

Questions and Answers

Q: Why use retirement plan proceeds to fund my estate 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 can 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 estate plan.

Q: Other than using pre-tax dollars, what other advantages does this strategy afford?

A: The traditional way to fund an estate plan is for you to make irrevocable gifts to fund an irrevocable life insurance trust that will not be part of your taxable estate if set up properly. However, given the uncertainty of the estate tax, making irrevocable gifts to benefit your heirs may be unpalatable until the tax is ultimately reformed or reinstated. Yet, if you do nothing, your future age and health may make this planning more expensive. By purchasing life insurance in your retirement plan you:

1. Retain control of the policy.
2. Make no irrevocable gifts.
3. Lock in the necessary coverage today when your health status is known.
4. Can preserve the estate tax exclusion with planning.
5. Can cash surrender or modify the policy should the estate tax be repealed.

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

A: No. Survivorship life insurance is not permitted in either SEPs or SIMPLE-IRAs, nor is it permitted in traditional pension plans. Only profit sharing and 401(k) plans allow for buying survivorship insurance on the life of a participant and spouse. Of course, the Plan and Trust document must specifically allow for the purchase of this type of life insurance.

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 along with the ages and current health status of you and your spouse. Your Security Mutual Life agent 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. Once you retire or leave service, the life insurance must be removed from the plan. You will have the following options:

1. Distribute then gift the policy and pay taxes on the cash values (less any tax basis).
2. Sell the policy to an eligible purchaser, to include certain trusts, for its fair market value (not a taxable event).
3. Surrender the policy (not taxable if the proceeds remain in the plan or are transferred to an IRA).

Security Mutual Life Can Help

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: Amend Your Retirement Plan to Allow for Life Insurance

We provide:

- Plan and Trust Documents and Amendments
- IRS-Approved Prototype Form
- Comprehensive Annual Administration
- Record Keeping and Tax Reporting

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



Funding Your Estate Plan with 401(k) & Profit Sharing Assets

\$1,000,000 Retirement Plan Balance Effect of Top Marginal Rates on Heirs						
Year	Estate Tax Rate	Estate Taxes Due	Income Tax Rate	Income Taxes Due	Total Taxes Paid	Net to Heirs
2007	45%	450,000	35.0%	192,500	642,500	357,500
2008	45%	450,000	35.0%	192,500	642,500	357,500
2009	45%	450,000	35.0%	192,500	642,500	357,500
2010*	20%	200,000	35.0%	280,000	480,000	520,000
2011**	55%	550,000	39.6%	178,200	728,200	271,800

* The Estate Tax is Repealed in favor of a Capital Gains Tax. ** In 2011, all Temporary Tax Deductions are Repealed.

Many successful small business owners and professionals have benefited from the greatly expanded opportunities offered by qualified Plans. Their success is often measured by the large sums of money accumulated in their 401(k) and profit sharing balances. Unfortunately, this success is coupled with potential tax liabilities that can strip away over 70 percent of the accumulated values at death. Let's take a look at the combined impact of just the federal income and estate taxes a \$1,000,000 retirement plan balance may be subject to for the top-rate brackets.

Although your estate can receive an income tax deduction for estate taxes paid, the result is disturbing.

This does not have to be the case: Assets that are subject to both estate and income tax are called *Income in Respect of a Decedent* (IRD) assets, and are the most troubling to plan for. With proper planning, your Security Mutual Life representative may help you with your plan to alleviate, if not eliminate, the impact of these tax impositions.

Because the estate tax, very much with us today, may or may not be repealed, designing a plan given today's uncertain tax structure can be daunting. Under current law, the tax is

repealed for only one year in 2010, and is replaced by a new tax on capital gains at death. Unless Congress acts to make the repeal permanent, the estate tax comes back the following year.

Perhaps an ideal plan may need to include ALL of the following features:

- Not be "Irrevocable"
- Include No Current Gifts
- Use IRD Assets to Fund It
- Maintain any Estate Tax Exclusions
- Above All, be Flexible!

A "Next Level" Idea: A "Next Level" profit sharing or 401(k) plan offers a unique solution to the dilemma of estate plan funding while preserving cash flow and, above all, flexibility. The planning is very simple:

1. Optimize your retirement plan.
2. Amend the retirement plan to allow for the purchase of survivorship life insurance.
3. Acquire the life insurance with "pre-tax" dollars by allocating some plan assets.
4. File custom beneficiary and spousal waivers with the plan trustee.
5. Establish a trust to eventually buy or receive the policy.

Why Survivorship Life Insurance?

Generally, the imposition of the estate and inheritance taxes may be deferred until both the husband and wife are deceased. Certain other conditions must be met, so you should consult with your legal advisor for more details.

Because the taxes are not normally due until the second death, most planners suggest that a *survivorship life insurance* policy be used to fund the plan. Because in nearly all instances two people will outlive one, the coverage is usually much more economical.

