

Unlike many life insurance companies, Security Mutual Life and its subsidiaries offer comprehensive retirement plan design and service facilities, making it easy to implement changes and help fund your plan. We can assist you with each step along the way:

**STEP 1: Optimize the Retirement Plan**

We provide:

- Complimentary "Next Level" Analysis
- Plan Consultation
- Experienced Field Partners

**STEP 2: Establish and Fund the Plan**

We provide:

- Plan and Trust Documents
- Comprehensive Annual Administration
- Record Keeping
- Tax Reporting

**STEP 3: Apportion Some Plan Assets to Buy Necessary Life Insurance**

We provide:

- Complete Qualified Life Product Portfolio
- Dedicated Customer Service Team
- Knowledgeable Professionals

**The Security Advantage**

Security Mutual brings the following advantages to its relationship with you:

- Financial Strength
- Over a Century of Service
- Strong Ratings\*



\*Ratings reflect a rating agency's opinion of a company's financial strength and ability to meet its obligations to policyholders. A rating is not a recommendation of a company or any specific policy form. A.M. Best's "A" rating is the third highest on a 15-step rating scale. The Standard & Poors "A+" rating is the fifth highest on a 20-step rating scale.

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# "Next Level" Life Insurance Planning



## "Tax-Deductible" Buy-Sell Funding

Whenever two or more persons own a substantial interest in a profitable business enterprise, careful planning must be taken to ensure that there is a business continuation plan should one of the owners die.

**The Problem:** The death of an owner creates a situation for the surviving owners as well as for the decedent's family and estate. Without planning, the choices may be less than desirable and include:

- Continue the business with the heirs who may not know how to run the business or who don't get along with the other owners;
- The business can buy out the deceased owner's estate, assuming it has the cash on-hand to do so;
- The heirs can sell their share of the business interest to an outsider, creating new partners for the remaining owners;
- The business can be liquidated and the proceeds split among the owners and heirs of the deceased.

**The Solution:** Proper planning can avoid these choices. A properly drafted and funded business continuation plan can:

- Prevent the loss of business value.
- Guarantee the sale and establish the price of the business interest.
- Prevent undesired changes in management.
- Provide the cash when it is needed to execute the plan.

**A "Next Level" Idea:** Although many businesses have a business continuation agreement, funding the plan is often insufficient due to the perceived cost. A "Next Level" profit sharing or 401(k) plan offers a unique solution to the dilemma of funding a business continuation plan while preserving cash flow for the business owners. The planning is very simple:

1. Optimize your retirement plan.
2. Establish and fund the plan.
3. Apportion some plan assets to buy necessary life insurance.

**STEP 1: Optimize the Retirement Plan**

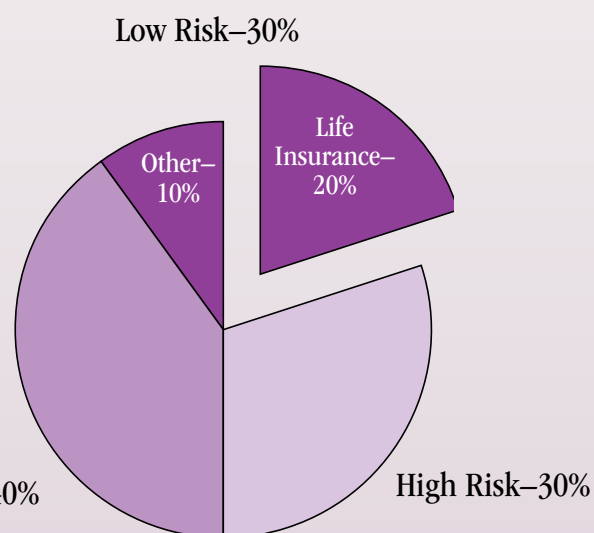
The Matuk brothers, Ivan and Gregory, own a successful consulting firm and receive substantial profits above their W2 salary each year. They have used a SEP-IRA in the past for their retirement savings, but now that their firm has added staff, they are concerned about the potential employee benefit cost. By moving to a “Next Level” profit sharing allocation and adding a 401(k) feature, the retirement plan may be optimized.

