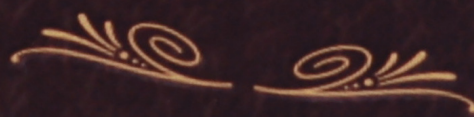


# Life Insurance in a 401(k) Plan

For: George Baker, MD



*Retirement Plan*



Presented By: \_\_\_\_\_

[Licensed user's name appears here]

## Preface

In the accompanying presentation, you will see the financial data from an illustration of a cash value life insurance policy integrated with a 401(k) plan.

Inserting a life insurance policy in a 401(k) plan (or certain other qualified retirement plans) can be a very efficient method of providing death benefits for family protection while, at the same time, the policy cash values accrue in the plan as part of the participant's account.

**Rules:** According to Treasury Regulations, "incidental" life insurance benefits can be included in a 401(k) plan. (Regs. 1.401-1(b)(1)(i) and 1.401-1(b)(1)(ii).) There must, however, be specific plan language that permits the use of life insurance.

In addition, all 401(k) plans are subject to the incidental death benefit limits, i.e., no more than 25% of contributions can be spent on term insurance or flexible premium products like Universal Life, Indexed Universal Life, and Variable Universal, and no more than 49% of contributions can be spent for Whole Life.

The above limits may be superseded by the two-year and five-year rules. The two-year rule says that if the monies have been in the plan for at least two years, they can all be used for life premiums. The five-year rule says that if a participant has been a plan participant for at least five years, all the monies in the plan can be used for life insurance premiums whether or not the monies have actually been in the plan for two years or not. (In the latter case, the need to satisfy the two-year aging of the funds is not required (Rev. Rul. 60-83, 68-24 and Reg.

1.40-1(b)(1)(ii)).

Note: There must be specific plan language to permit the use of the two- and five-year rules.

**Taxable Economic Benefit:** The participant's taxable "economic benefit" of the death benefit element provided by the life insurance policy is measured annually by applying risk rates from IRS Table 2001, or the issuing insurance company's qualifying yearly renewable term rates, if lower, to the net amount at risk (face amount of the policy minus its cash value). The risk rates increase annually, and the participant pays income tax on the resulting economic benefit.

For example, if a given policy has a face amount of \$100,000 and a cash value of \$30,000, the net amount at risk is \$70,000. If the participant is age 45, and the IRS Table 2001 rates are used (\$1.53 per 1,000 at age 45), the taxable economic benefit of the net amount at risk of \$70,000 is \$107.10 (70 times \$1.53).

If the participant is in, say, a 28% income tax bracket, the resulting income tax would be \$29.99 (28% of \$107.10). This produces a very efficient cost of 43 cents per thousand (\$29.99 divided by 70). Expressed on a monthly basis (as is typically the case with, for example, group life insurance), the cost in this case would be slightly over 3½ cents per thousand of the net death benefit.

# Life Insurance in a 401(k) Plan

Presented By: [Licensed user's name appears here]

