



**Group Life Insurance &
Tax Law**

And

Section 79 GEAR

Section 79 GEAR

- Out of Change Came Opportunity For SFL
 - SFL, in response to the challenges presented by RLR's limitation began exploring the true potential of using a premium stabilization reserve.
 - This is when the "GEAR" concept was created.
 - With GEAR, employers are provided group life insurance protection that's affordable to convert, thereby allowing covered employees a "permanency of protection" absent from any other available option.

Section 79 GEAR

– The “GEAR” Concept

- GEAR stands for Group Entry Age Reserved.
- How it works
 - Eligible employers provide Section 79 group life insurance for their employees. This life insurance, like all Section 79 group life insurance, must offer to the covered participant the right to convert coverage into a permanent policy upon separation from employment.

Section 79 GEAR

– The “GEAR” Concept

- Typically, departing employees have only two options:
 - Convert their group insurance and pay premiums based on their attained age at time of separation
 - Stop their coverage altogether

Section 79 GEAR

– The “GEAR” Concept

- The GEAR concept provides for a unique third choice. With a GEAR right to convert - premiums, dividends, policy cash values, and death benefits are based on individual's age on the date they began employment (entry age), not the date they terminated (attained age).
- ***The savings can be very substantial!***

Section 79 GEAR

- Sample cases

- We are going to look at three:
 1. **Dr. Williams, Inc.** – a physician with 2 total employees
 2. **Constantly Green, Inc.** – a landscaping company with 10 total employees
 3. **Smith & Wilson, Inc.** – a software company with 45 total employees

Section 79 GEAR

- Sample cases
 - We are going to assume some common parameters regarding benefit and cost structure:
 - Costs may be **tax deductible***
 - Benefits should be **non-discriminatory**
 - Benefits should be **owner-friendly**, if possible
 - Benefits should **reward long-term employees**, if possible

*The deductibility of contributions made to the plan, and the taxation of such contributions to controlling shareholders or employees, will ultimately depend upon the facts and circumstances surrounding each employer's participation in the plan. Security Financial Life does not provide legal, tax or ERISA advice and does not authorize any of its agents to provide such advice. **All questions of a tax or legal nature should be referred to your independent legal or tax advisors.**

Section 79 GEAR

– Sample cases

- Dr. Williams, Inc.

- Employee census

- » Dr. Williams, age 48, entry age 32, W-2 \$450K

- » Chris Wilson, age 41, entry age 36, W-2 \$42K

- Eligibility for death benefit (under 10 rules)

- » All employees

- Amount of death benefit (non-discrimination rules)

- » 7.5 times compensation

- Entry age funding begins

- » Age 49 or 15 years of service

- Plan designated conversion age

- » Age 59 or 10 year minimum

Section 79 GEAR

- Sample cases
 - Dr. Williams, Inc.
 - Case Illustration, Adobe Acrobat



Security Financial Life

Section 79 GEAR



A Proposal For:

Dr. Williams, Inc.

Presented By:

Security Financial Life

GENERAL PLAN DESCRIPTION

Section 79 GEAR is a group insurance plan that provides valuable death protection during covered employees' working years and the additional option to continue their coverage by exercising an entry-age (age on date of hire) conversion privilege. The entry-age conversion privilege allows the opportunity for affordable postretirement life insurance protection.

With a more typical type of coverage, departing employees usually have only two options:

1. Convert their group insurance to an individual policy and pay premiums based on their current or attained age (age on date of separation/retirement).
2. Stop insurance coverage altogether. (Over 98 percent of covered employees elect this option.)

With Section 79 GEAR, employees have a unique third choice. What makes this additional choice so powerful is that post-conversion premiums are calculated based on the employee's age when employment began (entry age) with the employer, not current age (attained age).

Employee savings can be substantial!

To qualify for the tax advantages*, the employer's plan must:

1. Be a non-discriminatory plan of group life insurance as determined by Section 79 of the Internal Revenue Code; and
2. Meet the State statutory requirements for group life insurance of the applicable jurisdiction.

Security Financial Life administers a trust located at the UMB Bank in Kansas City, Missouri. Each employer will complete a Joinder Agreement to be a part of that trust.

The trust serves two purposes:

1. IRC Sec. 79 requires an employer to have a "written" plan document. The trust is that document.
2. Each employer's plan must meet State laws for group life insurance. The state of jurisdiction for IRS purposes is the state where the master contract is domiciled. By having the master contract owned by the trust, the state of jurisdiction is Missouri. Missouri statutes place no maximum limit on the amount of death benefit, and permit plans for employers with as few as one employee. Other state laws vary widely.

All premiums are paid directly to the insurance company and all benefits are paid by the insurance company directly to the beneficiaries. The trust is not required to handle funds.

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EMPLOYER TAXATION*

For the benefits to qualify as “a plan of group life insurance” under Section 79, the plan must be non-discriminatory both as to eligibility and benefits. Employer payments for Section 79 GEAR coverage are made up of both annually renewable term insurance and additional contributions to a premium stabilization reserve used to stabilize mortality and conversion costs that may occur throughout the life of the plan.

Payments made on behalf of the covered employees are not considered taxable income* to the employee. (Note: For insurance amounts over \$50,000, there is a Uniform Premium Table charge to the employee's income; see page 4.)

If Plan setup, participation and administration are done properly, Section 79 GEAR may be considered a tax-deductible* employer provided benefit under the Internal Revenue Code (IRC).*

IRC Section 162 provides that “**Business expenses deductible from gross income include the ordinary and necessary expenditures directly connected with or pertaining to the taxpayer's trade or business.** An expense is necessary if the facts and circumstances establish that it is appropriate and helpful for the development of the taxpayer's business.” An expense need not be essential to qualify as necessary. (Emphasis added)

ELIGIBILITY

The plan should cover all full-time employees. A waiting period is permitted, not to exceed 6 months if less than 10 employees are covered, or 3 years if 10 or more are covered. If all full time employees are not covered, the plan may still be non-discriminatory if at least 85% of those who are covered are not key employees.

BENEFITS

The plan is non-discriminatory if the amount of the death benefit is a flat amount for all employees, or the amount is a uniform percent of compensation. Also, amounts based on classes may be found to qualify by the Secretary of the Treasury.

FUNDING

To preserve actuarial soundness, funding for the conversion reserve may be delayed to recognize that all employees do not stay until their conversion date. The employer may choose not to start funding until a selected age or years of service. Funding must be levelized from the starting date to the conversion date. Funding may extend past the normal conversion date to spread the cost for older employees.

*The deductibility of contributions made to the plan, and the taxation of such contributions to controlling shareholders or employees, will ultimately depend upon the facts and circumstances surrounding each employer's participation in the plan. Security Financial Life does not provide legal, tax or ERISA advice and does not authorize any of its agents to provide such advice. ***All questions of a tax or legal nature should be referred to your independent legal or tax advisers.***

EMPLOYEE TAXATION*

IRC section 79 provides the general rule stating “there shall be included in the gross income of an employee for the taxable year an amount equal to the cost of group-term life insurance on his life provided for part or all of such year under a policy (or policies) carried directly or indirectly by his employer (or employers); **but only to the extent that such cost exceeds the sum of:**

- 1. The cost of \$50,000 of such insurance, and**
- 2. The amount (if any) paid by the employee toward the purchase of such insurance.** (Emphasis supplied)

Therefore, all employees receiving Section 79 GEAR death protection in excess of \$50,000 must recognize a “charge to income” (extra income that must be included on the employee’s year end W-2). The amount of the charge is quantified in The Uniform Premium Table (shown below) and will apply to group insurance coverage that exceeds \$50,000.

For example, a 50-year-old employee receiving \$150,000 of Section 79 GEAR coverage, \$100,000 in excess of \$50,000, would be required to report an additional \$276 ($.23 \times 12 \times 100 = \276) of taxable income on the year-end W-2. In a 30 percent tax bracket, the net cost to the individual would be approximately \$83 ($.3 \times 276 = \83) in additional tax liability.*

Table I. - Uniform Premium Table	
5-year age bracket	Cost per \$1,000.00 of protection per 1-month period
Under 25	\$0.05
25 to 29	\$0.06
30 to 34	\$0.08
35 to 39	\$0.09
40 to 44	\$0.10
45 to 49	\$0.15
50 to 54	\$0.23
55 to 59	\$0.43
60 to 64	\$0.66
65 to 69	\$1.27
70 and above	\$2.06
Uniform premiums for \$1,000.00 of group term life insurance protection	

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EMPLOYER SUMMARY

FOR Dr Williams Inc

GROUP INSURANCE PLAN

GENERAL:

RUN DATE: 07-14-2003
EFFECTIVE DATE: 07-14-2003
NORMAL CONVERSION AGE: 59

PRE-CONVERSION COVERAGE:

INSURANCE TYPE: SFL ART
COVERAGE FORMULA: 7.500 TIMES COMPENSATION
MINIMUM AMOUNT: \$0
MAXIMUM AMOUNT: \$0
NUMBER OF PARTICIPANTS: 2

POST-CONVERSION PLAN:

POST-CONVERSION BENEFIT: Retirement Life
COVERAGE FORMULA: 7.500 TIMES COMPENSATION
MINIMUM AMOUNT: \$0
MAXIMUM AMOUNT: \$0
NUMBER OF PARTICIPANTS: 2

DEPOSIT FUNDING:

BEGINS: EARLIER OF AGE 49 OR 15 YRS SERVICE
ASSUMED RESERVE INTEREST: 5.500%
PAST SERVICE CREDIT: NO MAXIMUM YEARS
MINIMUM FUNDING YEARS: 10
RESERVE PLAN: 1
CURRENT PARTICIPANTS FUNDED: 1

ILLUSTRATION SYSTEM
VERSION DATE
01-01-03

SECURITY FINANCIAL LIFE
P.O. BOX 82248
LINCOLN, NE 68501
(402)/434-9500

REPRESENTATIVE:
Security Financial Life
Hypothetical Illustration
Example Purposes Only

EMPLOYER SUMMARY
Employee Census & Underwriting

RUN DATE: 07-14-2003
EFF DATE: 07-14-2003

EMPLOYER: Dr Williams Inc

EMPLOYEE	CURRENT		ENTRY		COMP	SEX	UND		EXTRA PREM
	D-O-B	AGE	D-O-H	AGE			CLASS	TBL	
Dr Williams		48		32	450000	M	NT	0	
Chris Wilson		41		36	42000	M	NT	0	

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EMPLOYER SUMMARY
PRE-CONVERSION EXPENSES

RUN DATE: 07-14-2003
EFF DATE: 07-14-2003

EMPLOYER: Dr Williams Inc

YEAR	GROUP INS. PD. EMPLOYER*	RESERVE ANNUAL DEPOSIT**	TOTAL ANNUAL COST	RESERVE ACCUM VALUE**
1	8668	101316	109984	10685
2	9108	101316	110424	80728
3	9238	101316	110554	178132
4	9305	101316	110621	280892
5	9536	101316	110852	389305
6	9697	101316	111013	507954
7	10483	101316	111799	633129
8	11297	101316	112613	765188
9	11966	111119	123085	906573
10	12447	111119	123566	1060682
TOTAL	101746	1032764	1134510	1060682
11	12638	111119	123757	1225328
12	885	9803	10689	28866
13	898	9803	10701	39525
14	972	9803	10775	51080
15	1048	9803	10851	63270
16	1110	9803	10913	76131
17	1158	9803	10961	89699
18	1179	9803	10982	104013
19	0	0	0	0
20	0	0	0	0
TOTAL	121632	1212506	1334139	0

Group insurance premiums are subject to change with Company experience.*

** Reserve deposits assume 5.500% interest (interest above 4% not guaranteed).

Number of employees in the group in first year 2.

Based on Fringe Benefit Administrator's interpretation of the Internal Revenue Code as of the Version Date below. All questions of a tax nature need to be reviewed by your tax advisor.

THIS IS AN ILLUSTRATION ONLY

ILLUSTRATION SYSTEM
VERSION DATE
01-01-03

SECURITY FINANCIAL LIFE
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EMPLOYER SUMMARY
GROUP INSURANCE COVERAGE

RUN DATE: 07-14-2003
EFF DATE: 07-14-2003

EMPLOYER: Dr Williams Inc

EMPLOYEE	CLASS	RESERVE DEPOSIT		----- INSURANCE COVERAGE-----			
		IN	START YR	PRE-CONVERSION		POST-CONVERSION	
		YEAR	COST	AMOUNT	POLICY	AMOUNT	POLICY
Dr Williams	NT	2003	101316	3375000	ART	3375000	L85
Chris Wilson	NT	2011	9803	315000	ART	315000	L85

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EMPLOYER SUMMARY
GROUP LIFE & RESERVE SUMMARY

RUN DATE: 07-14-2003
EFF DATE: 07-14-2003

EMPLOYER: Dr Williams Inc

EMPLOYEE	INS AMOUNT	FIRST YEAR COSTS		----- RESERVE VALUES -----		
		1st YR TERM/ * RESERVE	DEPOSIT START YEAR	FIRST	FIFTH	FINAL
Dr Williams	3375000	109456		10685	389305	1206567
Chris Wilson	315000	528	2011#	2062	39525	104013
TOTAL		109984				

No. employees in Group - 2
No. employees funded in 1st yr - 1
FIRST YE

Funding begins after the first year. See Group Insurance Coverage for the entry age benefit cost.

