



**Security Financial Life's**

**412(i)**

**solution**

**Defined Benefit Pension Plan**



# SFL's 412(i) solution

After years of focusing time and money on building a successful business, many small-business owners begin to shift their attention toward preparing for the next phase of life, their retirement. They soon discover that accumulating sufficient assets to support even modest lifestyle needs can be a difficult task.

Take, for example, a business owner who plans to retire at age 62 with a personal gross income of \$205,000 per year. It would take a lump sum of almost \$3.4 million to generate a comparable income during retirement!

Security Financial Life offers a simple solution—the 412(i) concept, for successful small businesses that are looking for a stable and affordable retirement solution. Under an IRC 412(i) plan, a business builds guaranteed retirement benefits for its employees while maximizing current income tax-deductible contributions.

A 412(i) plan is a type of defined benefit retirement plan that is funded with annuity and/or life insurance products. Because the insurance company is responsible for the investment performance of these products, a 412(i) plan provides predetermined and secure retirement benefits without the stock market risk inherent with most other approaches. In addition to stability, a properly designed 412(i) plan will be exempt from many of the burdensome and expensive reporting and administrative requirements typically required of retirement plans.

## The Impact of Taxes

Attempting to save for retirement in a short period of time can be a daunting task, especially including the effects of taxes.

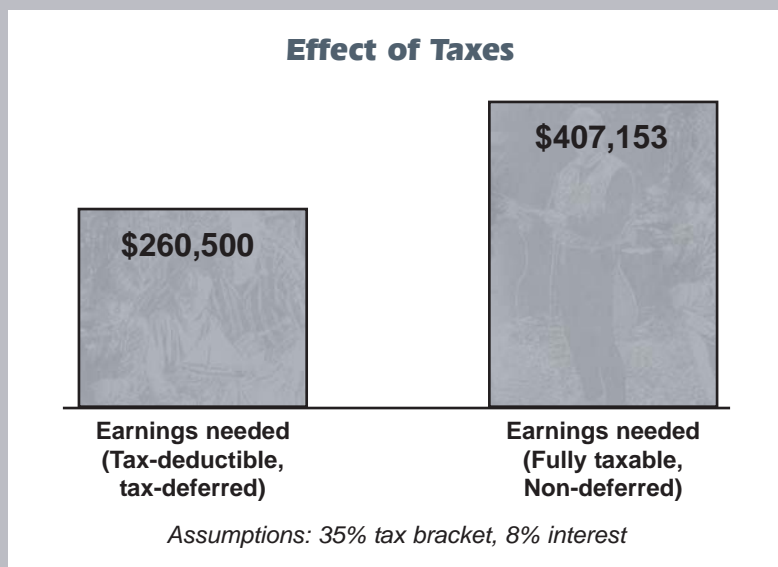
For example, consider a business owner in a 35 percent combined federal and state income tax bracket who is planning on retiring in 10 years with an income equal to the maximum allowable qualified plan limit.

If this individual invested in non-qualified investments (non-tax-deductible and non-tax-deferred) and were to average 5 percent on his investments, he would need to devote \$407,153 per year of earnings toward his goal.

If this same individual were to invest in qualified investments (tax-deductible and tax-deferred) and were to average 5 percent on his investments, he would need to devote \$260,500 per year of earnings toward his goal.

That's over a 36 percent reduction in net cost!

Let Security Financial Life's 412(i) concept help you achieve that success...



## Advantages of 412(i)

- Guaranteed retirement benefits
- Income tax reduction
- Predictable funding levels
- Steady performance
- Simple design and administration
- Self-completion in the event of early death
- Income tax-free benefit on portion of death proceeds
- Effective estate planning tool
- Reduces need for other personal life insurance
- Superior service from Security Financial Life
- Asset protection from creditors

## Tax Advantages

Several governmental limitations restrict a business's ability to make large contributions to most qualified retirement plans. For example, a 401(k) plan in 2003 typically restricts an employee's deductible contribution to \$13,000 to \$16,000 per year. Other defined contribution plans may allow for larger contributions, but are usually limited to \$41,000 per year. An employer's 412(i) plan contributions are not restricted by these traditional limitations and allow businesses to make large tax-deductible contributions.

**Employee Age 52**  
**Retirement Income \$165,000**  
**Maximum Contribution Level**

<b>401(k)</b>	<b>\$13,000 - \$16,000</b>
<b>Profit Sharing</b>	<b>\$40,000</b>
<b>Defined Benefit</b>	<b>\$146,000</b>
<b>412(i) Defined Benefit</b>	<b>\$332,000</b>

*Assumptions: 6% interest, retirement at 62*

Because contributions are larger and tax-deductible, if an employer starts a 412(i) plan, it provides the added benefit of an overall reduction of taxable corporate earnings.

## How the 412(i) concept works

Once a business has decided to implement a 412(i) plan, the desired retirement benefits must be determined. After the business determines the desired benefit level, contributions are made to the 412(i) plan which are used to purchase a combination of life insurance and annuity contracts for each eligible employee.

### Policy Information

- **SFL Pension Protector I** - A level-premium whole life insurance contract designed to maximize death benefits while providing attractive accumulation of values. This policy is designed to protect an employee's plan beneficiaries by ensuring a death benefit will be paid in the event of a premature death.
- **SFL Pension Builder** - A flexible-premium deferred annuity contract designed to provide competitive and stable accumulation. This annuity is designed to provide accumulation of assets for retirement.

Including life insurance in a 412(i) plan adds self-completion characteristics typically absent from other retirement plans. In addition to the accumulation and death benefit protection provided by the SFL 412(i) concept, a properly designed plan may also include a guarantee that in the event of a total disability before age 60, Security Financial Life will continue to make contributions on behalf of the employer for the affected employee(s).

Equally important to the tax-deductibility of the contributions and the tax-deferral of the growth features, is the fact that in the event of a premature death, a large portion of the death benefit will be received income tax-free by the beneficiaries.

## **At retirement and beyond**

After reaching retirement, a participant in a 412(i) plan is faced with a number of choices. As with other defined benefit plans, the departing employee may choose between receiving a guaranteed income for life or a lump sum that may be rolled to an IRA. In addition to this choice, the employee must also decide whether to retain the death protection during retirement. If they elect to continue coverage, the employee must take ownership of the policy and either continue premiums or reduce the death benefit so that the policy becomes paid-up. A transfer of ownership will result in taxable income to the employee.

Regardless of which choices are made, a covered employee has a number of options that will provide a secure retirement benefit.

### **Best fit**

The SFL 412(i) concept is an excellent option for profitable small businesses that desire to set aside substantial funds for retirement while recognizing large tax-deductions. The business should desire stable performance and a predictable cost. The business should be established, with a strong likelihood for continued profitability. The business may be of any entity status including C and S corporations, LLCs/LLPs, partnerships and sole proprietorships.

There is no better time than now to consider the SFL 412(i) concept to meet your retirement goals.

For an illustration, please contact your local agent or call the home office direct at 800-284-8575, ext. 566.

## **About Security Financial Life**

Since 1895, Security Financial Life has earned our customers' confidence through our strong financial position. Check with the industry's leading independent evaluator, A.M. Best Company, and you'll find our high rating in financial strength and performance.

Please contact your local representative for assistance in meeting your needs.

**SECURITY**  
Financial Life Insurance Co.  
A Security Mutual Life Nebraska Company