Insured: George Baker, MD

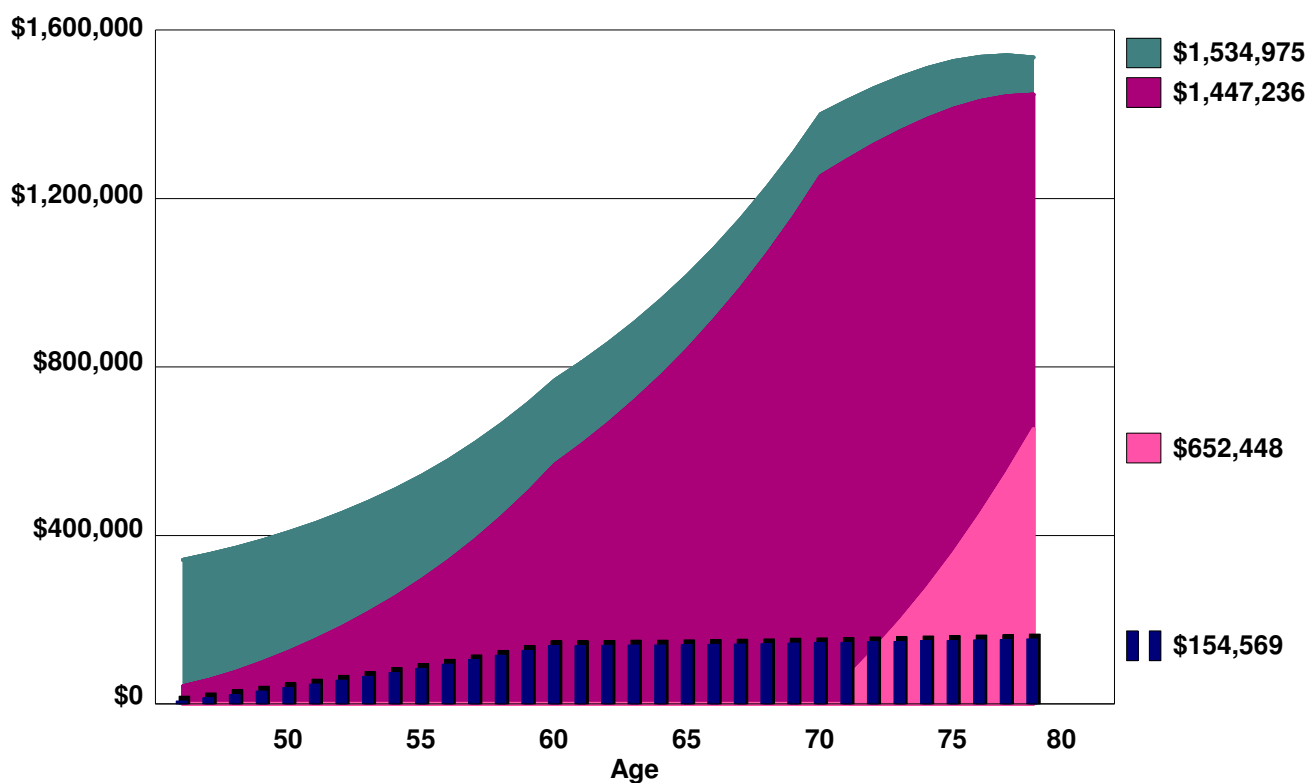
## Preface (continued)

**Conclusion:** If life insurance is needed and the cash values of the policy selected perform competitively with the balance of funds in the 401(k), the overall results of including life insurance can be compelling.

**Note:** If an insured concept makes sense, be certain your 401(k) plan allows for the use of life insurance. This can usually be confirmed by examining your employee booklet for the plan. If the plan does not allow life insurance, it could be amended to do so -- although some employers might be reluctant to do so

for just one or two participants. On the other hand, the value of using 401(k) funds for the purpose of purchasing needed life insurance may be a valuable enough option that an employer may be willing to amend the current plan -- or replace it with a prototype plan from another vendor that permits life insurance.

Favorable income tax consequences combine with significant policy values and benefits to produce a retirement solution that has a considerable amount of financial leverage.



At Year 33	
Cumulative Funding Costs	\$154,569
Combined Plan Values	\$1,447,236
Combined Plan Death Benefit	\$1,534,975
Cumulative Distributions from the Plan	\$652,448

This graphic assumes the non-guaranteed values shown continue in all years. This is not likely, and actual results may be more or less favorable.

# Life Insurance in a 401(k) Plan

Presented By: [Licensed user's name appears here]