* First year deposit amounts are for the Reserve Deposit and Term.

PLAN DESIGN:
CONVERSION AGE 59
RESERVE PLAN 1
FUNDING BEGINS AT AGE 49, OR AFTER 15 YRS SVC IF EARLIER
PRE-CONVERSION ART INCLUDED
ASSUMED INT. FOR RESERVE 5.500%
MINIMUM FUNDING YEARS 10
7.500 TIMES COMP
EFF DATE: 07-14-2003

ILLUSTRATION SYSTEM
VERSION DATE
01-01-03

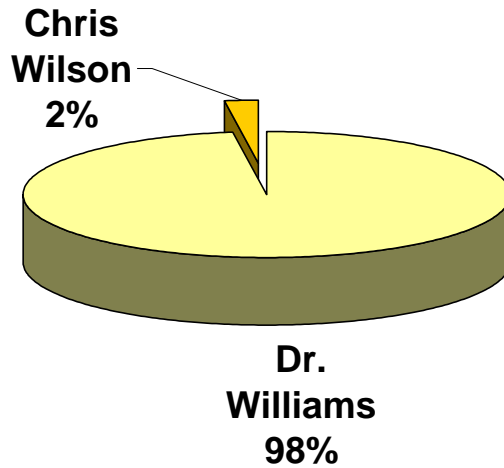
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PreConversion 10 year Cost/Benefit Breakdown for Dr. Williams, Inc.

Name	Dr. Williams	Chris Wilson	TOTAL
Term Protection	7.5x's Compensation	7.5x's Compensation	
Conversion Age	59/10 yr min	59/10 yr min	
Cost Yr 1	\$ 109,456	\$ 528	\$ 109,984
Cost Yr 2	\$ 109,849	\$ 575	\$ 110,424
Cost Yr 3	\$ 109,962	\$ 592	\$ 110,554
Cost Yr 4	\$ 110,014	\$ 607	\$ 110,621
Cost Yr 5	\$ 110,182	\$ 670	\$ 110,852
Cost Yr 6	\$ 110,295	\$ 718	\$ 111,013
Cost Yr 7	\$ 111,050	\$ 749	\$ 111,799
Cost Yr 8	\$ 111,817	\$ 796	\$ 112,613
Cost Yr 9	\$ 112,438	\$ 10,647	\$ 123,085
Cost Yr 10	\$ 112,903	\$ 10,663	\$ 123,566
TOTAL	\$ 1,107,966	\$ 26,545	\$ 1,134,511

Summary	% of Total
Dr. Williams	98%
Chris Wilson	2%



Security Financial Life Insurance Co.
 Supplemental Illustration: Conversion Policy
 Annual Premiums and Benefits

Prepared by:	Coverage Summary	Amount	Premium
Security Financial Life	Life Paid Up at 85 - L85 #	3375000	38177.50
	Conversion Age: 59		
Prepared For:	Current Age: 48	Funding Age: 48	
Dr Williams	Entry Age: 32	Dividend Option: W	
Male Age 59 - Non-Tobacco			

		--- Guaranteed Basis ----				----- Non Guaranteed Illustrated Basis -----			
Yr	Age	Contract Premium	Surr Outlay	Death Value	Premium Benefit	Annual Dividend	Surr Value	Death Benefit	
1	60	149,215	149,215	0	3375000	38,178	0	0	3375000
2	61	149,215	149,215	1755	3375000	38,178	57915	59670	3486510
3	62	149,215	149,215	105739	3375000	0<	58624	184646	3522825
4	63	149,215	149,215	210600	3375000	0<	59366	311816	3559579
5	64	149,215	149,215	316170	3375000	0<	60176	441045	3596873
6	65	149,215	149,215	422213	3375000	0<	61020	572164	3634706
7	66	149,215	149,215	528728	3375000	0<	61931	705240	3673215
8	67	149,215	149,215	635850	3375000	0<	62910	840510	3712466
9	68	149,215	149,215	743715	3375000	0<	63990	978176	3752561
10	69	149,215	149,215	852458	3375000	0<	65104	1118408	3793500
11	70	149,215	149,215	962044	3375000	0<	66285	1261305	3835384
12	71	149,215	149,215	1072271	3375000	0<	67568	1406734	3878348
13	72	149,215	149,215	1182803	3375000	0<	68918	1554356	3922425
14	73	149,215	149,215	1293334	3375000	0<	70369	1716930	3980678
15	74	149,215	149,215	1403561	3375000	0<	71989	1883453	4042609
16	75	149,215	149,215	1513688	3375000	0<	73710	2054261	4108320
17	76	149,215	149,215	1624320	3375000	0<	75465	2229930	4177811
18	77	149,215	149,215	1736370	3375000	0<	77288	2411539	4251251
19	78	149,215	149,215	1851323	3375000	0<	79043	2600640	4328640
20	79	149,215	149,215	1970730	3375000	0<	80798	2799056	4410113
21	80	149,215	149,215	2085480	3375000	0<	82654	2976311	4474305
22	81	149,215	149,215	2206744	3375000	0<	84510	3162847	4540522
23	82	149,215	149,215	2336614	3375000	0<	86704	3361095	4609271
24	83	149,215	149,215	2478161	3375000	0<	88965	3574395	4680889
25	84	149,215	149,215	2636111	3375000	0<	91530	3807911	4756016
26	85	149,215	149,215	2817720	3375000	0<	93859	4069136	4834890
27	86	0	0	2848871	3375000	0	143471	4243354	4992806
28	87	0	0	2878639	3375000	0	148973	4422263	5155009
29	88	0	0	2907293	3375000	0	153596	4605323	5320485
30	89	0	0	2935373	3375000	0	159435	4794593	5490686
31	90	0	0	2963385	3375000	0	165578	4991085	5665815
32	91	0	0	2992039	3375000	0	170269	5194665	5844218
33	92	0	0	3022144	3375000	0	175061	5406885	6025826
34	93	0	0	3054713	3375000	0	177761	5627610	6208077
35	94	0	0	3090690	3375000	0	181744	5860181	6392149

Security Financial Life Insurance Co.
 Supplemental Illustration: Conversion Policy
 Annual Premiums and Benefits

Prepared by:	Coverage Summary	Amount	Premium
Security Financial Life	Life Paid Up at 85 - L85 #	3375000	38177.50
	Conversion Age: 59		
Prepared For:	Current Age: 48	Funding Age: 48	
Dr Williams	Entry Age: 32	Dividend Option: W	
Male Age 59 - Non-Tobacco			

Yr	Age	Contract Premium	--- Guaranteed Basis ----			Non Guaranteed Illustrated Basis -----			
			Premium Outlay	Surr Value	Death Benefit	Premium Outlay	Annual Dividend	Surr Value	Death Benefit
36	95	0	0	3130684	3375000	0	187785	6108143	6579934
37	96	0	0	3174491	3375000	0	200205	6377974	6777810
38	97	0	0	3220628	3375000	0	218936	6673489	6991819
39	98	0	0	3265549	3375000	0	240671	6990942	7224693
40	99	0	0	3301796	3375000	0	262069	7314064	7476233
41	100	0	0	3375000	3375000	0	199429	7675661	7675661

< Premium outlay assumes that dividends are being used to pay premiums. The policy is not paid-up. If dividends are less than illustrated, additional payments would be required.

Assumes required reserve deposits were made prior to conversion. Premium can change as determined by Trust Administrator.

All values are based on the conversion policy currently in use. Actual values will depend on the policy in use at time of conversion.

Security Financial Life Insurance Co.
 Supplemental Illustration: Conversion Policy
 Annual Premiums and Benefits

Prepared by:	Coverage Summary	Amount	Premium
Security Financial Life	Life Paid Up at 85 - C85 #	1617020	18312.33
	Conversion Age: 59		
Prepared For:	Current Age: 48	Funding Age: 48	
Dr Williams	Entry Age: 32	Dividend Option: V	
Male Age 59 - Non-Tobacco			

		--- Guaranteed Basis ----				----- Non Guaranteed Illustrated Basis -----			
Yr	Age	Contract Premium	Surr Outlay	Death Value	Benefit	Premium Outlay	Annual Dividend	Surr Value	Death Benefit
1	60	71,512	71,512	0	1617020	18,312	0	0	1617020
2	61	71,512	71,512	841	1617020	18,312	92574	93415	1709594
3	62	71,512	71,512	50661	1617020	0<	97959	222882	1789241
4	63	71,512	71,512	100902	1617020	0<	103732	358543	1874661
5	64	71,512	71,512	151482	1617020	0<	109925	500736	1966273
6	65	71,512	71,512	202289	1617020	0<	116571	649801	2064532
7	66	71,512	71,512	253322	1617020	0<	123686	806208	2169905
8	67	71,512	71,512	304647	1617020	0<	131334	970554	2282928
9	68	71,512	71,512	356327	1617020	0<	139533	1143454	2404148
10	69	71,512	71,512	408427	1617020	0<	148313	1325556	2534149
11	70	71,512	71,512	460932	1617020	0<	157740	1517488	2673577
12	71	71,512	71,512	513743	1617020	0<	167847	1719835	2823111
13	72	71,512	71,512	566701	1617020	0<	178681	1933160	2983479
14	73	71,512	71,512	619658	1617020	0<	190307	2164306	3161667
15	74	71,512	71,512	672470	1617020	0<	202791	2408856	3404019
16	75	71,512	71,512	725233	1617020	0<	211975	2665890	3695188
17	76	71,512	71,512	778239	1617020	0<	218330	2934615	3993795
18	77	71,512	71,512	831925	1617020	0<	224847	3215661	4300536
19	78	71,512	71,512	887000	1617020	0<	231153	3509612	4615992
20	79	71,512	71,512	944210	1617020	0<	237088	3817112	4940521
21	80	71,512	71,512	999189	1617020	0<	242747	4123417	5257934
22	81	71,512	71,512	1057289	1617020	0<	248342	4442900	5584306
23	82	71,512	71,512	1119512	1617020	0<	253856	4776516	5921252
24	83	71,512	71,512	1187329	1617020	0<	258400	5124782	6270279
25	84	71,512	71,512	1263006	1617020	0<	262022	5489219	6633729
26	85	71,512	71,512	1350018	1617020	0<	262103	5870132	7012411
27	86	0	0	1364943	1617020	0	215727	6143942	7262224
28	87	0	0	1379205	1617020	0	224006	6425245	7518868
29	88	0	0	1392934	1617020	0	230975	6713205	7780858
30	89	0	0	1406387	1617020	0	239707	7010720	8050173
31	90	0	0	1419808	1617020	0	249005	7319522	8327330
32	91	0	0	1433537	1617020	0	256007	7639142	8609565
33	92	0	0	1447961	1617020	0	263251	7972006	8896877
34	93	0	0	1463565	1617020	0	267358	8317952	9185482
35	94	0	0	1480802	1617020	0	273341	8681844	9477080

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 Supplemental Illustration: Conversion Policy
 Annual Premiums and Benefits

Prepared by:	Coverage Summary	Amount	Premium
Security Financial Life	Life Paid Up at 85 - C85 #	1617020	18312.33
	Conversion Age: 59		
Prepared For:	Current Age: 48	Funding Age: 48	
Dr Williams	Entry Age: 32	Dividend Option: V	
Male Age 59 - Non-Tobacco			

		--- Guaranteed Basis ----				----- Non Guaranteed Illustrated Basis -----			
Yr	Age	Contract Premium	Outlay	Surr Value	Death Benefit	Premium Outlay	Annual Dividend	Surr Value	Death Benefit
36	95	0	0	1499964	1617020	0	282413	9069121	9774530
37	96	0	0	1520953	1617020	0	301057	9489466	10087408
38	97	0	0	1543058	1617020	0	329144	9948813	10424944
39	98	0	0	1564580	1617020	0	361695	10441450	10791151
40	99	0	0	1581947	1617020	0	393761	10943200	11185816
41	100	0	0	1617020	1617020	0	300119	11485940	11485935

< Premium outlay assumes that dividends are being used to pay premiums. The policy is not paid-up. If dividends are less than illustrated, additional payments would be required.

Assumes required reserve deposits were made prior to conversion. Premium can change as determined by Trust Administrator. Employee must waive insurance at conversion.

All values are based on the conversion policy currently in use. Actual values will depend on the policy in use at time of conversion.

