

The **strength**
to withstand, the means
to **grow**.

The Power of Life Insurance In a Fully Defined Benefit Plan

A fully insured plan is a qualified defined benefit pension plan that provides a pre-determined, guaranteed retirement benefit. This type of plan is funded by an annuity with minimum guaranteed rates or through a combination of annuity and life insurance contracts.

As a result, it is a retirement plan that generates the highest possible tax deductions for business owners and is an excellent solution for a comfortable retirement even if it is only a few years away. The fully insured plan also provides your client with retirement income-guaranteed.

	No Life Insurance (Annuity Only)	With Life Insurance (Annuity Included)
Current Age	50	50
Retirement Age	62	62
Average Compensation	\$260,000	\$260,000
Plan Sponsor Contribution	\$190,919	\$240,182
Value at Retirement	\$2,611,831	\$2,611,831
Monthly Benefit at Retirement	\$12,145	\$12,145
Face Amount of Life Insurance	\$0	\$4,725,728

Advantages:

- Life Insurance premiums in a fully insured plan are paid with pre-tax dollars through the qualified retirement plan
- Funding a fully insured plan with life insurance can increase the contribution amount
- Additional premiums for sub-standard ratings are included in the overall cost of the plan
- If the participant dies while covered under a fully insured plan funded with life insurance, the policy's face amount minus the policy cash value, is generally free of federal income tax to the beneficiaries

Business Owner Mike Smith is 50 years old and in the 28% tax bracket. At his retirement age of 62, he will receive a lump sum benefit of over \$2.6 Million dollars.

After discussions with his financial representative, Mike decides to include life insurance in his fully insured plan and not just go with the annuity only option since he would like a death benefit in place to protect his family. With this the bottom line cost to Mike of having the life insurance in the plan, after taxes, is \$13,794. This represents the difference between the plan contributions with life insurance of \$240,182 minus the plan with annuity only of \$190,919 times Mike's marginal tax rate of 28%.

So by placing life insurance inside the plan, Mike's heirs will receive a death benefit, largely income tax-free, of just over \$4.7 Million dollars for a cost of only \$13,794 per year.

Guardian, its subsidiaries, agents or employees do not give tax or legal advice. You should consult your tax or legal advisor regarding your individual situation.

For more information on how life insurance can help your small business owners, contact your local Guardian Agency today.



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