Insured: George Baker, MD

## Illustration of Policy Values

		CVI Interest Rate 6.00%	Initial Payment 5,000	Initial Policy Death Benefit 300,000		
Year	Male Age	(1) Net Payment	(2) Year End Accum Value*	(3) Year End Cash Value*	(4) Death Benefit	
1	45	5,000	4,480	280	300,000	
2	46	5,000	9,180	780	300,000	
3	47	5,000	14,180	5,240	300,000	
4	48	5,000	19,451	10,511	300,000	
5	49	5,000	25,007	16,067	300,000	
6	50	5,000	30,868	22,375	300,000	
7	51	5,000	37,035	29,078	300,000	
8	52	5,000	43,527	36,196	300,000	
9	53	5,000	50,360	43,745	300,000	
10	54	5,000	57,553	51,742	300,000	
11	55	5,000	65,127	60,210	300,000	
12	56	5,000	73,109	69,175	300,000	
13	57	5,000	81,519	78,658	300,000	
14	58	5,000	90,390	88,691	300,000	
15	59	5,000	99,755	99,755	300,000	
16	60	0	104,271	104,271	300,000	
17	61	0	108,946	108,946	300,000	
18	62	0	113,784	113,784	300,000	
19	63	0	118,786	118,786	300,000	
20	64	0	123,957	123,957	300,000	
21	65	0	129,304	129,304	300,000	
22	66	0	134,832	134,832	300,000	
23	67	0	140,549	140,549	300,000	
24	68	0	146,468	146,468	300,000	
25	69	0	152,598	152,598	300,000	
26	70	0	158,955	158,955	300,000	
27	71	0	165,558	165,558	300,000	
28	72	0	172,433	172,433	300,000	
29	73	0	179,608	179,608	300,000	
30	74	0	187,123	187,123	300,000	
		<hr/>				
		75,000				

\*This is an example of a "supplemental" life insurance illustration. In actual presentations, this footnote will refer you to an accompanying "basic" illustration from a specific life insurance company.

# Life Insurance in a 401(k) Plan

Presented By: [Licensed user's name appears here]