Security Financial Life Insurance Co.
Supplemental Illustration: Employee Pre-Conversion

FOR: Chris Wilson
 Male 41 - Non-Tobacco
 Conversion Age 59
 Funding Begins at Age 49
 Funding Period 10 Years
 Entry Age 36

	Coverage	Amount	First Yr Premium
	Group Term	315000	528.25
	2011 GEAR Deposit	315000	9803.30

Yr/ Age	Group Ins. Pd Employer*	Reserve Annual Deposits**	Total Annual Cost*	Reserve Accum Value**	Reported As Inc.+	Tax Cost In 30 % Tax Brac
1	528		528		318	95
2	576		576		318	95
3	591		591		318	95
4	607		607		318	95
5	670		670		477	143
6	717		717		477	143
7	749		749		477	143
8	796		796		477	143
9	843	9803	10647	2062	477	143
10	860	9803	10664	9185	731	219
Total	6937	19607	26544	9185	4388	1317
11	868	9803	10672	18762	731	219
12	885	9803	10689	28866	731	219
13	898	9803	10701	39525	731	219
14	972	9803	10775	51080	731	219
15	1048	9803	10851	63270	1074	322
16	1110	9803	10913	76131	1193	358
17	1158	9803	10961	89699	1312	394
18	1179	9803	10982	104013	1367	410
Total	15055	98033	113088	104013	12260	3678
Total @59	15055	98033	113088	104013	12260	3678

If Group Plan is discriminatory, "Group Ins. Pd Employer" is income to employee instead of "Reported As Inc.".

* Group Term premiums not guaranteed. Refer to the Narrative Summary for an explanation of non-guaranteed elements. If the reserve deposits are not paid annually, as shown, the term costs could change.

** This illustration is based on 5.500% interest. A rate above 4.00% is not guaranteed.

+ Amount reported as income to employee for amounts of insurance over \$50,000 required by IRC. Amount shown is lower of Table I or term premium and is for illustration only. Actual charges may be different. Based on Fringe Benefit Administrators interpretation of the Internal Revenue Code as of the version date below. All questions of a tax nature need to be reviewed by your tax advisor.

Security Financial Life Insurance Co.
 Supplemental Illustration: Conversion Policy
 Annual Premiums and Benefits

Prepared by:	Coverage Summary	Amount	Premium
Security Financial Life	Life Paid Up at 85 - L85 #	315000	4292.50
	Conversion Age: 59		
Prepared For:	Current Age: 41	Funding Age: 49	
Chris Wilson	Entry Age: 36	Dividend Option: W	
Male Age 59 - Non-Tobacco			

		--- Guaranteed Basis ---				----- Non Guaranteed Illustrated Basis -----			
Yr	Age	Contract Premium	Premium Outlay	Surr Value	Death Benefit	Premium Outlay	Annual Dividend	Surr Value	Death Benefit
1	60	13,963	13,963	0	315000	4,293	0	0	315000
2	61	13,963	13,963	164	315000	4,293	5226	5390	325061
3	62	13,963	13,963	9869	315000	0<	5261	16090	326652
4	63	13,963	13,963	19656	315000	0<	5295	26933	328268
5	64	13,963	13,963	29509	315000	0<	5333	37904	329915
6	65	13,963	13,963	39407	315000	0<	5374	48989	331597
7	66	13,963	13,963	49348	315000	0<	5418	60190	333317
8	67	13,963	13,963	59346	315000	0<	5462	71518	335072
9	68	13,963	13,963	69413	315000	0<	5513	82993	336870
10	69	13,963	13,963	79563	315000	0<	5566	94632	338713
11	70	13,963	13,963	89791	315000	0<	5623	106439	340610
12	71	13,963	13,963	100079	315000	0<	5683	118390	342559
13	72	13,963	13,963	110395	315000	0<	5746	130460	344563
14	73	13,963	13,963	120711	315000	0<	5815	143832	347839
15	74	13,963	13,963	130999	315000	0<	5894	157484	351398
16	75	13,963	13,963	141278	315000	0<	5972	171429	355238
17	76	13,963	13,963	151603	315000	0<	6057	185733	359368
18	77	13,963	13,963	162061	315000	0<	6143	200488	363790
19	78	13,963	13,963	172790	315000	0<	6224	215844	368515
20	79	13,963	13,963	183935	315000	0<	6309	231963	373555
21	80	13,963	13,963	194645	315000	0<	6398	245999	376913
22	81	13,963	13,963	205963	315000	0<	6486	260798	380394
23	82	13,963	13,963	218084	315000	0<	6587	276570	384017
24	83	13,963	13,963	231295	315000	0<	6697	293634	387822
25	84	13,963	13,963	246037	315000	0<	6817	312458	391847
26	85	13,963	13,963	262987	315000	0<	6927	333761	396131
27	86	0	0	265895	315000	0	11664	347788	408826
28	87	0	0	268673	315000	0	12112	362190	421864
29	88	0	0	271347	315000	0	12490	376929	435166
30	89	0	0	273968	315000	0	12962	392162	448844
31	90	0	0	276583	315000	0	13463	407985	462924
32	91	0	0	279257	315000	0	13844	424377	477266
33	92	0	0	282067	315000	0	14232	441469	491863
34	93	0	0	285107	315000	0	14452	459254	506511
35	94	0	0	288464	315000	0	14777	478000	521306

Security Financial Life Insurance Co.
 Supplemental Illustration: Conversion Policy
 Annual Premiums and Benefits

Prepared by:	Coverage Summary	Amount	Premium
Security Financial Life	Life Paid Up at 85 - L85 #	315000	4292.50
	Conversion Age: 59		
Prepared For:	Current Age: 41	Funding Age: 49	
Chris Wilson	Entry Age: 36	Dividend Option: W	
Male Age 59 - Non-Tobacco			

		--- Guaranteed Basis ----				Non Guaranteed ----- Illustrated Basis -----			
Yr	Age	Contract Premium	Premium Outlay	Surr Value	Death Benefit	Premium Outlay	Annual Dividend	Surr Value	Death Benefit
36	95	0	0	292197	315000	0	15265	497987	536395
37	96	0	0	296286	315000	0	16279	519753	552302
38	97	0	0	300592	315000	0	17801	543605	569517
39	98	0	0	304785	315000	0	19571	569233	588263
40	99	0	0	308168	315000	0	21310	595322	608520
41	100	0	0	315000	315000	0	16213	624733	624733

< Premium outlay assumes that dividends are being used to pay premiums. The policy is not paid-up. If dividends are less than illustrated, additional payments would be required.

Assumes required reserve deposits were made prior to conversion. Premium can change as determined by Trust Administrator.

All values are based on the conversion policy currently in use. Actual values will depend on the policy in use at time of conversion.

Security Financial Life Insurance Co.
Supplemental Illustration: Employee Pre-Conversion

FOR: Chris Wilson
 Male 41 - Non-Tobacco
 Conversion Age 59
 Funding Begins at Age 49
 Funding Period 10 Years
 Entry Age 36

	Coverage	Amount	First Yr Premium
	Group Term	315000	528.25
	2011 GEAR Deposit	315000	9804.70

Yr/ Age	Group Ins. Pd Employer*	Reserve Annual Deposits**	Total Annual Cost*	Reserve Accum Value**	Reported As Inc.+	Tax Cost In 30 % Tax Brac
1	528		528		318	95
2	576		576		318	95
3	591		591		318	95
4	607		607		318	95
5	670		670		477	143
6	717		717		477	143
7	749		749		477	143
8	796		796		477	143
9	843	9805	10648	2062	477	143
10	860	9805	10665	9186	731	219
Total	6937	19609	26547	9186	4388	1317
11	868	9805	10673	18765	731	219
12	885	9805	10690	28870	731	219
13	898	9805	10702	39530	731	219
14	972	9805	10777	51087	731	219
15	1048	9805	10852	63279	1074	322
16	1110	9805	10915	76142	1193	358
17	1158	9805	10962	89712	1312	394
18	1179	9805	10983	104028	1367	410
Total	15054	98047	113101	104028	12260	3678
Total @59	15054	98047	113101	104028	12260	3678

If Group Plan is discriminatory, "Group Ins. Pd Employer" is income to employee instead of "Reported As Inc.".

* Group Term premiums not guaranteed. Refer to the Narrative Summary for an explanation of non-guaranteed elements. If the reserve deposits are not paid annually, as shown, the term costs could change.

** This illustration is based on 5.500% interest. A rate above 4.00% is not guaranteed.

+ Amount reported as income to employee for amounts of insurance over \$50,000 required by IRC. Amount shown is lower of Table I or term premium and is for illustration only. Actual charges may be different. Based on Fringe Benefit Administrators interpretation of the Internal Revenue Code as of the version date below. All questions of a tax nature need to be reviewed by your tax advisor.

Security Financial Life Insurance Co.
 Supplemental Illustration: Conversion Policy
 Annual Premiums and Benefits

Prepared by:	Coverage Summary	Amount	Premium
Security Financial Life	Life Paid Up at 85 - C85 #	139391	1921.78
	Conversion Age: 59		
Prepared For:	Current Age: 41	Funding Age: 49	
Chris Wilson	Entry Age: 36	Dividend Option: V	
Male Age 59 - Non-Tobacco			

		--- Guaranteed Basis ----				----- Non Guaranteed Illustrated Basis -----			
Yr	Age	Contract Premium	Surr Outlay	Death Value	Death Benefit	Premium Outlay	Annual Dividend	Surr Value	Death Benefit
1	60	6,201	6,201	0	139391	1,922	0	0	139391
2	61	6,201	6,201	72	139391	1,922	8274	8347	147665
3	62	6,201	6,201	4367	139391	0<	8734	19454	154478
4	63	6,201	6,201	8698	139391	0<	9229	31092	161785
5	64	6,201	6,201	13058	139391	0<	9759	43289	169622
6	65	6,201	6,201	17438	139391	0<	10326	56073	178026
7	66	6,201	6,201	21837	139391	0<	10937	69487	187041
8	67	6,201	6,201	26261	139391	0<	11589	83579	196708
9	68	6,201	6,201	30716	139391	0<	12290	98402	207077
10	69	6,201	6,201	35207	139391	0<	13043	114014	218198
11	70	6,201	6,201	39733	139391	0<	13849	130467	230124
12	71	6,201	6,201	44286	139391	0<	14713	147810	242915
13	72	6,201	6,201	48851	139391	0<	15641	166095	256635
14	73	6,201	6,201	53416	139391	0<	16635	185907	271882
15	74	6,201	6,201	57969	139391	0<	17701	206865	292325
16	75	6,201	6,201	62517	139391	0<	18513	228904	317281
17	76	6,201	6,201	67086	139391	0<	19055	251943	342872
18	77	6,201	6,201	71714	139391	0<	19611	276037	369160
19	78	6,201	6,201	76462	139391	0<	20152	301241	396198
20	79	6,201	6,201	81393	139391	0<	20658	327603	424011
21	80	6,201	6,201	86133	139391	0<	21140	353858	451210
22	81	6,201	6,201	91141	139391	0<	21617	381239	479173
23	82	6,201	6,201	96505	139391	0<	22087	409834	508047
24	83	6,201	6,201	102351	139391	0<	22471	439683	537954
25	84	6,201	6,201	108874	139391	0<	22776	470917	569097
26	85	6,201	6,201	116375	139391	0<	22778	503569	601552
27	86	0	0	117661	139391	0	18506	527055	622978
28	87	0	0	118891	139391	0	19214	551180	644989
29	88	0	0	120074	139391	0	19812	575877	667459
30	89	0	0	121234	139391	0	20562	601396	690558
31	90	0	0	122391	139391	0	21359	627881	714329
32	91	0	0	123574	139391	0	21960	655294	738534
33	92	0	0	124818	139391	0	22580	683843	763176
34	93	0	0	126163	139391	0	22934	713515	787930
35	94	0	0	127649	139391	0	23447	744727	812941

Security Financial Life Insurance Co.
 Supplemental Illustration: Conversion Policy
 Annual Premiums and Benefits

Prepared by:	Coverage Summary	Amount	Premium
Security Financial Life	Life Paid Up at 85 - C85 #	139391	1921.78
	Conversion Age: 59		
Prepared For:	Current Age: 41	Funding Age: 49	
Chris Wilson	Entry Age: 36	Dividend Option: V	
Male Age 59 - Non-Tobacco			

		--- Guaranteed Basis ----				----- Non Guaranteed Illustrated Basis -----			
Yr	Age	Contract Premium	Premium Outlay	Surr Value	Death Benefit	Premium Outlay	Annual Dividend	Surr Value	Death Benefit
36	95	0	0	129301	139391	0	24225	777943	838451
37	96	0	0	131110	139391	0	25824	813998	865288
38	97	0	0	133015	139391	0	28232	853395	894237
39	98	0	0	134871	139391	0	31024	895649	925646
40	99	0	0	136368	139391	0	33774	938683	959494
41	100	0	0	139391	139391	0	25744	985238	985238

< Premium outlay assumes that dividends are being used to pay premiums. The policy is not paid-up. If dividends are less than illustrated, additional payments would be required.

Assumes required reserve deposits were made prior to conversion. Premium can change as determined by Trust Administrator. Employee must waive insurance at conversion.

All values are based on the conversion policy currently in use. Actual values will depend on the policy in use at time of conversion.

