



## How Much Life Insurance Can I Buy in My Retirement Plan?

Life insurance needs can be met within most qualified retirement plans if the Plan Document and Trust allow for it. The amount that you can purchase depends on the type of plan you sponsor, as indicated below:

1. **SEP-IRA AND SIMPLE-IRA.** Life insurance is not a permitted investment of an IRA.
2. **DEFINED CONTRIBUTION PLANS (E.G., MONEY PURCHASE).** Any participant can use up to 50% of his or her cumulative contributions (not account balance) to purchase whole life insurance or less than 25% of contributions to buy universal life or policies with term insurance riders.
3. **401(K) AND PROFIT SHARING PLANS.** For premiums paid with ongoing contributions, see defined contribution plans. However, some 401(k) and profit sharing plans, including SAI prototype plans, include “aged money” features that waive the limit for certain monies in the plan. There are three exceptions:
  - **Five Year Rule.** If a participant has been in the plan for more than five years, there is no limit on the life insurance purchase if only profit sharing monies are used.
  - **Two Year Rule.** Any employer-paid profit sharing monies that have resided in the plan for at least two full years may be used without limit.
4. **DEFINED BENEFIT (INCLUDING 412(i) OR CASH BALANCE PLANS).** There are two rules that the plan sponsor selects from to determine the maximum survivor benefits allowed under the plan:
  - **100 Times Rule.** Life insurance of up to 100 times the expected monthly retirement benefit at Normal Retirement Age may be purchased.
  - **Revenue Rul. 74-307 Method.** This somewhat complex method determines a “Theoretical Level Premium” (TLP) that is actuarially determined. Up to 66 2/3% of the TLP may then be used to buy whole life insurance, and up to 33 1/3% may be used for universal life or for policies with term riders. Although this method often provides for more life insurance than the 100 Times Rule, the comparison will vary widely based on age and expected plan contributions. SAI can do the calculations for you.

This latter provision has become broadly available as the 2001 tax act greatly expanded the portability of pension proceeds. E.g. you can now roll over 403(b) funds into your profit sharing plan and tap any of these monies to secure life insurance if you have a need.

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