Insured: George Baker, MD

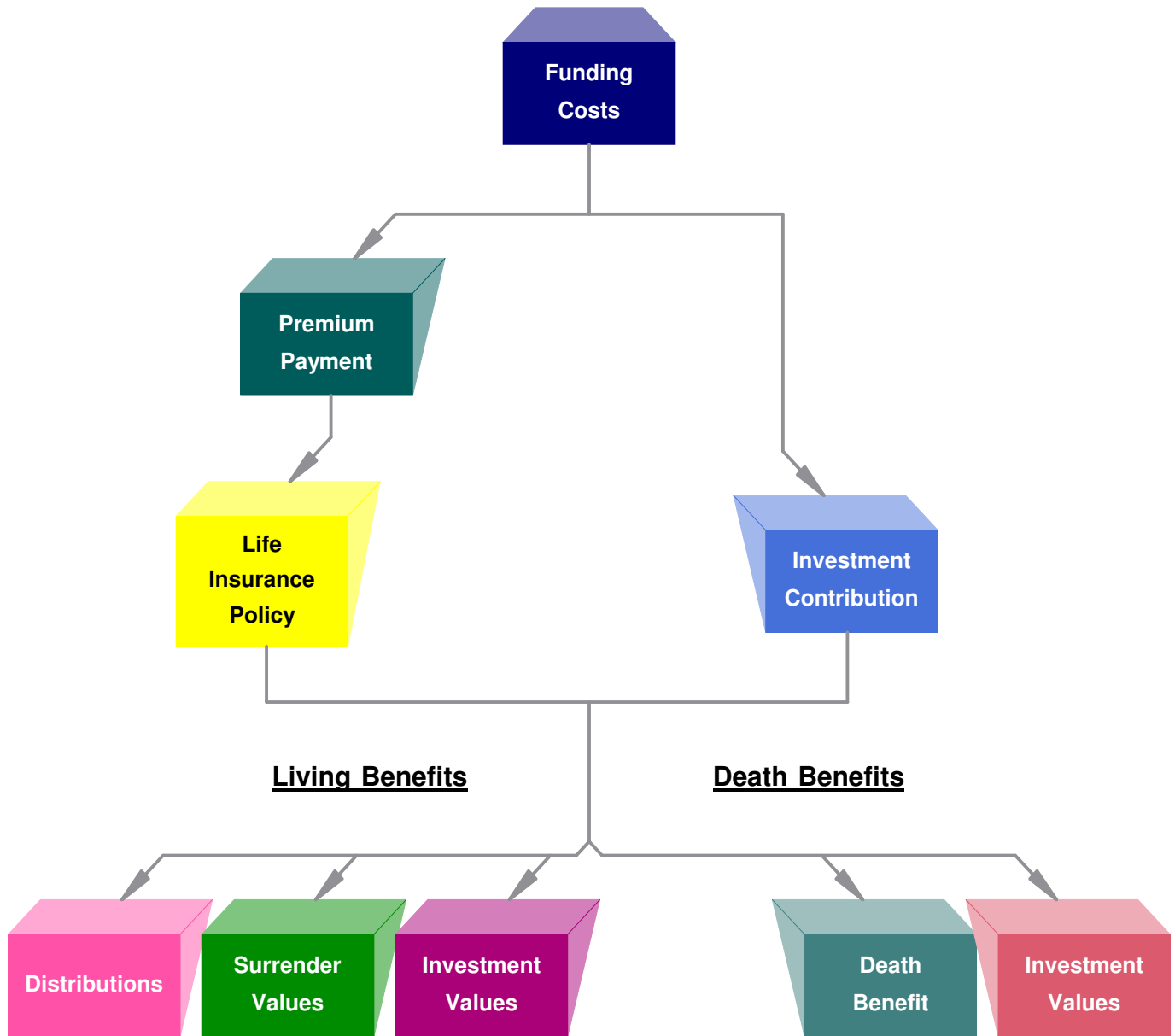
## Illustration of Policy Values

		CVI Interest Rate 6.00%	Initial Payment 5,000	Initial Policy Death Benefit 300,000		
Year	Male Age	(1) Net Payment	(2) Year End Accum Value*	(3) Year End Cash Value*	(4) Death Benefit	
31	75	0	195,026	195,026	300,000	
32	76	0	203,379	203,379	300,000	
33	77	0	212,261	212,261	300,000	

75,000

\*This is an example of a "supplemental" life insurance illustration. In actual presentations, this footnote will refer you to an accompanying "basic" illustration from a specific life insurance company.

## Flow Chart



# Life Insurance in a 401(k) Plan

Presented By: [Licensed user's name appears here]

Insured: George Baker, MD

## Summary of the Plan

CVI  
Interest Rate  
6.00%

Initial Policy  
Death Benefit  
300,000

Year	Male Age	Funding Analysis			Living Benefits			Death Benefits
		(1) Participant's After Tax Cost of the Plan Contribution*	(2) Income Tax Due on Economic Benefit of the Life Insurance**	(3) Participant's After Tax Funding Costs (1) + (2)	(4) Scheduled Distributions from the Plan	(5) Cumulative Distributions from the Plan	(6) Year End Combined Value of the Plan**	(7) Year End Combined Death Benefit of the Plan
1	45	7,150	161	7,311	0	0	42,479	342,199
2	46	7,475	175	7,650	0	0	56,944	356,164
3	47	7,475	189	7,664	0	0	76,612	371,372
4	48	7,800	201	8,001	0	0	99,125	388,614
5	49	8,125	212	8,337	0	0	124,138	408,071
6	50	8,450	223	8,673	0	0	152,315	429,940
7	51	8,450	239	8,689	0	0	182,834	453,756
8	52	8,775	259	9,034	0	0	216,568	480,372
9	53	9,100	287	9,387	0	0	253,782	510,037
10	54	9,425	317	9,742	0	0	294,765	543,023
11	55	9,750	348	10,098	0	0	339,836	579,626
12	56	10,075	378	10,453	0	0	389,342	620,167
13	57	10,400	403	10,803	0	0	443,655	664,997
14	58	10,725	419	11,144	0	0	503,188	714,497
15	59	11,050	425	11,475	0	0	568,839	769,084
16	60	0	446	446	0	0	615,103	810,832
17	61	0	475	475	0	0	665,242	856,296
18	62	0	519	519	0	0	719,590	905,806
19	63	0	576	576	0	0	778,509	959,723
20	64	0	641	641	0	0	842,395	1,018,438
21	65	0	711	711	0	0	911,683	1,082,379
22	66	0	781	781	0	0	986,843	1,152,011
23	67	0	848	848	0	0	1,068,389	1,227,840
24	68	0	909	909	0	0	1,156,886	1,310,418
25	69	0	965	965	0	0	1,252,943	1,400,345
26	70	0	1,018	1,018	60,385	60,385	1,291,472	1,432,517
27	71	0	1,069	1,069	65,511	125,896	1,327,528	1,461,970
28	72	0	1,119	1,119	71,063	196,959	1,360,431	1,487,998
29	73	0	1,162	1,162	77,074	274,033	1,389,404	1,509,796
30	74	0	1,192	1,192	83,581	357,614	1,413,571	1,526,448
		134,225	16,667	150,892		357,614		

### 30 Year Summary

Cumulative Distributions:	357,614
Combined Value of the Plan:	1,413,571
Combined Death Benefit of the Plan:	1,526,448

\*Excluding employer's matching contribution.