Section 79 GEAR

Sample cases

- Constantly Green, Inc.
 - Employee census
 - » Bill, age 51, entry age 39, W-2 \$72K
 - » Sam, age 50, entry age 38, W-2 \$72K
 - » Jane, age 29, entry age 26, W-2 \$32K
 - » Wilma, age 28, entry age 25, W-2 \$29K
 - » Steve, age 37, entry age 36, W-2 \$38K
 - » Judy, age 42, entry age 38, W-2 \$31K
 - » Nancy, age 23, entry age 22, W-2 \$18K
 - » Aaron, age 21, entry age 20, W-2 \$16.5K
 - » Jim, age 29, entry age 24, W-2 \$28K
 - » Carl, age 41, entry age 39, W-2 \$34K

Section 79 GEAR

Sample cases

- Constantly Green, Inc.
 - Eligibility for death benefit (over 10 rules)
 - » All employees
 - Amount of death benefit (non-discrimination rules)
 - » Class plan (structure 100%, 40%, 16%, 10%)
 - Entry age funding begins
 - » Age 54 or 10 years of service
 - Plan designated conversion age
 - » Age 64 or 10 year minimum

Section 79 GEAR

- Sample cases
 - Constantly Green, Inc.
 - Case Illustration, Adobe Acrobat



Security Financial Life

Section 79 GEAR



A Proposal For:

Constantly Green, Inc.

Presented By:

Security Financial Life

GENERAL PLAN DESCRIPTION

Section 79 GEAR is a group insurance plan that provides valuable death protection during covered employees' working years and the additional option to continue their coverage by exercising an entry-age (age on date of hire) conversion privilege. The entry-age conversion privilege allows the opportunity for affordable postretirement life insurance protection.

With a more typical type of coverage, departing employees usually have only two options:

1. Convert their group insurance to an individual policy and pay premiums based on their current or attained age (age on date of separation/retirement).
2. Stop insurance coverage altogether. (Over 98 percent of covered employees elect this option.)

With Section 79 GEAR, employees have a unique third choice. What makes this additional choice so powerful is that post-conversion premiums are calculated based on the employee's age when employment began (entry age) with the employer, not current age (attained age).

Employee savings can be substantial!

To qualify for the tax advantages*, the employer's plan must:

1. Be a non-discriminatory plan of group life insurance as determined by Section 79 of the Internal Revenue Code; and
2. Meet the State statutory requirements for group life insurance of the applicable jurisdiction.

Security Financial Life administers a trust located at the UMB Bank in Kansas City, Missouri. Each employer will complete a Joinder Agreement to be a part of that trust.

The trust serves two purposes:

1. IRC Sec. 79 requires an employer to have a "written" plan document. The trust is that document.
2. Each employer's plan must meet State laws for group life insurance. The state of jurisdiction for IRS purposes is the state where the master contract is domiciled. By having the master contract owned by the trust, the state of jurisdiction is Missouri. Missouri statutes place no maximum limit on the amount of death benefit, and permit plans for employers with as few as one employee. Other state laws vary widely.

All premiums are paid directly to the insurance company and all benefits are paid by the insurance company directly to the beneficiaries. The trust is not required to handle funds.

*The deductibility of contributions made to the plan, and the taxation of such contributions to controlling shareholders or employees, will ultimately depend upon the facts and circumstances surrounding each employer's participation in the plan. Security Financial Life does not provide legal, tax or ERISA advice and does not authorize any of its agents to provide such advice. ***All questions of a tax or legal nature should be referred to your independent legal or tax advisers.***

EMPLOYER TAXATION*

For the benefits to qualify as “a plan of group life insurance” under Section 79, the plan must be non-discriminatory both as to eligibility and benefits. Employer payments for Section 79 GEAR coverage are made up of both annually renewable term insurance and additional contributions to a premium stabilization reserve used to stabilize mortality and conversion costs that may occur throughout the life of the plan.

Payments made on behalf of the covered employees are not considered taxable income* to the employee. (Note: For insurance amounts over \$50,000, there is a Uniform Premium Table charge to the employee's income; see page 4.)

If Plan setup, participation and administration are done properly, Section 79 GEAR may be considered a tax-deductible* employer provided benefit under the Internal Revenue Code (IRC).*

IRC Section 162 provides that “**Business expenses deductible from gross income include the ordinary and necessary expenditures directly connected with or pertaining to the taxpayer's trade or business.** An expense is necessary if the facts and circumstances establish that it is appropriate and helpful for the development of the taxpayer's business.” An expense need not be essential to qualify as necessary. (Emphasis added)

ELIGIBILITY

The plan should cover all full-time employees. A waiting period is permitted, not to exceed 6 months if less than 10 employees are covered, or 3 years if 10 or more are covered. If all full time employees are not covered, the plan may still be non-discriminatory if at least 85% of those who are covered are not key employees.

BENEFITS

The plan is non-discriminatory if the amount of the death benefit is a flat amount for all employees, or the amount is a uniform percent of compensation. Also, amounts based on classes may be found to qualify by the Secretary of the Treasury.

FUNDING

To preserve actuarial soundness, funding for the conversion reserve may be delayed to recognize that all employees do not stay until their conversion date. The employer may choose not to start funding until a selected age or years of service. Funding must be levelized from the starting date to the conversion date. Funding may extend past the normal conversion date to spread the cost for older employees.

*The deductibility of contributions made to the plan, and the taxation of such contributions to controlling shareholders or employees, will ultimately depend upon the facts and circumstances surrounding each employer's participation in the plan. Security Financial Life does not provide legal, tax or ERISA advice and does not authorize any of its agents to provide such advice. ***All questions of a tax or legal nature should be referred to your independent legal or tax advisers.***

EMPLOYEE TAXATION*

IRC section 79 provides the general rule stating “there shall be included in the gross income of an employee for the taxable year an amount equal to the cost of group-term life insurance on his life provided for part or all of such year under a policy (or policies) carried directly or indirectly by his employer (or employers); **but only to the extent that such cost exceeds the sum of:**

- 1. The cost of \$50,000 of such insurance, and**
- 2. The amount (if any) paid by the employee toward the purchase of such insurance.** (Emphasis supplied)

Therefore, all employees receiving Section 79 GEAR death protection in excess of \$50,000 must recognize a “charge to income” (extra income that must be included on the employee’s year end W-2). The amount of the charge is quantified in The Uniform Premium Table (shown below) and will apply to group insurance coverage that exceeds \$50,000.

For example, a 50-year-old employee receiving \$150,000 of Section 79 GEAR coverage, \$100,000 in excess of \$50,000, would be required to report an additional \$276 ($.23 \times 12 \times 100 = \276) of taxable income on the year-end W-2. In a 30 percent tax bracket, the net cost to the individual would be approximately \$83 ($.3 \times 276 = \83) in additional tax liability.*

Table I. - Uniform Premium Table	
5-year age bracket	Cost per \$1,000.00 of protection per 1-month period
Under 25	\$0.05
25 to 29	\$0.06
30 to 34	\$0.08
35 to 39	\$0.09
40 to 44	\$0.10
45 to 49	\$0.15
50 to 54	\$0.23
55 to 59	\$0.43
60 to 64	\$0.66
65 to 69	\$1.27
70 and above	\$2.06
Uniform premiums for \$1,000.00 of group term life insurance protection	

*The deductibility of contributions made to the plan, and the taxation of such contributions to controlling shareholders or employees, will ultimately depend upon the facts and circumstances surrounding each employer’s participation in the plan. Security Financial Life does not provide legal, tax or ERISA advice and does not authorize any of its agents to provide such advice. ***All questions of a tax or legal nature should be referred to your independent legal or tax advisers.***

EMPLOYER SUMMARY

FOR Constantly Green, Inc.

GROUP INSURANCE PLAN

GENERAL:

RUN DATE: 07-14-2003
EFFECTIVE DATE: 07-14-2003
NORMAL CONVERSION AGE: 64

PRE-CONVERSION COVERAGE:

INSURANCE TYPE: SFL ART
COVERAGE FORMULA: CLASS PLAN
MINIMUM AMOUNT: \$0
MAXIMUM AMOUNT: \$0
NUMBER OF PARTICIPANTS: 10

POST-CONVERSION PLAN:

POST-CONVERSION BENEFIT: Retirement Life
COVERAGE FORMULA: CLASS PLAN
MINIMUM AMOUNT: \$0
MAXIMUM AMOUNT: \$0
NUMBER OF PARTICIPANTS: 10

DEPOSIT FUNDING:

BEGINS: EARLIER OF AGE 54 OR 10 YRS SERVICE
ASSUMED RESERVE INTEREST: 5.500%
PAST SERVICE CREDIT: NO MAXIMUM YEARS
MINIMUM FUNDING YEARS: 10
RESERVE PLAN: 1
CURRENT PARTICIPANTS FUNDED: 2

ILLUSTRATION SYSTEM
VERSION DATE
01-01-03

SECURITY FINANCIAL LIFE
P.O. BOX 82248
LINCOLN, NE 68501
(402)/434-9500

REPRESENTATIVE:
M. Cole
Illustration Only

EMPLOYER SUMMARY
Employee Census & Underwriting

RUN DATE: 07-14-2003
EFF DATE: 07-14-2003

EMPLOYER: Constantly Green, Inc.

EMPLOYEE	CURRENT		ENTRY		COMP	SEX	UND CLASS	TBL	EXTRA PREM RATE/M YRS
	D-O-B	AGE	D-O-H	AGE					
Bill		51		39	100000	M	NT	0	
Sam		50		38	100000	M	NT	0	
Jane		29		26	40000	F	NT	0	
Wilma		28		25	16000	F	NT	0	
Steve		37		36	10000	M	NT	0	
Judy		42		38	10000	F	NT	0	
Nancy		23		22	10000	F	NT	0	
Aaron		21		20	10000	M	NT	0	
Jim		29		24	10000	M	NT	0	
Carl		41		39	10000	M	NT	0	

ILLUSTRATION SYSTEM
VERSION DATE
01-01-03

SECURITY FINANCIAL LIFE
P.O. BOX 82248
LINCOLN, NE 68501
(402)/434-9500

REPRESENTATIVE:
M. Cole
Illustration Only

EMPLOYER SUMMARY
PRE-CONVERSION EXPENSES

RUN DATE: 07-14-2003
EFF DATE: 07-14-2003

EMPLOYER: Constantly Green, Inc.

YEAR	GROUP INS. PD. EMPLOYER*	RESERVE ANNUAL DEPOSIT**	TOTAL ANNUAL COST	RESERVE ACCUM VALUE**
1	7039	50604	57643	5332
2	7246	50604	57850	40283
3	7450	50604	58054	88887
4	7840	50604	58444	140164
5	8500	50604	59104	194261
6	9148	51387	60535	253545
7	9771	53114	62885	316586
8	10244	57228	67473	384514
9	10568	59424	69992	458742
10	10824	62378	73202	539762
TOTAL	88629	536552	625181	539762
11	11098	62378	73477	627283
12	11423	62378	73801	722363
13	11790	62378	74169	822885
14	7068	35876	42945	475615
15	2268	11774	14042	77710
16	2357	11774	14131	92920
17	2464	11774	14239	108999
18	2607	11774	14382	126034
19	2771	11774	14546	144177
20	2960	11774	14735	163409
TOTAL	145437	830210	975647	163409

Group insurance premiums are subject to change with Company experience.*

** Reserve deposits assume 5.500% interest (interest above 4% not guaranteed).

Number of employees in the group in first year 10.

Based on Fringe Benefit Administrator's interpretation of the Internal Revenue Code as of the Version Date below. All questions of a tax nature need to be reviewed by your tax advisor.

THIS IS AN ILLUSTRATION ONLY

ILLUSTRATION SYSTEM
VERSION DATE
01-01-03

SECURITY FINANCIAL LIFE
P.O. BOX 82248
LINCOLN, NE 68501
(402)/434-9500

REPRESENTATIVE:
M. Cole
Illustration Only

EMPLOYER SUMMARY
GROUP INSURANCE COVERAGE

RUN DATE: 07-14-2003
EFF DATE: 07-14-2003

EMPLOYER: Constantly Green, Inc.

EMPLOYEE	CLASS	RESERVE DEPOSIT		----- INSURANCE COVERAGE-----			
		IN	START YR	PRE-CONVERSION		POST-CONVERSION	
		YEAR	COST	AMOUNT	POLICY	AMOUNT	POLICY
Bill	NT	2003	26502	1000000	ART	1000000	L85
Sam	NT	2003	24102	1000000	ART	1000000	L85
Jane	NT	2010	2980	400000	ART	400000	L85
Wilma	NT	2010	1134	160000	ART	160000	L85
Steve	NT	2012	1729	100000	ART	100000	L85
Judy	NT	2009	1727	100000	ART	100000	L85
Nancy	NT	2012	604	100000	ART	100000	L85
Aaron	NT	2012	621	100000	ART	100000	L85
Jim	NT	2008	783	100000	ART	100000	L85
Carl	NT	2011	2196	100000	ART	100000	L85

ILLUSTRATION SYSTEM
VERSION DATE
01-01-03

SECURITY FINANCIAL LIFE
P.O. BOX 82248
LINCOLN, NE 68501
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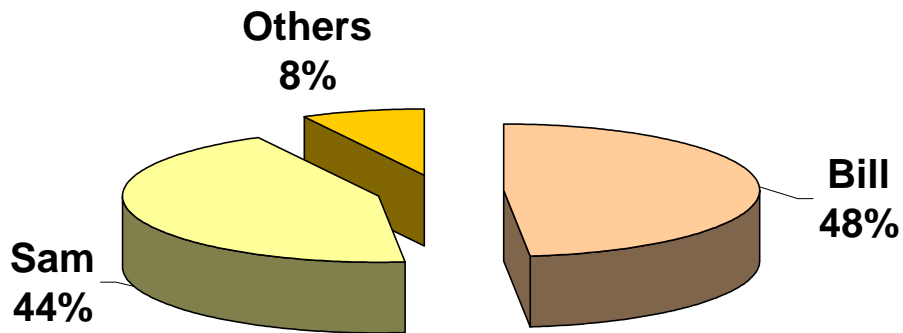
REPRESENTATIVE:
M. Cole
Illustration Only

PreConversion 10 year Cost/Benefit Breakdown for Constantly Green, Inc.