CENSUS DATA				SEP-IRA (Current Plan)	“NEXT LEVEL” PLAN		
Name	Age	W2 Salary	Additional Profits (K1 Income)		Salary Deferrals	Profit Sharing	Total Owner Contribution
Ivan	50	\$100,000	\$150,000	\$25,000	\$20,500	\$30,500	\$51,000
Gregory	45	100,000	150,000	25,000	15,000	30,500	46,000
Judy	35	40,000	-	10,000	2,000	1,836	1,836
Yvette	30	30,000	-	0	900	1,377	1,377
				<b>\$60,000</b>		<b>\$64,213</b>	<b>\$100,213</b>
<b>Percent to Owners</b>				<b>83%</b>			<b>97%</b>

**STEP 2: Establish and Fund the Plan**

Before a pension or profit sharing plan can be funded, a trust must first exist. The trust document will detail the rules that the sponsors and plan trustees will follow. Each participant must receive a plan summary and periodic statements.

Each participant is usually permitted to invest his or her contributions into financial products that offer various risk vs. reward expectations. A typical investment allocation should include both conservative and growth-oriented financial instruments.



**STEP 3: Apportion Some Plan Assets to Buy Necessary Life Insurance**

After consulting with their CPA, the brothers agree that the business has a fair market value of \$1 million. Ivan and Gregory each decide to apportion \$8,500 to purchase a \$500,000 life insurance policy on the life of the other.

If either should die, the dollars will be available to the survivor so that he may purchase the decedent’s business interest from his estate. Better yet, the death benefit in excess of the cash value of the contracts can be received free of any income tax and the cash values placed into the retirement account of the surviving participant. Live or die, either brother is assured of having an optimal retirement plan while funding their business continuation plan with tax efficiency.

**Q: Why use retirement plan assets to fund the business continuation plan?**

**A:** There are a few reasons this may be preferable. The profits generated by the business have many potential uses. Purchasing life insurance coverage (after paying income taxes) is just one use. By using an asset allocation approach, you may simply shift some of the low-risk investments within your retirement plan to purchase a policy with before-tax dollars. Thus, your tax-deductible contribution can achieve two desired outcomes: 1) a more secure retirement; 2) proper funding of your business continuation plan.

**Q: Can I do this with any type of retirement plan?**

**A:** No. Life insurance is not permitted within either SEPs or SIMPLE-IRAs. Although the participant may usually purchase coverage on his own life in other pension plans, only profit sharing and 401(k) plans allow for buying insurance on the life of a business partner or family member. Of course, the Plan and Trust document must specifically allow for the purchase of life insurance.

**Q: Why have each owner purchase an insurance contract on the life of the other?**

**A:** This technique allows for the funding of a “Cross-Purchase” buy-sell agreement ensuring the surviving owner has the necessary cash to buy the decedent’s business interest. By purchasing the decedent’s business interest, the survivor increases his tax basis in the business which will reduce future income taxes if the business is sold.

**Q: Can each brother simply name the other as beneficiary of a policy on his own life?**

**A:** Yes and No. A non-incorporated business (e.g., Partnership, LLP, LLC) may opt for this planning, particularly when there are more than two owners. However, this should be avoided for corporations because a potential *Transfer for Value* may occur that would make the proceeds of the life insurance policy taxable at death. Your qualified legal counsel should be consulted for details and options.

**Q: How much coverage may be purchased inside the retirement plan?**

**A:** The IRS has ruled that life insurance may be purchased inside the plan as long as it is an *incidental* benefit. Specifically, less than 50% of the participant’s contributions may be used to secure whole life insurance and less than 25% for universal life. The amount of life insurance that you can then purchase will be based on your plan contributions, your age and current health. Your Security Mutual Life representative can help you tailor coverage that is *incidental* and appropriate to your needs.

**Q: Are there any exceptions to the incidental death benefit limit rule described above?**

**A:** Yes. Our profit sharing and 401(k) plan documents, including our IRS-approved prototypes, allow the following plan assets to be used without limit:

1. IRA Rollovers.
2. Profit sharing monies that have been in the plan for more than two years.
3. All profit sharing monies if the participant has been in the plan for more than five years.

**Q: Can the life insurance be continued beyond retirement or separation from service?**

**A:** Yes, but once a participant retires or leaves service, the life insurance must be removed from the plan. Each participant will have the following options:

1. Distribute the policy and pay taxes on the fair market value (less any tax basis).
2. Sell the policy to an eligible purchaser, including certain trusts, for its fair market value (not a taxable event).
3. Exchange the policy for a new one outside the plan (a contractual right for most Security Mutual unisex policies).
4. Surrender the policy (not taxable if the proceeds remain in the plan or are transferred to an IRA).