\*\*See pre-retirement and retirement detail pages for specifics.

# Life Insurance in a 401(k) Plan

Presented By: [Licensed user's name appears here]

Insured: George Baker, MD

## Summary of the Plan

CVI  
Interest Rate  
6.00%

Initial Policy  
Death Benefit  
300,000

		Funding Analysis			Living Benefits			Death Benefits
Year	Male Age	(1) Participant's After Tax Cost of the Plan Contribution*	(2) Income Tax Due on Economic Benefit of the Life Insurance**	(3) Participant's After Tax Funding Costs (1) + (2)	(4) Scheduled Distributions from the Plan	(5) Cumulative Distributions from the Plan	(6) Year End Combined Value of the Plan**	(7) Year End Combined Death Benefit of the Plan
31	75	0	1,214	1,214	90,622	448,236	1,431,941	1,536,915
32	76	0	1,229	1,229	98,239	546,475	1,443,397	1,540,018
33	77	0	1,234	1,234	105,973	652,448	1,447,236	1,534,975
		134,225	20,344	154,569	652,448			

### 33 Year Summary

Cumulative Distributions:	652,448
Combined Value of the Plan:	1,447,236
Combined Death Benefit of the Plan:	1,534,975

\*Excluding employer's matching contribution.

\*\*See pre-retirement and retirement detail pages for specifics.



# Life Insurance in a 401(k) Plan

Presented By: [Licensed user's name appears here]

Insured: George Baker, MD

## Pre-Retirement Phase

Pre-Retirement Tax Bracket 35.00%    Beginning Balance in Hypothetical Inv. Acct. 30,000    Hypothetical Inv. Acct. Yield 10.00%    CVI Interest Rate 6.00%    Initial Policy Death Benefit 300,000

Yr	Male Age	Funding Analysis					Account Value Analysis			Life Insurance Analysis		
		(1) Beginning of Year Combined Value of the Plan	(2) Tax Deductible Contribution to the Plan	(3) Matching Amount from Employer	(4) Premium For Life Insurance	(5) Balance to Accrue in the Investment Account (2)+(3)-(4)	(6) Year End Investment Value of the Plan	(7) Year End Life Insurance Cash Value*	(8) Year End Combined Value of the Plan (6) + (7)	(9) Net Amount at Risk of the Life Insurance**	(10) Taxable Economic Benefit of Life Insurance †	(11) Income Tax Due on Column 10
1	45	30,000	11,000	2,750	5,000	8,750	42,199	280	42,479	299,720	459	161
2	46	42,479	11,500	2,875	5,000	9,375	56,164	780	56,944	299,220	500	175
3	47	56,944	11,500	2,875	5,000	9,375	71,372	5,240	76,612	294,760	539	189
4	48	76,612	12,000	3,000	5,000	10,000	88,614	10,511	99,125	289,489	573	201
5	49	99,125	12,500	3,125	5,000	10,625	108,071	16,067	124,138	283,933	605	212
6	50	124,138	13,000	3,250	5,000	11,250	129,940	22,375	152,315	277,625	639	223
7	51	152,315	13,000	3,250	5,000	11,250	153,756	29,078	182,834	270,922	683	239
8	52	182,834	13,500	3,375	5,000	11,875	180,372	36,196	216,568	263,804	741	259
9	53	216,568	14,000	3,500	5,000	12,500	210,037	43,745	253,782	256,255	820	287
10	54	253,782	14,500	3,625	5,000	13,125	243,023	51,742	294,765	248,258	906	317
11	55	294,765	15,000	3,750	5,000	13,750	279,626	60,210	339,836	239,790	995	348
12	56	339,836	15,500	3,875	5,000	14,375	320,167	69,175	389,342	230,825	1,080	378
13	57	389,342	16,000	4,000	5,000	15,000	364,997	78,658	443,655	221,342	1,151	403
14	58	443,655	16,500	4,125	5,000	15,625	414,497	88,691	503,188	211,309	1,196	419
15	59	503,188	17,000	4,250	5,000	16,250	469,084	99,755	568,839	200,245	1,213	425
			206,500	51,625	75,000	183,125				12,100	4,236	

\*\*Face amount of the policy less the policy cash value.