Name	Bill	Sam	Others	TOTAL
Term Protection	Class Plan	Class Plan	Class Plan	
Conversion Age	64/10 yr min	64/10 yr min	64/10 yr min	
Cost Yr 1	\$ 29,292	\$ 26,792	\$ 1,559	\$ 57,643
Cost Yr 2	\$ 29,408	\$ 26,863	\$ 1,579	\$ 57,850
Cost Yr 3	\$ 29,491	\$ 26,954	\$ 1,609	\$ 58,054
Cost Yr 4	\$ 29,788	\$ 27,028	\$ 1,628	\$ 58,444
Cost Yr 5	\$ 30,104	\$ 27,320	\$ 1,680	\$ 59,104
Cost Yr 6	\$ 30,387	\$ 27,630	\$ 2,518	\$ 60,535
Cost Yr 7	\$ 30,633	\$ 27,908	\$ 4,344	\$ 62,885
Cost Yr 8	\$ 30,801	\$ 28,152	\$ 8,520	\$ 67,473
Cost Yr 9	\$ 30,892	\$ 28,320	\$ 10,780	\$ 69,992
Cost Yr 10	\$ 31,022	\$ 28,413	\$ 13,767	\$ 73,202
TOTAL	\$ 301,818	\$ 275,380	\$ 47,984	\$ 625,182

Summary	% of Total
Bill	48.3%
Sam	44.0%
Others	7.7%

} 92.3%



Security Financial Life Insurance Co.
 Supplemental Illustration: Conversion Policy
 Annual Premiums and Benefits

Prepared by:	Coverage Summary	Amount	Premium
M. Cole	Life Paid Up at 85 - L85 #	1000000	15690.00
	Conversion Age: 64		
Prepared For:	Current Age: 51	Funding Age: 51	
Bill	Entry Age: 39	Dividend Option: W	
Male Age 64 - Non-Tobacco			

Yr	Age	--- Guaranteed Basis ----				----- Non Guaranteed Illustrated Basis -----			
		Contract Premium	Surr Outlay	Death Value	Death Benefit	Premium Outlay	Annual Dividend	Surr Value	Death Benefit
1	65	59,590	59,590	0	1000000	15,690	0	0	1000000
2	66	59,590	59,590	13320	1000000	15,690	18660	31980	1031530
3	67	59,590	59,590	50270	1000000	0<	18770	72080	1035970
4	68	59,590	59,590	87470	1000000	0<	18880	112620	1040500
5	69	59,590	59,590	124970	1000000	0<	19010	153660	1045140
6	70	59,590	59,590	162750	1000000	0<	19140	195190	1049900
7	71	59,590	59,590	200750	1000000	0<	19280	237150	1054780
8	72	59,590	59,590	238850	1000000	0<	19430	279440	1059800
9	73	59,590	59,590	276930	1000000	0<	19590	321930	1064960
10	74	59,590	59,590	314900	1000000	0<	19770	364560	1070290
11	75	59,590	59,590	352820	1000000	0<	19960	407390	1075810
12	76	59,590	59,590	390890	1000000	0<	20150	450610	1081510
13	77	59,590	59,590	429450	1000000	0<	20360	494600	1087420
14	78	59,590	59,590	468960	1000000	0<	20560	544490	1098200
15	79	59,590	59,590	509980	1000000	0<	20760	596960	1109980
16	80	59,590	59,590	553130	1000000	0<	20980	652730	1122830
17	81	59,590	59,590	599110	1000000	0<	21190	712580	1136850
18	82	59,590	59,590	648870	1000000	0<	21440	777610	1152200
19	83	59,590	59,590	703720	1000000	0<	21700	849330	1169100
20	84	59,590	59,590	765700	1000000	0<	21990	930100	1187880
21	85	59,590	59,590	834880	1000000	0<	22260	1011810	1200370
22	86	0	0	844110	1000000	0	35180	1053970	1238480
23	87	0	0	852930	1000000	0	36520	1097240	1277610
24	88	0	0	861420	1000000	0	37660	1141510	1317530
25	89	0	0	869740	1000000	0	39080	1187270	1358570
26	90	0	0	878040	1000000	0	40600	1234800	1400830
27	91	0	0	886530	1000000	0	41740	1284050	1443860
28	92	0	0	895450	1000000	0	42920	1335410	1487670
29	93	0	0	905100	1000000	0	43580	1388850	1531630
30	94	0	0	915760	1000000	0	44550	1445180	1576020
31	95	0	0	927610	1000000	0	46040	1505290	1621310
32	96	0	0	940590	1000000	0	49080	1570730	1669050
33	97	0	0	954260	1000000	0	53690	1642470	1720740
34	98	0	0	967570	1000000	0	59030	1719580	1777050
35	99	0	0	978310	1000000	0	64270	1798040	1837900

Security Financial Life Insurance Co.
 Supplemental Illustration: Conversion Policy
 Annual Premiums and Benefits

Prepared by:	Coverage Summary	Amount	Premium
M. Cole	Life Paid Up at 85 - L85 #	1000000	15690.00
	Conversion Age: 64		
Prepared For:	Current Age: 51	Funding Age: 51	
Bill	Entry Age: 39	Dividend Option: W	
Male Age 64 - Non-Tobacco			

		--- Guaranteed Basis ----				Non Guaranteed ----- Illustrated Basis -----			
Contract	Premium	Surr	Death	Premium	Annual	Surr	Death		
Yr Age Premium	Outlay	Value	Benefit	Outlay	Dividend	Value	Benefit		
36 100	0	0	1000000	1000000	0	48880	1886780	1886780	

< Premium outlay assumes that dividends are being used to pay premiums. The policy is not paid-up. If dividends are less than illustrated, additional payments would be required.

Assumes required reserve deposits were made prior to conversion. Premium can change as determined by Trust Administrator.

All values are based on the conversion policy currently in use. Actual values will depend on the policy in use at time of conversion.

Security Financial Life Insurance Co.
 Supplemental Illustration: Conversion Policy
 Annual Premiums and Benefits

Prepared by:	Coverage Summary	Amount	Premium
M. Cole	Life Paid Up at 85 - C85 #	493918	7769.82
	Conversion Age: 64		
Prepared For:	Current Age: 51	Funding Age: 51	
Bill	Entry Age: 39	Dividend Option: V	
Male Age 64 - Non-Tobacco			

		--- Guaranteed Basis ---				----- Non Guaranteed Illustrated Basis -----			
Yr	Age	Contract Premium	Surr Outlay	Death Value	Benefit	Premium Outlay	Annual Dividend	Surr Value	Death Benefit
1	65	29,453	29,453	0	493918	7,770	0	0	493918
2	66	29,453	29,453	6579	493918	7,770	32890	39469	526808
3	67	29,453	29,453	24829	493918	0<	34713	84662	553751
4	68	29,453	29,453	43203	493918	0<	36664	131930	582644
5	69	29,453	29,453	61725	493918	0<	38758	181439	613632
6	70	29,453	29,453	80385	493918	0<	41005	233335	646868
7	71	29,453	29,453	99154	493918	0<	43415	287749	682513
8	72	29,453	29,453	117972	493918	0<	45999	344796	720742
9	73	29,453	29,453	136781	493918	0<	48769	404604	761742
10	74	29,453	29,453	155535	493918	0<	51743	467331	805715
11	75	29,453	29,453	174264	493918	0<	54934	533225	852878
12	76	29,453	29,453	193068	493918	0<	58351	602610	903460
13	77	29,453	29,453	212113	493918	0<	62016	675902	957707
14	78	29,453	29,453	231628	493918	0<	65953	755916	1018206
15	79	29,453	29,453	251888	493918	0<	70171	841299	1091755
16	80	29,453	29,453	273201	493918	0<	73722	932150	1190750
17	81	29,453	29,453	295911	493918	0<	74789	1027520	1292872
18	82	29,453	29,453	320489	493918	0<	75540	1127701	1398570
19	83	29,453	29,453	347580	493918	0<	75797	1233014	1508422
20	84	29,453	29,453	378193	493918	0<	75411	1344056	1623272
21	85	29,453	29,453	412362	493918	0<	73722	1455676	1737866
22	86	0	0	416921	493918	0	53220	1522907	1799151
23	87	0	0	421278	493918	0	55255	1591967	1862110
24	88	0	0	425471	493918	0	56969	1662656	1926369
25	89	0	0	429580	493918	0	59127	1735692	1992426
26	90	0	0	433680	493918	0	61424	1811509	2060419
27	91	0	0	437873	493918	0	63147	1889987	2129651
28	92	0	0	442279	493918	0	64935	1971726	2200133
29	93	0	0	447045	493918	0	65948	2056684	2270921
30	94	0	0	452310	493918	0	67420	2146064	2342441
31	95	0	0	458163	493918	0	69662	2241207	2415393
32	96	0	0	464574	493918	0	74261	2344505	2492152
33	97	0	0	471326	493918	0	81195	2457420	2574982
34	98	0	0	477900	493918	0	89231	2578539	2664885
35	99	0	0	483205	493918	0	97139	2701885	2761787

Security Financial Life Insurance Co.
 Supplemental Illustration: Conversion Policy
 Annual Premiums and Benefits

Prepared by:	Coverage Summary	Amount	Premium
M. Cole	Life Paid Up at 85 - C85 #	493918	7769.82
	Conversion Age: 64		
Prepared For:	Current Age: 51	Funding Age: 51	
Bill	Entry Age: 39	Dividend Option: V	
Male Age 64 - Non-Tobacco			

		--- Guaranteed Basis ----				Non Guaranteed ----- Illustrated Basis -----			
Contract	Premium	Surr	Death	Premium	Annual	Surr	Death		
Yr Age Premium	Outlay	Value	Benefit	Outlay	Dividend	Value	Benefit		
36 100	0	0	493918	493918	0	74023	2835810	2835810	

< Premium outlay assumes that dividends are being used to pay premiums. The policy is not paid-up. If dividends are less than illustrated, additional payments would be required.

Assumes required reserve deposits were made prior to conversion. Premium can change as determined by Trust Administrator. Employee must waive insurance at conversion.

All values are based on the conversion policy currently in use. Actual values will depend on the policy in use at time of conversion.

Security Financial Life Insurance Co.
 Supplemental Illustration: Conversion Policy
 Annual Premiums and Benefits

Prepared by:	Coverage Summary	Amount	Premium
M. Cole	Life Paid Up at 85 - L85 #	1000000	14940.00
	Conversion Age: 64		
Prepared For:	Current Age: 50	Funding Age: 50	
Sam	Entry Age: 38	Dividend Option: W	
Male Age 64 - Non-Tobacco			

		--- Guaranteed Basis ----				----- Non Guaranteed Illustrated Basis -----			
Yr	Age	Contract Premium	Surr Outlay	Death Value	Benefit	Premium Outlay	Annual Dividend	Surr Value	Death Benefit
1	65	59,590	59,590	0	1000000	14,940	0	0	1000000
2	66	59,590	59,590	13320	1000000	14,940	18820	32140	1031800
3	67	59,590	59,590	50270	1000000	0<	18960	73210	1037820
4	68	59,590	59,590	87470	1000000	0<	19110	114760	1043950
5	69	59,590	59,590	124970	1000000	0<	19270	156880	1050210
6	70	59,590	59,590	162750	1000000	0<	19440	199550	1056610
7	71	59,590	59,590	200750	1000000	0<	19630	242720	1063170
8	72	59,590	59,590	238850	1000000	0<	19820	286290	1069890
9	73	59,590	59,590	276930	1000000	0<	20030	330130	1076790
10	74	59,590	59,590	314900	1000000	0<	20270	374190	1083920
11	75	59,590	59,590	352820	1000000	0<	20510	418510	1091260
12	76	59,590	59,590	390890	1000000	0<	20770	463320	1098850
13	77	59,590	59,590	429450	1000000	0<	21040	508960	1106690
14	78	59,590	59,590	468960	1000000	0<	21300	560580	1119450
15	79	59,590	59,590	509980	1000000	0<	21560	614880	1133260
16	80	59,590	59,590	553130	1000000	0<	21850	672560	1148210
17	81	59,590	59,590	599110	1000000	0<	22130	734400	1164370
18	82	59,590	59,590	648870	1000000	0<	22450	801510	1181930
19	83	59,590	59,590	703720	1000000	0<	22790	875400	1201100
20	84	59,590	59,590	765700	1000000	0<	23170	958440	1222230
21	85	59,590	59,590	834880	1000000	0<	23530	1042510	1237140
22	86	0	0	844110	1000000	0	36330	1086150	1276610
23	87	0	0	852930	1000000	0	37720	1130960	1317140
24	88	0	0	861420	1000000	0	38890	1176800	1358490
25	89	0	0	869740	1000000	0	40360	1224170	1401000
26	90	0	0	878040	1000000	0	41930	1273380	1444770
27	91	0	0	886530	1000000	0	43100	1324370	1489340
28	92	0	0	895450	1000000	0	44320	1377530	1534710
29	93	0	0	905100	1000000	0	45010	1432860	1580250
30	94	0	0	915760	1000000	0	46010	1491160	1626230
31	95	0	0	927610	1000000	0	47540	1553360	1673140
32	96	0	0	940590	1000000	0	50690	1621090	1722590
33	97	0	0	954260	1000000	0	55450	1695330	1776130
34	98	0	0	967570	1000000	0	60960	1775100	1834430
35	99	0	0	978310	1000000	0	66370	1856270	1897430

