receive a new commission. Yes, you're right—another good day!

So I'll ask again: Do you have any clients with a small business?



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There are various income, gift and estate tax consequences of utilizing life insurance within a qualified plan. A decision to include life insurance within a qualified plan should be made after considering the tax results and your client's non-tax needs for insurance. We recommend that your client discuss their situation with their tax and legal counsel before purchasing an insurance product within a qualified plan.

Certain limits apply as to how much life insurance can be purchased inside a qualified retirement plan. Also, action must be taken to remove the life insurance policy from the qualified retirement plan upon termination of employment. SAI and your financial advisor can assist with these details.

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