† Based on the net amount at risk using Table 2001 rates.

Management fees reflected in column (6): 1.00%

\*This is an example of a "supplemental" life insurance illustration. In actual presentations, this footnote will refer you to an accompanying "basic" illustration from a specific life insurance company.

# Life Insurance in a 401(k) Plan

Presented By: [Licensed user's name appears here]

Insured: George Baker, MD

## Retirement Phase

Retirement Tax Bracket 35.00%      Hypothetical Inv. Acct. Yield 10.00%      CVI Interest Rate 6.00%

Year	Male Age	Distribution Analysis			Account Value Analysis				Life Insurance Analysis		
		(1) Beginning of Year Combined Value of the Plan	(2) Required Minimum Distribution from the Plan	(3) Scheduled Distributions from the Plan	(4) Premium for the Life Insurance	(5) Year End Investment Value of the Plan	(6) Year End Life Insurance Cash Value*	(7) Year End Combined Value of the Plan (5) + (6)**	(8) Net Amount at Risk of the Life Insurance †	(9) Taxable Economic Benefit of Life Insurance ††	(10) Income Tax Due on Column (9)
16	60	568,839	0	0	0	510,832	104,271	615,103	195,729	1,274	446
17	61	615,103	0	0	0	556,296	108,946	665,242	191,054	1,358	475
18	62	665,242	0	0	0	605,806	113,784	719,590	186,216	1,482	519
19	63	719,590	0	0	0	659,723	118,786	778,509	181,214	1,645	576
20	64	778,509	0	0	0	718,438	123,957	842,395	176,043	1,833	641
21	65	842,395	0	0	0	782,379	129,304	911,683	170,696	2,031	711
22	66	911,683	0	0	0	852,011	134,832	986,843	165,168	2,231	781
23	67	986,843	0	0	0	927,840	140,549	1,068,389	159,451	2,424	848
24	68	1,068,389	0	0	0	1,010,418	146,468	1,156,886	153,532	2,598	909
25	69	1,156,886	0	0	0	1,100,345	152,598	1,252,943	147,402	2,756	965
26	70	1,252,943	45,728	60,385	0	1,132,517	158,955	1,291,472	141,045	2,908	1,018
27	71	1,291,472	48,735	65,511	0	1,161,970	165,558	1,327,528	134,442	3,055	1,069
28	72	1,327,528	51,857	71,063	0	1,187,998	172,433	1,360,431	127,567	3,198	1,119
29	73	1,360,431	55,078	77,074	0	1,209,796	179,608	1,389,404	120,392	3,319	1,162
30	74	1,389,404	58,378	83,581	0	1,226,448	187,123	1,413,571	112,877	3,407	1,192
31	75	1,413,571	61,728	90,622	0	1,236,915	195,026	1,431,941	104,974	3,469	1,214
32	76	1,431,941	65,088	98,239	0	1,240,018	203,379	1,443,397	96,621	3,510	1,229
33	77	1,443,397	68,085	105,973	0	1,234,975	212,261	1,447,236	87,739	3,524	1,234
			454,677	652,448						46,022	16,108

Column (2) is calculated using Uniform Lifetime table life expectancy factors.

Amounts in column (4) are withdrawn from the investment account.

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Management fees reflected in column (5): 1.00%

\*\*After scheduled distributions from the plan.

† Face amount of the policy less the policy cash value.

