



## Life Insurance In Qualified Retirement Plans A Strategy That Can Make Good Financial Sense For Your Clients

A qualified plan is the cornerstone of retirement planning for many companies in the U.S., whether large or small. While the primary purpose of pension and profit sharing plans is to provide retirement income, other "incidental" benefits, such as pre-retirement life insurance, are allowed. Life insurance for employees covered under a qualified plan can often be provided favorably by having the plan purchase and own the insurance, using deductible employer contributions to the plan as a source of funds.

Consider this strategy when:

- A substantial number of employees covered under a qualified plan have an unmet life insurance need, either for family protection or estate liquidity.
- There are gaps and limitations in other company plans providing death benefits (group term life, non qualified deferred compensation, and split dollar plans). Consider filling those gaps with life insurance as an asset of the qualified plan.
- A qualified plan for a closely held business or professional corporation is overfunded or close to the full funding limitation for regular trustee plans. The addition of an incidental life insurance benefit may permit future deductible contributions at a higher rate than before.
- An employer wants an extremely secure funding vehicle for a plan, with the best available guarantees as to future plan costs and benefits.

Example: Purchasing Life Insurance within a Qualified Plan versus Outside a Plan		
Life Insurance	In Plan	Out of Plan
Initial Death Benefit	\$500,000	\$425,047
Out of Pocket for Premium	\$0	\$155,310
Tax on Economic Benefit	\$11,380	\$0
Reduced Accumulation	\$36,578	\$0
Tax When Policy is Distributed	\$50,466	\$0
Total Cost	\$98,424	\$155,310

*Male Age 50 plans to retire at age 65. Annual premium is \$10,354 for 15 years. Policy cash value at 65 is \$178,323 and total premiums paid were \$155,310. The policy cash value is greater than premiums paid at this point. So even when the value of the policy is greater than cumulative premiums paid, even without an early withdrawal of the policy from a qualified plan, the economics can still favor the purchase of life insurance in a qualified plan.*

Four reasons to purchase life insurance in a qualified retirement plan:

1. Ability to create a "self-completing" component– it provides an immediate lump sum for the surviving spouse to replace the benefit that would otherwise have accumulated had the plan participant survived and continued making contributions.
2. Potential for guaranteed cash value and guaranteed death benefit – protection against stock market fluctuation.
3. Purchase life insurance with pre-tax dollars – contributions to qualified retirement plans are tax-deductible, significantly reducing the net insurance costs compared to using after-tax dollars.
4. Portability of permanent life insurance upon the plan's or the participant's termination – the policy can be distributed to the former participant or transferred to another qualified retirement plan.

Economic considerations when a pension plan purchases life insurance:

**Taxes** -- the plan participant is taxed on the Economic Benefit (using IRS Table 2001 rates or a company's published annual term rates).

**Lost Opportunity Cost** – the contribution amount available for investment is reduced by the insurance premium.

**Cost Upon Distribution** – assuming the policy will be distributed from the plan at the participant's retirement, he will be taxed upon the policy value less his "basis".

Each case will be different, and the variables can change. In addition to the possibility of providing a larger death benefit for the same premium and reducing out-of-pocket costs during working years, the economics can, and often do, still favor the purchase of life insurance inside a qualified plan.

*This summary is intended as an introduction to the sales concept of qualified retirement plans owning life insurance. It is not a complete explanation of the rules, variables, taxation or other factors that should be considered. Please contact our office for support in using this planning strategy.*

### FOR MORE INFORMATION ON QUALIFIED RETIREMENT PLANS CONTACT:



LARRY GORDON AGENCY, INC.

Chicago: 800.666.6988

Milwaukee: 800.999.0200

Rockford: 800.477.1741

Or, visit us on the web at [www.lganet.com](http://www.lganet.com)