Security Financial Life Insurance Co.
 Supplemental Illustration: Conversion Policy
 Annual Premiums and Benefits

Prepared by: M. Cole	Coverage Summary Life Paid Up at 85 - L85 # Conversion Age: 64	Amount 1000000	Premium 14940.00
Prepared For: Sam Male Age 64 - Non-Tobacco	Current Age: 50 Entry Age: 38	Funding Age: 50 Dividend Option: W	

		--- Guaranteed Basis ----				Non Guaranteed ----- Illustrated Basis -----			
Contract	Premium	Surr	Death	Premium	Annual	Surr	Death		
Yr Age Premium	Outlay	Value	Benefit	Outlay	Dividend	Value	Benefit		
36 100	0	0	1000000	1000000	0	50480	1947910	1947910	

< Premium outlay assumes that dividends are being used to pay premiums. The policy is not paid-up. If dividends are less than illustrated, additional payments would be required.

Assumes required reserve deposits were made prior to conversion. Premium can change as determined by Trust Administrator.

All values are based on the conversion policy currently in use. Actual values will depend on the policy in use at time of conversion.

Security Financial Life Insurance Co.
 Supplemental Illustration: Conversion Policy
 Annual Premiums and Benefits

Prepared by:	Coverage Summary	Amount	Premium
M. Cole	Life Paid Up at 85 - C85 #	503128	7536.61
	Conversion Age: 64		
Prepared For:	Current Age: 50	Funding Age: 50	
Sam	Entry Age: 38	Dividend Option: V	
Male Age 64 - Non-Tobacco			

		--- Guaranteed Basis ----				----- Non Guaranteed Illustrated Basis -----			
Yr	Age	Contract Premium	Surr Outlay	Death Value	Benefit	Premium Outlay	Annual Dividend	Surr Value	Death Benefit
1	65	30,001	30,001	0	503128	7,537	0	0	503128
2	66	30,001	30,001	6702	503128	7,537	33131	39833	536259
3	67	30,001	30,001	25292	503128	0<	34988	85874	563710
4	68	30,001	30,001	44009	503128	0<	36975	134029	593148
5	69	30,001	30,001	62876	503128	0<	39113	184473	624725
6	70	30,001	30,001	81884	503128	0<	41402	237347	658590
7	71	30,001	30,001	101003	503128	0<	43858	292787	694912
8	72	30,001	30,001	120172	503128	0<	46489	350908	733864
9	73	30,001	30,001	139331	503128	0<	49312	411842	775639
10	74	30,001	30,001	158435	503128	0<	52340	475750	820443
11	75	30,001	30,001	177514	503128	0<	55591	542882	868497
12	76	30,001	30,001	196668	503128	0<	59072	613572	920032
13	77	30,001	30,001	216068	503128	0<	62811	688247	975306
14	78	30,001	30,001	235947	503128	0<	66815	769764	1036945
15	79	30,001	30,001	256585	503128	0<	71117	856755	1111810
16	80	30,001	30,001	278295	503128	0<	74740	949315	1212678
17	81	30,001	30,001	301429	503128	0<	75831	1046485	1316735
18	82	30,001	30,001	326465	503128	0<	76596	1148560	1424440
19	83	30,001	30,001	354061	503128	0<	76858	1255857	1536366
20	84	30,001	30,001	385245	503128	0<	76470	1369001	1653399
21	85	30,001	30,001	420052	503128	0<	74755	1482733	1770170
22	86	0	0	424695	503128	0	54207	1551214	1832593
23	87	0	0	429133	503128	0	56280	1621561	1896727
24	88	0	0	433405	503128	0	58031	1693564	1962179
25	89	0	0	437591	503128	0	60229	1767962	2029472
26	90	0	0	441767	503128	0	62564	1845192	2098728
27	91	0	0	446038	503128	0	64320	1925119	2169236
28	92	0	0	450526	503128	0	66146	2008382	2241033
29	93	0	0	455381	503128	0	67178	2094924	2313146
30	94	0	0	460745	503128	0	68672	2185966	2385989
31	95	0	0	466707	503128	0	70961	2282878	2460306
32	96	0	0	473237	503128	0	75640	2388102	2538492
33	97	0	0	480115	503128	0	82704	2503112	2622862
34	98	0	0	486812	503128	0	90890	2626484	2714436
35	99	0	0	492215	503128	0	98945	2752120	2813140

Security Financial Life Insurance Co.
 Supplemental Illustration: Conversion Policy
 Annual Premiums and Benefits

Prepared by: M. Cole	Coverage Summary Life Paid Up at 85 - C85 # Conversion Age: 64	Amount 503128	Premium 7536.61
Prepared For: Sam Male Age 64 - Non-Tobacco	Current Age: 50 Entry Age: 38	Funding Age: 50 Dividend Option: V	

		--- Guaranteed Basis ----				Non Guaranteed ----- Illustrated Basis -----			
Yr	Age	Contract Premium	Premium Outlay	Surr Value	Death Benefit	Premium Outlay	Annual Dividend	Surr Value	Death Benefit
36	100	0	0	503128	503128	0	75409	2888549	2888548

< Premium outlay assumes that dividends are being used to pay premiums. The policy is not paid-up. If dividends are less than illustrated, additional payments would be required.

Assumes required reserve deposits were made prior to conversion. Premium can change as determined by Trust Administrator. Employee must waive insurance at conversion.

All values are based on the conversion policy currently in use. Actual values will depend on the policy in use at time of conversion.

Section 79 GEAR

Sample cases

- Smith & Wilson, Inc.
 - Total employee census
 - » 45 total employees
 - » 2 separate offices
 - » 2 owners
 - » Nebraska Office – 21 employees
 - » Colorado Office – 24 employees

Section 79 GEAR

Sample cases

- Smith & Wilson, Inc.
 - Recall that IRC section 79 states:
“Nondiscriminatory eligibility classification
 - (a) In general,***
 - » ***A plan does not meet requirements of subparagraph (A) of paragraph (2) unless -***
 - (i) Such plan benefits 70 percent or more of all employees of the employer,***
 - (ii) At least 85 percent of all employees who are participants under the plan are not key employees,***
 - (iii) Such plan benefits such employees as qualify under a classification set up by the employer and found by the Secretary not to be discriminatory in favor of key employees, or***
 - (iv) In the case of a plan which is part of a cafeteria plan, the requirements of section 125 are met.”***

Section 79 GEAR

Sample cases

- Smith & Wilson, Inc.
 - Recall that IRC section 79 states:
“Nondiscriminatory eligibility classification
(a) In general,
 - » ***A plan does not meet requirements of subparagraph (A) of paragraph (2) unless -***
 - (i) Such plan benefits 70 percent or more of all employees of the employer,***
 - (ii) At least 85 percent of all employees who are participants under the plan are not key employees,***
 - (iii) Such plan benefits such employees as qualify under a classification set up by the employer and found by the Secretary not to be discriminatory in favor of key employees, or***
 - (iv) In the case of a plan which is part of a cafeteria plan, the requirements of section 125 are met.”***

Section 79 GEAR

Sample cases

- Smith & Wilson, Inc.
 - Recall that IRC section 79 states:
“Nondiscriminatory eligibility classification
(a) In general,
 - » *A plan does not meet requirements of subparagraph (A) of paragraph (2) unless -*
 - (i) Such plan benefits 70 percent or more of all employees of the employer,*
 - (ii) At least 85 percent of all employees who are participants under the plan are not key employees,*
 - (iii) Such plan benefits such employees as qualify under a classification set up by the employer and found by the Secretary not to be discriminatory in favor of key employees, or*
 - (iv) In the case of a plan which is part of a cafeteria plan, the requirements of section 125 are met.”*

Section 79 GEAR

Sample cases

- Who is a “key employee”
 - Section 79 of the IRC defines this term by pulling in a reference to another Code section, 416(i).
 - 416(i) defines a “key employee” as any employee that has been any of the following:
 - » **An officer who earns the more than 50 percent of the IRC limit on the amount of benefits payable in a defined benefit pension plan, currently \$100,000.**
 - » **One of ten employees owning the largest interest in the firm and having an annual compensation greater than \$30,000.**
 - » **An individual who owns more than 5 percent of the firm.**
 - » **An individual who owns more than 1 percent of the firm and earns over \$150,000 per year.**

Section 79 GEAR

Sample cases

- Smith & Wilson, Inc.
 - In practice, here's how the benefit structure would look:
 - There are two **key** employees, thus, these two must not be more than 15% of a covered group
 - If Smith & Wilson were to offer Section 79 GEAR to its employees, they could, as function of employment, decide to offer the benefit to Nebraska based workers only.
 - Doing this would yield a group of 24 Nebraska based employees, two of whom are key employees. This means 8.3% (2/24) of the covered group are key employees, well below the 85% non-key to key requirement.

Section 79 GEAR

Sample cases

- Smith & Wilson, Inc.
 - Eligibility for death benefit (over 10 rules)
 - » 24 Nebraska based of 45 total employees
 - » 8.3% key out of 24 covered
 - Amount of death benefit (non-discrimination rules)
 - » 15 times compensation
 - Entry age funding begins
 - » Age 49 or 15 years of service
 - Plan designated conversion age
 - » Age 59 or 10 year minimum

Section 79 GEAR

– Sample cases

- Smith & Wilson, Inc.
 - Case Illustration, Adobe Acrobat



Security Financial Life

Section 79 GEAR



A Proposal For:

Smith & Wilson Technology Services, Inc.

Presented By:

Security Financial Life

GENERAL PLAN DESCRIPTION

Section 79 GEAR is a group insurance plan that provides valuable death protection during covered employees' working years and the additional option to continue their coverage by exercising an entry-age (age on date of hire) conversion privilege. The entry-age conversion privilege allows the opportunity for affordable postretirement life insurance protection.

With a more typical type of coverage, departing employees usually have only two options:

1. Convert their group insurance to an individual policy and pay premiums based on their current or attained age (age on date of separation/retirement).
2. Stop insurance coverage altogether. (Over 98 percent of covered employees elect this option.)

With Section 79 GEAR, employees have a unique third choice. What makes this additional choice so powerful is that post-conversion premiums are calculated based on the employee's age when employment began (entry age) with the employer, not current age (attained age).

Employee savings can be substantial!

To qualify for the tax advantages*, the employer's plan must:

1. Be a non-discriminatory plan of group life insurance as determined by Section 79 of the Internal Revenue Code; and
2. Meet the State statutory requirements for group life insurance of the applicable jurisdiction.

Security Financial Life administers a trust located at the UMB Bank in Kansas City, Missouri. Each employer will complete a Joinder Agreement to be a part of that trust.

The trust serves two purposes:

1. IRC Sec. 79 requires an employer to have a "written" plan document. The trust is that document.
2. Each employer's plan must meet State laws for group life insurance. The state of jurisdiction for IRS purposes is the state where the master contract is domiciled. By having the master contract owned by the trust, the state of jurisdiction is Missouri. Missouri statutes place no maximum limit on the amount of death benefit, and permit plans for employers with as few as one employee. Other state laws vary widely.

All premiums are paid directly to the insurance company and all benefits are paid by the insurance company directly to the beneficiaries. The trust is not required to handle funds.

*The deductibility of contributions made to the plan, and the taxation of such contributions to controlling shareholders or employees, will ultimately depend upon the facts and circumstances surrounding each employer's participation in the plan. Security Financial Life does not provide legal, tax or ERISA advice and does not authorize any of its agents to provide such advice. ***All questions of a tax or legal nature should be referred to your independent legal or tax advisers.***

EMPLOYER TAXATION*

For the benefits to qualify as “a plan of group life insurance” under Section 79, the plan must be non-discriminatory both as to eligibility and benefits. Employer payments for Section 79 GEAR coverage are made up of both annually renewable term insurance and additional contributions to a premium stabilization reserve used to stabilize mortality and conversion costs that may occur throughout the life of the plan.