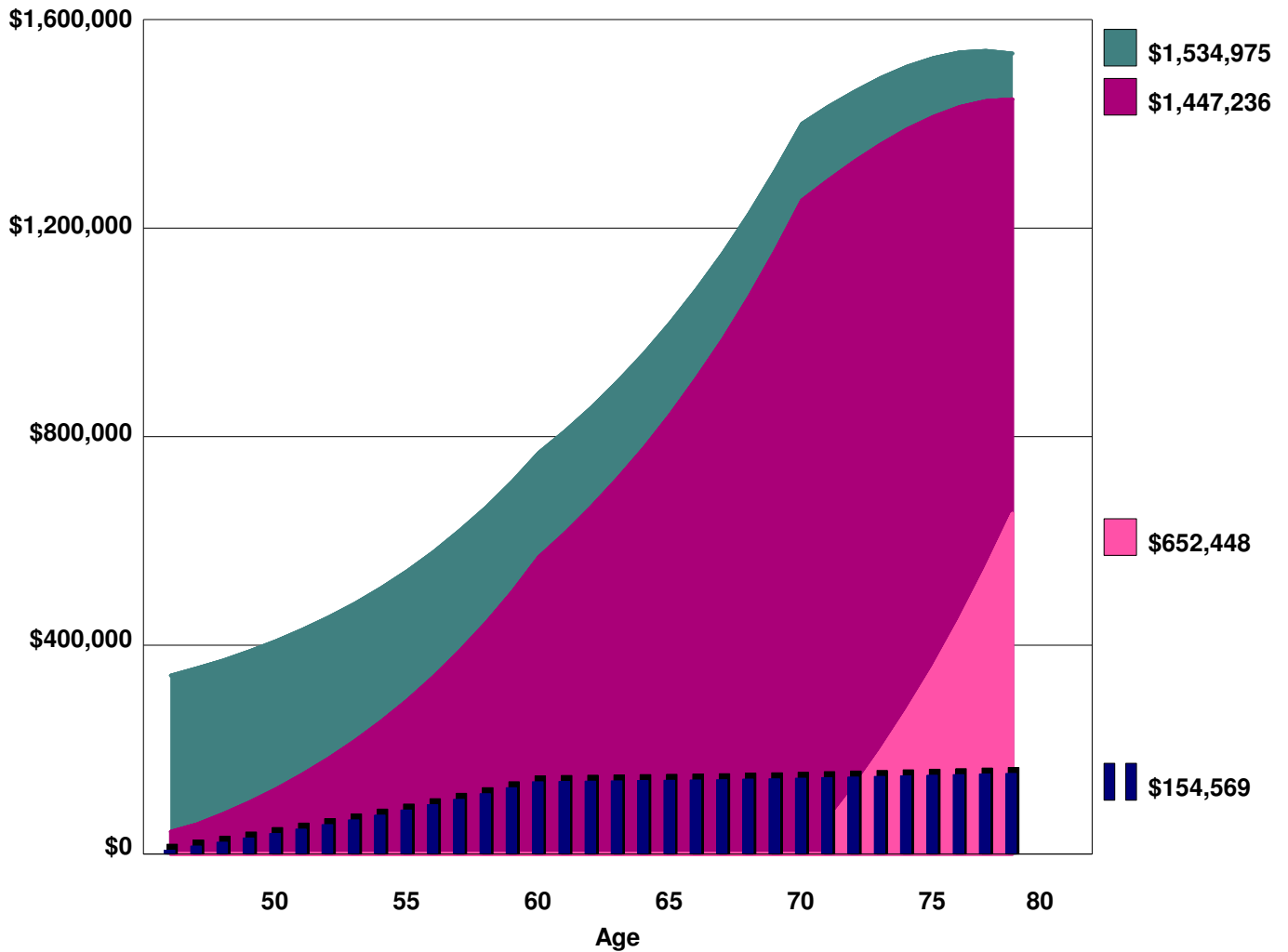
†† Based on the net amount at risk using Table 2001 rates.

# Life Insurance in a 401(k) Plan

Presented By: [Licensed user's name appears here]

Insured: George Baker, MD

## 33 Year Analysis



At Year 33

Cumulative Funding Costs	\$154,569
Combined Plan Values	\$1,447,236
Combined Plan Death Benefit	\$1,534,975
Cumulative Distributions from the Plan	\$652,448