When you make gifts to a trust outside the taxable estate of the couple, the life insurance proceeds do not generate added estate tax. Better yet, life insurance proceeds are also income tax free. Thus, life insurance is both the antithesis of and the cure for IRD assets.

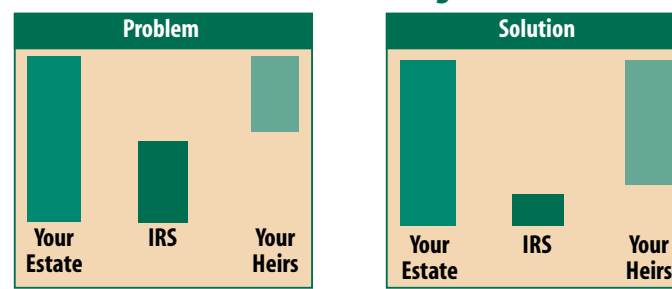
Maintaining the Estate Tax Exclusion

Although all assets within a profit sharing plan are includable in your taxable estate, a survivorship life contract offers a unique planning opportunity. That's because we can easily develop a plan using custom beneficiary designations and a spousal waiver to keep the policy death proceeds outside the gross estate. We must plan for the four, mutually exclusive possibilities as follows:

Plan Participant Dies First	Spouse Dies First
<ol style="list-style-type: none"> The plan investments are paid to the spouse and deferred in his or her IRA. The life policy is paid to a trust outside the taxable estate. The policy cash surrender value is subject to income tax, less participant's basis.* The policy's fair market value is included in participant's gross estate and does not qualify for the marital deduction. The spouse continues the coverage through a gifting program as required. 	<ol style="list-style-type: none"> The plan document will specify that the policy must be removed from the plan. The plan trustee offers to sell the policy to the participant or to a trust for its cash surrender value. Income taxes are due on the difference between the cash surrender value and the fair market value. The policy is continued through a gifting program to the trust as required.
Both Die Simultaneously	Both Live to Retirement
<ol style="list-style-type: none"> Similar to "Participant Dies First" scenario. A provision should be placed in the participant's will stating that in the event of simultaneous deaths the participant is presumed to have died first. The policy is paid to a trust outside the taxable estate. The policy death benefit is paid by Security Mutual Life to the trust. 	<ol style="list-style-type: none"> Similar to "Spouse Dies First" scenario. The plan trustee offers to sell the policy to the participant or to a trust for its fair market value. No income taxes are due on the sale. The policy is continued through a gifting program to the trust as required.

*10% penalty may apply if under age 55.

Estate Planning



Thus, you can use a profit sharing or 401(k) plan to begin funding your estate plan while keeping the death proceeds out of your taxable estate. By simply transferring assets within the retirement plan, you protect your current cash flows.

Although all assets within a retirement plan are ultimately subject to income tax, life insurance is the antidote to the combination of estate and income taxes that these assets will be exposed to. Better yet, you can fund your plan using the assets that are causing much of the problem: *your retirement plan*.

Case Study

A "Next Level" Estate Funding Plan for Janice Meyers, M.D.

Janice Meyers, M.D., has built a successful medical practice and has accrued a substantial balance in her profit sharing plan. She and her husband, Alan, have a taxable estate that may create disturbing income and estate transfer taxes without planning. After consulting with her legal counsel and financial planner, Janice and Alan decided that they should purchase at least \$1 million of survivorship life insurance. However, Janice and Alan are equally concerned with making irrevocable gifts to their three children when the estate tax may actually and finally be repealed.

Step 1: Optimize the Retirement Plan

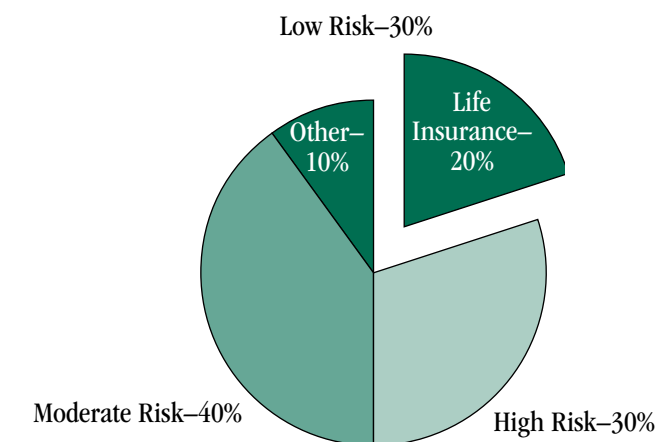
Although the assets in her profit sharing plan add to her potential estate transfer taxes, Janice enjoys the current income tax deduction and creditor protection that these assets enjoy. Janice can optimize her retirement plan by using a "Next Level" retirement plan design that satisfies current nondiscrimination testing while giving her employees a chance to take an active role in their own retirement security. See the exhibit below for details.

