Retirement Income for Owners of Pass-Through Entity Businesses

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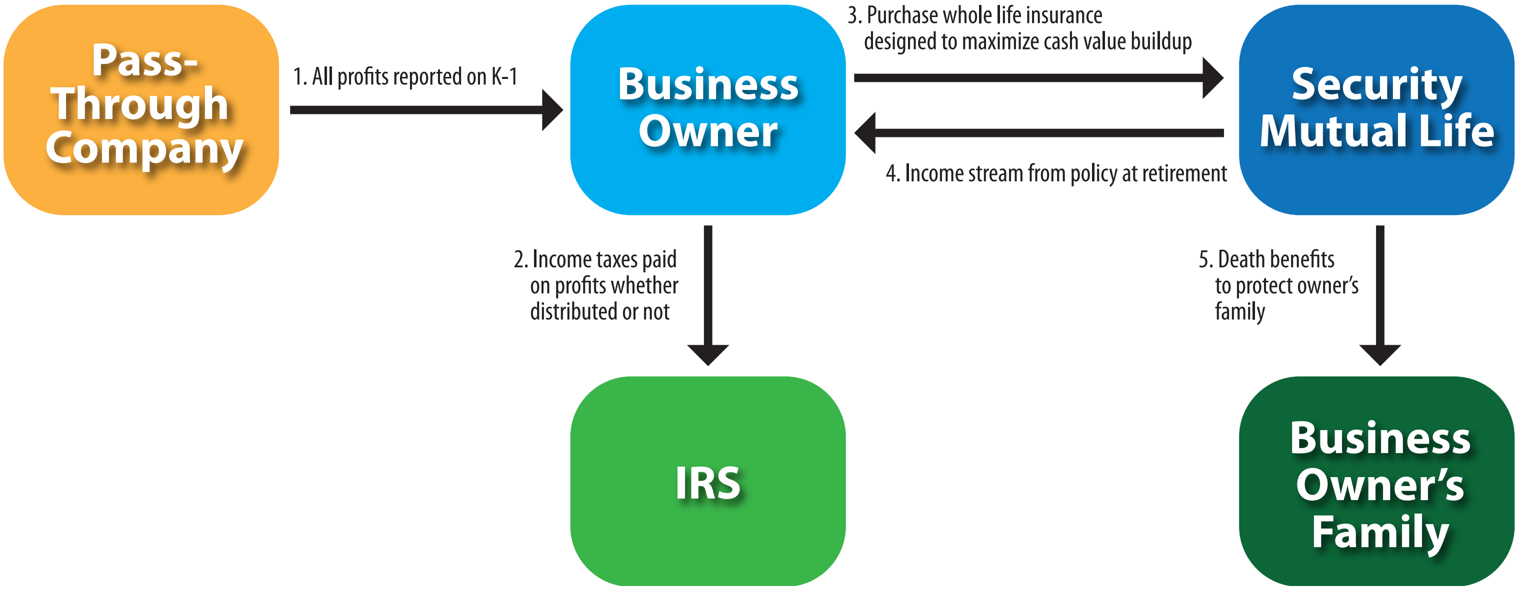
It is estimated that only 28 percent of businesses with less than 10 employees offer an employer-sponsored qualified retirement plan. About half with 10 to 24 employees offer a retirement plan. Businesses without a retirement plan cite expense and lack of resources to administer the plan as the main reasons.

Owners of C corporations have some options. Aside from individual savings, an IRA or sale of the business, owners of C corporations may still be able to institute employer-sponsored non-qualified retirement solutions to help with their retirement savings such as non-qualified deferred compensation plans, bonus arrangements and other strategies. These strategies have certain tax advantages and considerations for owners and key employees.

C corporations, however, only account for 1.5 percent of all businesses. The remaining 98.5 percent are pass-through entities such as S corporations, limited liability companies (LLCs) and partnerships where business profits generally flow through the business and are taxed to the individual owners at individual income tax rates through Schedule K-1. That's true even when profits are not distributed to the owners but retained in the business. In those cases, non-qualified solutions may not be possible because there is no taxable income to defer and no additional employer contributions to make. So, for many small business owners, retirement savings options may not be sufficient to support their lifestyles.

If you're a pass-through business owner, there is, however, a simple, often overlooked option to help supplement your retirement savings.

That option is to have your company distribute out the K-1 profits and use the net profits to fund a whole life insurance policy, specifically designed to build up cash values as rapidly as possible while you're still working. Cash value is the investment component of a whole life policy that grows tax deferred. This policy would be owned by you personally. At retirement, the cash values could be converted to an income stream to supplement your retirement income, while the death benefit continues to help protect your family from financial harm. In addition, policy riders can provide added protection during your lifetime. For example: a) a disability waiver of premium rider protects against the possibility of a disability interfering with your cash flow to pay the premium; b) a chronic illness rider provides access to a portion of the death benefit as a result of a chronic illness; and c) a terminal illness rider accelerates a portion of the death benefit incurred as a result of a terminal illness. Other riders are also available.



As an example, let's assume we have a 45-year old male business owner planning to work to age 65. In addition to whatever savings methods he currently uses, he also applies $25,000 per year of his K-1 profits to purchase a whole life insurance policy that is designed to build up cash values quickly. Consult your Security Mutual Life insurance advisors to explore policy options. In this case, premiums are paid until age 65 when he retires. That policy may potentially yield approximately $58,000 of annual income to age 85, or approximately $42,000 of annual income to age 100. Your Security Mutual life insurance advisor can provide more information including the policy's guaranteed values. In addition, depending upon the riders chosen or purchased, the policy will have benefits available to help financially protect him from the financial impact of chronic or terminal illness, and to help protect his family in the event of his premature death.

	Annual Premium to Age 65	Cumulative Premiums	Annual Income	Cumulative Income	Death Benefit at Age 45	Death Benefit at Age 65	Death Benefit at Age 85
Income from Age 65 to 85	$25,000	$500,000	$58,000	$1.16 million	$1.3 million	$1.5 million	$400,000
Income from Age 65 to 100	$25,000	$500,000	$42,000	$1.47 million	$1.3 million	$1.5 million	$870,000

** This example assumes that dividends are used to purchase paid-up additional insurance for 20 years, and thereafter, premiums will be paid by dividends, the surrender of paid-up additional insurance, or policy loans, rather than cash. This premium payment technique is often referred to as a non-guaranteed Premium Offset. Non-guaranteed surrender values and death benefits may be greater than guaranteed values. Note that the above illustration is hypothetical and is not intended to serve as a projection of any specific life insurance policy. The material presented should not be interpreted as a recommendation.*

As you can see, this strategy allows you to achieve several important objectives. It provides you with another source of retirement income if your company doesn't sponsor a qualified retirement plan so you don't have to depend solely on personal savings and the sale of the business. It also helps to provide financial protection for you and your family, during your life and at death. Care must be taken in designing, implementing and monitoring this strategy. For more information and to discuss whether this strategy makes sense for you or not, please contact your local Security Mutual Life Insurance Advisor.

Contact your local Security Mutual Life Insurance Advisor today. As part of the planning process, he or she will coordinate with your other advisors as needed to assist in achieving your financial goals and objectives.

Policy loans reduce the cash value and death benefit of the life insurance policy. Policy loans are not subject to income tax as long as the policy remains in force until the death of the insured, does not lapse and is not a Modified Endowment Contract (MEC). Outstanding policy loans accrue interest.

The applicability of any strategy discussed is dependent upon your individual facts and circumstances. Results will vary. Products and services discussed may not be appropriate for all clients. Your needs, objectives and financial circumstances may be different and must be reviewed and analyzed independently.

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