Payments made on behalf of the covered employees are not considered taxable income* to the employee. (Note: For insurance amounts over \$50,000, there is a Uniform Premium Table charge to the employee's income; see page 4.)

If Plan setup, participation and administration are done properly, Section 79 GEAR may be considered a tax-deductible* employer provided benefit under the Internal Revenue Code (IRC).*

IRC Section 162 provides that “**Business expenses deductible from gross income include the ordinary and necessary expenditures directly connected with or pertaining to the taxpayer's trade or business.** An expense is necessary if the facts and circumstances establish that it is appropriate and helpful for the development of the taxpayer's business.” An expense need not be essential to qualify as necessary. (Emphasis added)

ELIGIBILITY

The plan should cover all full-time employees. A waiting period is permitted, not to exceed 6 months if less than 10 employees are covered, or 3 years if 10 or more are covered. If all full time employees are not covered, the plan may still be non-discriminatory if at least 85% of those who are covered are not key employees.

BENEFITS

The plan is non-discriminatory if the amount of the death benefit is a flat amount for all employees, or the amount is a uniform percent of compensation. Also, amounts based on classes may be found to qualify by the Secretary of the Treasury.

FUNDING

To preserve actuarial soundness, funding for the conversion reserve may be delayed to recognize that all employees do not stay until their conversion date. The employer may choose not to start funding until a selected age or years of service. Funding must be levelized from the starting date to the conversion date. Funding may extend past the normal conversion date to spread the cost for older employees.

*The deductibility of contributions made to the plan, and the taxation of such contributions to controlling shareholders or employees, will ultimately depend upon the facts and circumstances surrounding each employer's participation in the plan. Security Financial Life does not provide legal, tax or ERISA advice and does not authorize any of its agents to provide such advice. ***All questions of a tax or legal nature should be referred to your independent legal or tax advisers.***

EMPLOYEE TAXATION*

IRC section 79 provides the general rule stating “there shall be included in the gross income of an employee for the taxable year an amount equal to the cost of group-term life insurance on his life provided for part or all of such year under a policy (or policies) carried directly or indirectly by his employer (or employers); **but only to the extent that such cost exceeds the sum of:**

- 1. The cost of \$50,000 of such insurance, and**
- 2. The amount (if any) paid by the employee toward the purchase of such insurance.** (Emphasis supplied)

Therefore, all employees receiving Section 79 GEAR death protection in excess of \$50,000 must recognize a “charge to income” (extra income that must be included on the employee’s year end W-2). The amount of the charge is quantified in The Uniform Premium Table (shown below) and will apply to group insurance coverage that exceeds \$50,000.

For example, a 50-year-old employee receiving \$150,000 of Section 79 GEAR coverage, \$100,000 in excess of \$50,000, would be required to report an additional \$276 ($.23 \times 12 \times 100 = \276) of taxable income on the year-end W-2. In a 30 percent tax bracket, the net cost to the individual would be approximately \$83 ($.3 \times 276 = \83) in additional tax liability.*

Table I. - Uniform Premium Table	
5-year age bracket	Cost per \$1,000.00 of protection per 1-month period
Under 25	\$0.05
25 to 29	\$0.06
30 to 34	\$0.08
35 to 39	\$0.09
40 to 44	\$0.10
45 to 49	\$0.15
50 to 54	\$0.23
55 to 59	\$0.43
60 to 64	\$0.66
65 to 69	\$1.27
70 and above	\$2.06
Uniform premiums for \$1,000.00 of group term life insurance protection	

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EMPLOYER SUMMARY

FOR Smith & Wilson Inc

GROUP INSURANCE PLAN

GENERAL:

RUN DATE: 07-14-2003
EFFECTIVE DATE: 07-14-2003
NORMAL CONVERSION AGE: 59

PRE-CONVERSION COVERAGE:

INSURANCE TYPE: SFL ART
COVERAGE FORMULA: 15.000 TIMES COMPENSATION
MINIMUM AMOUNT: \$0
MAXIMUM AMOUNT: \$0
NUMBER OF PARTICIPANTS: 24

POST-CONVERSION PLAN:

POST-CONVERSION BENEFIT: Retirement Life
COVERAGE FORMULA: 15.000 TIMES COMPENSATION
MINIMUM AMOUNT: \$0
MAXIMUM AMOUNT: \$0
NUMBER OF PARTICIPANTS: 24

DEPOSIT FUNDING:

BEGINS: EARLIER OF AGE 49 OR 15 YRS SERVICE
ASSUMED RESERVE INTEREST: 5.500%
PAST SERVICE CREDIT: NO MAXIMUM YEARS
MINIMUM FUNDING YEARS: 10
RESERVE PLAN: 1
CURRENT PARTICIPANTS FUNDED: 4

ILLUSTRATION SYSTEM
VERSION DATE
01-01-03

SECURITY FINANCIAL LIFE
P.O. BOX 82248
LINCOLN, NE 68501
(402)/434-9500

REPRESENTATIVE:
Security Financial Life
Hypothetical Illustration

Smith & Wilson Technology Services, Inc. Census

	Name	Comp.	Job	DOH	DOB	AGE @ DOH
1	Employee 1	\$5,226	c	6/25/2001	8/31/1973	28
2	Employee 2	\$7,337	c	5/14/2001	7/1/1978	23
3	Employee 3	\$10,116	c	3/14/2001	7/1/1962	39
4	Employee 4	\$12,537	c	7/2/2002	4/6/1965	37
5	Employee 5	\$13,129	c	7/7/2000	8/26/1969	31
6	Employee 6	\$13,129	c	3/29/2002	12/5/1976	26
7	Employee 7	\$13,699	c	7/24/2002	8/23/1977	25
8	Employee 8	\$13,699	c	9/3/2002	3/2/1982	20
9	Employee 9	\$13,699	c	7/22/2002	8/3/1966	36
10	Employee 10	\$13,699	c	8/28/2002	8/28/1982	20
11	Employee 11	\$13,699	c	3/24/2003	9/15/1978	25
12	Employee 12	\$14,884	c	10/6/1989	12/15/1961	28
13	Employee 13	\$16,160	c	8/30/1999	9/25/1963	36
14	Employee 14	\$21,115	c	6/14/1999	9/15/1954	45
15	Employee 15	\$34,890	c	8/29/1994	2/10/1951	43
16	Employee 16	\$20,628	c	3/20/2000	1/28/1958	42
17	Employee 17	\$21,700	c	1/15/2001	12/28/1972	29
18	Employee 18	\$22,813	c	1/5/1998	7/16/1963	35
19	Employee 19	\$27,865	c	6/6/1997	4/22/1962	35
20	Employee 20	\$31,153	c	4/9/2001	5/11/1974	27
21	Employee 21	\$52,369	c	1/1/1996	8/1/1959	37
22	Employee 22	\$62,351	c	5/1/1989	8/10/1950	39
23	Employee 23	\$11,405	n	6/2/2000	6/3/1981	19
24	Employee 24	\$13,096	n	7/16/2001	10/3/1973	28
25	Employee 25	\$13,674	n	10/16/2000	2/21/1967	33
26	Employee 26	\$13,699	n	8/14/2002	2/18/1961	41
27	Employee 27	\$13,699	n	9/3/2002	10/5/1974	28
28	Employee 28	\$15,205	n	8/22/2000	5/24/1972	28
29	Employee 29	\$17,864	n	1/13/2000	10/2/1954	46
30	Employee 30	\$18,227	n	5/11/1998	11/15/1959	39
31	Employee 31	\$19,978	n	9/22/1998	2/22/1975	23
32	Employee 32	\$24,061	n	1/5/1998	12/22/1952	46
33	Employee 33	\$18,262	n	1/8/2001	1/25/1963	38
34	Employee 34	\$18,563	n	12/29/2000	8/15/1959	41
35	Employee 35	\$14,928	n	4/9/2001	5/27/1972	29
36	Employee 36	\$21,130	n	5/1/2000	1/23/1947	53
37	Employee 37	\$27,959	n	3/1/1999	8/12/1976	23
38	Employee 38	\$33,774	n	10/23/1998	8/15/1968	30
39	Employee 39	\$38,218	n	4/3/2000	8/17/1969	31
40	Employee 40	\$83,596	n	3/1/2001	4/17/1969	32
41	Employee 41	\$18,113	n	6/2/2000	11/29/1971	29
42	Employee 42	\$24,230	n	10/6/1998	5/14/1951	47
43	Employee 43	\$36,787	n	6/14/1996	7/8/1963	33
44	Smith	\$500,000	o	7/1/1986	1/3/1957	29
45	Wilson	\$500,000	o	7/1/1988	11/13/1962	26

EMPLOYER SUMMARY
PRE-CONVERSION EXPENSES

RUN DATE: 07-14-2003
EFF DATE: 07-14-2003

EMPLOYER: Smith & Wilson Inc

YEAR	GROUP INS. PD. EMPLOYER*	RESERVE ANNUAL DEPOSIT**	TOTAL ANNUAL COST	RESERVE ACCUM VALUE**
1	34530	296672	331202	33658
2	35348	307868	343216	227588
3	36609	311992	348601	519032
4	37752	311992	349744	830580
5	39040	311992	351033	1160775
6	40146	311992	352139	1522364
7	41859	318591	360451	1905578
8	44119	324184	368303	2314583
9	47659	328551	376210	2751200
10	50869	328551	379420	3215199
TOTAL	407931	3152386	3560317	3215199
11	49713	315996	365709	3433135
12	49436	309571	359007	3795527
13	50470	319764	370235	4309185
14	25706	148730	174436	1716908
15	26494	155879	182374	1952924
16	27394	167291	194685	2209396
17	27936	163187	191123	2407694
18	28103	157595	185698	2628553
19	27763	149103	176866	2779735
20	7624	58471	66095	379966
TOTAL	728571	5097973	5826544	379966

Group insurance premiums are subject to change with Company experience.*

** Reserve deposits assume 5.500% interest (interest above 4% not guaranteed).

Number of employees in the group in first year 27.

Based on Fringe Benefit Administrator's interpretation of the Internal Revenue Code as of the Version Date below. All questions of a tax nature need to be reviewed by your tax advisor.

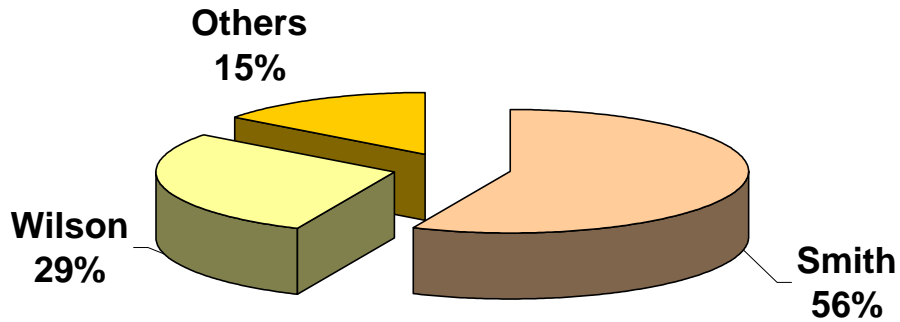
THIS IS AN ILLUSTRATION ONLY

ILLUSTRATION SYSTEM VERSION DATE 01-01-03	SECURITY FINANCIAL LIFE P.O. BOX 82248 LINCOLN, NE 68501 (402)/434-9500	REPRESENTATIVE: Security Financial Life Hypothetical Illustration
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PreConversion 10 year Cost/Benefit Breakdown for Smith & Wilson, Inc.