Step 2: Amend the Retirement Plan to Allow for Survivorship Life Insurance

Rather than making irrevocable gifts to a Trust outside her taxable estate, Janice takes advantage of the SAI "Next Level" document that allows her to purchase survivorship life insurance by simply allocating some of her low-risk investments to buy life insurance. She takes comfort knowing that a favorable determination letter from the IRS is also provided along with her restated Plan Document and Trust.

Name	Age	Salary	Salary Deferrals	Traditional		"Next Level"	
				Profit Sharing	Total	Profit Sharing	Total
Janice, MD	55	230,000	20,500	11,500	32,000	30,500	51,000
James	45	100,000	5,000	5,000	10,000	5,000	10,000
Theresa	35	50,000	1,500	2,500	4,000	2,500	4,000
Harve	30	45,000	1,350	2,250	3,600	2,250	3,600
Lorraine	25	25,000	0	1,250	1,250	1,250	1,250
				22,500		41,500	
% to Janice				51%		73%	

For More Information on "Next Level" Retirement Plans, Visit www.SAIplans.com.



Step 3: Acquire the Life Insurance with "Pre-Tax" Dollars by Allocating Some Plan Assets

In 401(k) plans, 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 financial instruments and some geared towards growth. Rather than making irrevocable gifts with after-tax dollars to fund her estate plan, Janice simply decides to apportion a small part of her existing profit sharing plan assets to buy life insurance using "pre-tax" dollars.

Janice and Alan are satisfied that they have begun funding their estate plan while they are younger and in good health, knowing that they retain full control of the life insurance policy and values should the estate tax be ultimately repealed or their estate no longer require the added coverage. No current gifts are made, and their family cash flow is affected only by income taxes due on the "economic benefit" cost while the policy remains in the plan.

Case Study (continued) Life Insurance Illustration Extract

Designed for:

Janice Meyers, Age 55, Preferred Plus
Alan Meyers, Age 55, Preferred Plus



Joint and Last Survivor
Flexible Premium
Adjustable Life Insurance
Policy form 2091-NY

Initial Death Benefit \$1,000,000	Non-Guaranteed Values Current @ 5.00% (Years 1-10) And 5.50% (Years 11+)					
	Year	Premium Outlay	Accumulated Value	Cash Surrender Value	Net Death Benefit	Economic Benefit
Death Benefit Option: B - specified amount plus accumulated value						
Planned Annual Premium: \$12,000	1	12,000	6,788	0	1,006,788	20
	2	12,000	13,881	39	1,013,881	20
	3	12,000	21,281	8,209	1,021,281	30
Riders Included: Split Option Rider (SOR) - SOR Tax Law - SOR Divorce	4	12,000	34,335	22,032	1,034,335	30
	5	12,000	47,990	36,456	1,047,990	40
	6	12,000	62,411	51,645	1,062,411	40
	7	12,000	77,520	67,524	1,077,520	50
	8	12,000	93,349	84,121	1,093,349	61
	9	12,000	109,933	101,475	1,109,933	81
	10	12,000	127,306	119,616	1,127,306	111
<i>These benefits and values are not guaranteed. The assumptions on which they are based are subject to change by the Company. Actual results may be more or less favorable than those shown.</i>	20	12,000	364,429	364,429	1,364,429	910
	30	12,000	724,535	724,535	1,724,535	6,460
	40	12,000	923,419	923,419	1,923,419	42,720

Janice and Alan carefully review the entire illustration presented by her Security Mutual Life representative. They note that by asset-allocating a fairly modest portion of their ongoing contribution, they can easily secure the necessary survivorship life insurance coverage. Should the estate tax actually be repealed, they can exercise a contractual policy split option or simply surrender the policy for its cash surrender value if no longer desired.

Step 4: File Custom Beneficiary and Spousal Waivers with the Plan Trustee

Janice and Alan complete the suggested custom beneficiary election and spousal waiver after reviewing them with their counsel. Should either of them die, the policy can be removed from their taxable estate using the suggested planning described earlier.

Step 5: Establish a Trust to Eventually Buy or Receive the Policy

Janice and Alan engage their counsel to draw up an irrevocable life insurance trust outside their taxable estate to receive the survivorship policy in the event either die. They plan to make gifts to this trust only should the estate tax not be repealed or if there is a premature death. Rather than receiving the life policy from the "Next Level" plan and paying taxes on its fair market value, they simply plan to sell the policy for its cash surrender value after making a sufficient gift to this trust. Their Security Mutual Life representative points out that the Department of Labor amended their class Prohibited Transaction Exemption (PTE 92-6) to specifically allow for the sale of life insurance policies in retirement plans to certain trusts.