



# Life insurance in a qualified plan

Advanced Markets

The potential to optimize pretax dollars  
for family and business protection



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# Leveraging pretax retirement dollars

**Successful business owners may have significant insurance needs. Using pretax qualified plan dollars may be a means by which business owners gain the necessary life insurance coverage to provide their families with financial security and help ensure the continuation of their business.**

People who may benefit the most from purchasing life insurance in qualified plans include business owners and partners who have:

- Significant personal life insurance needs.
- Considerable accumulated assets in a qualified plan or assets in an IRA that could be moved to a qualified plan.
- Other retirement income sources that are more than sufficient.
- A desire to bequeath assets to children and grandchildren.
- Potential future estate tax liabilities.

**Not all qualified plans have provisions allowing for the purchase of life insurance. However, business owners may have the ability to include a life insurance option for new or existing qualified retirement plans.**

## Qualified plan basics

Above all, qualified plans are designed to accumulate assets for retirement, since:

- Contributions are tax-deductible to the employer plan sponsor.
- Contributions are tax-deferred to the employee participant.
- Growth in qualified plan values are tax-deferred for the employee participant.
- Plan assets are generally sheltered from creditors.

When the plan permits, purchasing life insurance within a qualified plan can be an excellent means by which business owners can leverage pretax dollars while protecting their beneficiaries and assets.

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### Important note

Equitable Financial and its affiliates believe that education is a key step toward addressing your financial goals, and we've designed this material to serve simply as an informational and educational resource. Accordingly, this brochure does not offer or constitute investment advice, and makes no direct or indirect recommendation of any particular product or of the appropriateness of any particular investment-related option. Your needs, goals and circumstances are unique, and they require the individualized attention of your financial professional.

## Benefits

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### **Death benefit protection**

In the event of the insured business owner's death, benefits paid help protect their loved ones' financial security. Additionally, benefits paid may also help in the transition of the business's management responsibilities to a desired family member.

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### **Additional financial resources to pay insurance premiums**

Due to family, investment and business expenditures, premium dollars for needed life insurance coverage may be limited. Qualified plan values or contributions may be an additional source of needed life insurance premium dollars.

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### **Self-completing retirement asset**

In a case of premature death, retirement savings contributions may cease. The business owner's surviving spouse may have been relying on continued contributions to achieve a planned retirement income level. A life insurance death benefit can immediately fund this future source of retirement income.

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### **Potential tax-free death benefit**

For life insurance within a qualified plan, the beneficiary receives the death benefit less the policy's cash surrender value, income tax-free. Upon transfer of ownership outside of a qualified plan, the entire death benefit can be received income tax-free (taxes may be due if the policy is not purchased for its fair market value).

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### **Options to continue coverage**

Those leaving their jobs have several options for coverage continuation. These include having the qualified plan distribute the policy to themselves or transferring the policy to another qualified plan (if the plan will accept life insurance). If estate planning is an objective, a trust can be established to purchase or to receive the policy as a gift (policy's fair market value must be determined in accordance with IRS guidelines).

## Tax treatment of current life insurance benefits

The election of a life insurance benefit within a qualified plan is deemed to be a current plan benefit and is treated similarly to employer-provided group life insurance. The value of the current protection is determined using a government table, Table 2001, or a life insurance company's alternative term rates if available.<sup>1</sup>

Plan participants essentially pay the tax on a term insurance rate for the current life insurance protection rather than paying tax on the actual permanent life insurance premium. The rates applied are a standard rate available to all insureds and ignore smoking status and substandard rating charges.

<sup>1</sup> Equitable Financial does have an alternative term rate schedule available.

## **For more information about purchasing life insurance inside a qualified plan, please contact your financial professional.**

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