Name	Smith	Wilson	Others	TOTAL
Term Protection	15x's Compensation	15x's Compensation	15x's Compensation	
Conversion Age	59/10 yr min	59/10 yr min	59/10 yr min	
Cost Yr 1	\$ 199,647	\$ 99,297	\$ 32,258	\$ 331,202
Cost Yr 2	\$ 200,216	\$ 99,259	\$ 43,741	\$ 343,216
Cost Yr 3	\$ 200,969	\$ 99,554	\$ 48,078	\$ 348,601
Cost Yr 4	\$ 201,600	\$ 99,817	\$ 48,327	\$ 349,744
Cost Yr 5	\$ 201,806	\$ 100,425	\$ 48,802	\$ 351,033
Cost Yr 6	\$ 201,935	\$ 101,006	\$ 49,198	\$ 352,139
Cost Yr 7	\$ 202,304	\$ 101,905	\$ 56,242	\$ 360,451
Cost Yr 8	\$ 202,571	\$ 103,453	\$ 62,279	\$ 368,303
Cost Yr 9	\$ 204,227	\$ 104,933	\$ 67,050	\$ 376,210
Cost Yr 10	\$ 205,924	\$ 106,005	\$ 67,491	\$ 379,420
TOTAL	\$ 2,021,199	\$ 1,015,654	\$ 523,466	\$ 3,560,319

Summary	% of Total	
Smith	56.8%	} 85.3%
Wilson	28.5%	
Others	14.7%	



Security Financial Life Insurance Co.
 Supplemental Illustration: Conversion Policy
 Annual Premiums and Benefits

Prepared by:	Coverage Summary	Amount	Premium
Security Financial Life	Life Paid Up at 85 - L85 #	7500000	74290.00
	Conversion Age: 59		
Prepared For:	Current Age: 46	Funding Age: 46	
SMITH	Entry Age: 29	Dividend Option: W	
Male Age 59 - Non-Tobacco			

		--- Guaranteed Basis ----				----- Non Guaranteed Illustrated Basis -----			
Yr	Age	Contract Premium	Premium Outlay	Surr Value	Death Benefit	Premium Outlay	Annual Dividend	Surr Value	Death Benefit
1	60	331,540	331,540	0	7500000	74,290	0	0	7500000
2	61	331,540	331,540	3900	7500000	74,290	131475	135375	7753125
3	62	331,540	331,540	234975	7500000	0<	133500	427200	7860150
4	63	331,540	331,540	468000	7500000	0<	135675	724875	7968450
5	64	331,540	331,540	702600	7500000	0<	138000	1028025	8078175
6	65	331,540	331,540	938250	7500000	0<	140475	1336350	8189475
7	66	331,540	331,540	1174950	7500000	0<	143175	1650075	8302650
8	67	331,540	331,540	1413000	7500000	0<	145950	1969575	8417850
9	68	331,540	331,540	1652700	7500000	0<	149025	2295600	8535375
10	69	331,540	331,540	1894350	7500000	0<	152250	2628525	8655300
11	70	331,540	331,540	2137875	7500000	0<	155700	2968575	8777925
12	71	331,540	331,540	2382825	7500000	0<	159450	3315450	8903625
13	72	331,540	331,540	2628450	7500000	0<	163350	3668625	9032475
14	73	331,540	331,540	2874075	7500000	0<	167550	4056225	9193650
15	74	331,540	331,540	3119025	7500000	0<	172275	4454175	9363900
16	75	331,540	331,540	3363750	7500000	0<	177225	4863001	9543525
17	76	331,540	331,540	3609600	7500000	0<	182325	5284050	9732600
18	77	331,540	331,540	3858600	7500000	0<	187650	5719875	9931500
19	78	331,540	331,540	4114050	7500000	0<	192750	6173925	10140225
20	79	331,540	331,540	4379400	7500000	0<	197700	6649875	10358700
21	80	331,540	331,540	4634400	7500000	0<	203175	7080601	10540050
22	81	331,540	331,540	4903875	7500000	0<	208575	7533525	10726950
23	82	331,540	331,540	5192475	7500000	0<	214875	8014201	10920675
24	83	331,540	331,540	5507026	7500000	0<	221475	8529901	11122125
25	84	331,540	331,540	5858025	7500000	0<	228900	9092400	11332874
26	85	331,540	331,540	6261600	7500000	0<	235650	9718051	11553375
27	86	0	0	6330825	7500000	0	344175	10138050	11934300
28	87	0	0	6396975	7500000	0	357375	10569380	12325650
29	88	0	0	6460650	7500000	0	368475	11010680	12724876
30	89	0	0	6523050	7500000	0	382425	11466900	13135424
31	90	0	0	6585300	7500000	0	397200	11940600	13557975
32	91	0	0	6648975	7500000	0	408375	12431180	13988250
33	92	0	0	6715875	7500000	0	419925	12942600	14426326
34	93	0	0	6788250	7500000	0	426450	13474580	14866051
35	94	0	0	6868200	7500000	0	435975	14034900	15310199

Security Financial Life Insurance Co.
 Supplemental Illustration: Conversion Policy
 Annual Premiums and Benefits

Prepared by:	Coverage Summary	Amount	Premium
Security Financial Life	Life Paid Up at 85 - L85 #	7500000	74290.00
	Conversion Age: 59		
Prepared For:	Current Age: 46	Funding Age: 46	
SMITH	Entry Age: 29	Dividend Option: W	
Male Age 59 - Non-Tobacco			

		--- Guaranteed Basis ----				----- Non Guaranteed Illustrated Basis -----			
Yr	Age	Contract Premium	Premium Outlay	Surr Value	Death Benefit	Premium Outlay	Annual Dividend	Surr Value	Death Benefit
36	95	0	0	6957075	7500000	0	450450	14632280	15763275
37	96	0	0	7054425	7500000	0	480300	15282000	16240576
38	97	0	0	7156950	7500000	0	525150	15993450	16756650
39	98	0	0	7256775	7500000	0	577275	16757550	17318025
40	99	0	0	7337325	7500000	0	628575	17535450	17924250
41	100	0	0	7500000	7500000	0	478425	18402680	18402675

< Premium outlay assumes that dividends are being used to pay premiums. The policy is not paid-up. If dividends are less than illustrated, additional payments would be required.

Assumes required reserve deposits were made prior to conversion. Premium can change as determined by Trust Administrator.

All values are based on the conversion policy currently in use. Actual values will depend on the policy in use at time of conversion.

Security Financial Life Insurance Co.
 Supplemental Illustration: Conversion Policy
 Annual Premiums and Benefits

Prepared by:	Coverage Summary	Amount	Premium
Security Financial Life	Life Paid Up at 85 - C85 #	3760107	37265.06
	Conversion Age: 59		
Prepared For:	Current Age: 46	Funding Age: 46	
SMITH	Entry Age: 29	Dividend Option: V	
Male Age 59 - Non-Tobacco			

		--- Guaranteed Basis ----				----- Non Guaranteed Illustrated Basis -----			
Yr	Age	Contract Premium	Surr Outlay	Death Value	Premium Outlay	Annual Dividend	Surr Value	Death Benefit	
1	60	166,237	166,237	0	37,265	0	0	3760107	
2	61	166,237	166,237	1955	37,265	210190	212145	3970297	
3	62	166,237	166,237	117804	0<	222711	513440	4155743	
4	63	166,237	166,237	234631	0<	236172	829174	4354650	
5	64	166,237	166,237	352247	0<	250611	1160136	4567996	
6	65	166,237	166,237	470389	0<	266065	1507079	4796796	
7	66	166,237	166,237	589058	0<	282647	1871130	5042179	
8	67	166,237	166,237	708404	0<	300433	2253643	5305346	
9	68	166,237	166,237	828577	0<	319534	2656085	5587615	
10	69	166,237	166,237	949728	0<	339989	3079960	5890339	
11	70	166,237	166,237	1071819	0<	361948	3526733	6215021	
12	71	166,237	166,237	1194624	0<	385486	3997760	6563243	
13	72	166,237	166,237	1317767	0<	410717	4494355	6936694	
14	73	166,237	166,237	1440911	0<	437789	5032424	7351620	
15	74	166,237	166,237	1563716	0<	466817	5601664	7915859	
16	75	166,237	166,237	1686408	0<	488250	6200007	8593804	
17	76	166,237	166,237	1809664	0<	503027	6825536	9289045	
18	77	166,237	166,237	1934500	0<	518180	7479717	10003200	
19	78	166,237	166,237	2062569	0<	532920	8164017	10737697	
20	79	166,237	166,237	2195602	0<	546757	8879901	11493363	
21	80	166,237	166,237	2323445	0<	559918	9593003	12232410	
22	81	166,237	166,237	2458546	0<	572965	10336750	12992325	
23	82	166,237	166,237	2603235	0<	585825	11113440	13776908	
24	83	166,237	166,237	2760934	0<	596428	11924230	14589540	
25	84	166,237	166,237	2936907	0<	604851	12772620	15435749	
26	85	166,237	166,237	3139238	0<	605114	13659430	16317492	
27	86	0	0	3173944	0	502012	14296600	16898784	
28	87	0	0	3207108	0	521226	14951130	17495966	
29	88	0	0	3239031	0	537470	15621250	18105628	
30	89	0	0	3270316	0	557812	16313600	18732364	
31	90	0	0	3301524	0	579433	17032160	19377298	
32	91	0	0	3333448	0	595714	17775910	20034037	
33	92	0	0	3366988	0	612559	18550490	20702623	
34	93	0	0	3403273	0	622147	19355530	21374252	
35	94	0	0	3443356	0	636060	20202340	22052802	

Security Financial Life Insurance Co.
 Supplemental Illustration: Conversion Policy
 Annual Premiums and Benefits

Prepared by:	Coverage Summary	Amount	Premium
Security Financial Life	Life Paid Up at 85 - C85 #	3760107	37265.06
	Conversion Age: 59		
Prepared For:	Current Age: 46	Funding Age: 46	
SMITH	Entry Age: 29	Dividend Option: V	
Male Age 59 - Non-Tobacco			

		--- Guaranteed Basis ----			Non Guaranteed ----- Illustrated Basis -----				
Yr	Age	Contract Premium	Premium Outlay	Surr Value	Death Benefit	Premium Outlay	Annual Dividend	Surr Value	Death Benefit
36	95	0	0	3487913	3760107	0	657192	21103490	22744960
37	96	0	0	3536719	3760107	0	700546	22081680	23473069
38	97	0	0	3588120	3760107	0	765896	23150570	24258520
39	98	0	0	3638167	3760107	0	841625	24296940	25110707
40	99	0	0	3678550	3760107	0	916225	25464500	26029076
41	100	0	0	3760107	3760107	0	698365	26727410	26727406

< Premium outlay assumes that dividends are being used to pay premiums. The policy is not paid-up. If dividends are less than illustrated, additional payments would be required.

Assumes required reserve deposits were made prior to conversion. Premium can change as determined by Trust Administrator. Employee must waive insurance at conversion.

All values are based on the conversion policy currently in use. Actual values will depend on the policy in use at time of conversion.

Security Financial Life Insurance Co.
 Supplemental Illustration: Conversion Policy
 Annual Premiums and Benefits

Prepared by:	Coverage Summary	Amount	Premium
Security Financial Life	Life Paid Up at 85 - L85 #	7500000	51040.00
	Conversion Age: 59		
Prepared For:	Current Age: 40	Funding Age: 40	
WILSON	Entry Age: 25	Dividend Option: W	
Female Age 59 - Non-Tobacco			

		--- Guaranteed Basis ----				----- Non Guaranteed Illustrated Basis -----			
Yr	Age	Contract Premium	Surr Outlay	Death Value	Death Benefit	Premium Outlay	Annual Dividend	Surr Value	Death Benefit
1	60	253,915	253,915	0	7500000	51,040	0	0	7500000
2	61	253,915	253,915	15525	7500000	51,040	103950	119475	7732950
3	62	253,915	253,915	218325	7500000	0<	105675	378600	7848075
4	63	253,915	253,915	425550	7500000	0<	107550	645750	7963725
5	64	253,915	253,915	636450	7500000	0<	109575	920400	8080050
6	65	253,915	253,915	850875	7500000	0<	111750	1202550	8197350
7	66	253,915	253,915	1068825	7500000	0<	114000	1492500	8315700
8	67	253,915	253,915	1290975	7500000	0<	116475	1791000	8435325
9	68	253,915	253,915	1518225	7500000	0<	119025	2099250	8556225
10	69	253,915	253,915	1751250	7500000	0<	121650	2418075	8678400
11	70	253,915	253,915	1990125	7500000	0<	124500	2747925	8802075
12	71	253,915	253,915	2234400	7500000	0<	127425	3088500	8927325
13	72	253,915	253,915	2483250	7500000	0<	130950	3439425	9055050
14	73	253,915	253,915	2735175	7500000	0<	134475	3826575	9212400
15	74	253,915	253,915	2989200	7500000	0<	138450	4226700	9377625
16	75	253,915	253,915	3244875	7500000	0<	142800	4639950	9551475
17	76	253,915	253,915	3502575	7500000	0<	147825	5067226	9734700
18	77	253,915	253,915	3763350	7500000	0<	153225	5510101	9927900
19	78	253,915	253,915	4028850	7500000	0<	158925	5970750	10131450
20	79	253,915	253,915	4301175	7500000	0<	164400	6451350	10345200
21	80	253,915	253,915	4564875	7500000	0<	169950	6890025	10522575
22	81	253,915	253,915	4837350	7500000	0<	176025	7345800	10705425
23	82	253,915	253,915	5121075	7500000	0<	182250	7821225	10894125
24	83	253,915	253,915	5419725	7500000	0<	189150	8320575	11089650
25	84	253,915	253,915	5739001	7500000	0<	196650	8850225	11293200
26	85	253,915	253,915	6088425	7500000	0<	204525	9420451	11505750
27	86	0	0	6180601	7500000	0	338850	9870975	11892450
28	87	0	0	6268725	7500000	0	355650	10335980	12292275
29	88	0	0	6353475	7500000	0	373875	10817850	12706949
30	89	0	0	6435675	7500000	0	390375	11316000	13134225
31	90	0	0	6516300	7500000	0	408300	11833570	13575674
32	91	0	0	6596550	7500000	0	431025	12377330	14036325
33	92	0	0	6678000	7500000	0	452550	12949280	14514450
34	93	0	0	6762525	7500000	0	472350	13551750	15007501
35	94	0	0	6852075	7500000	0	485850	14182800	15507751

Security Financial Life Insurance Co.
 Supplemental Illustration: Conversion Policy
 Annual Premiums and Benefits

Prepared by:	Coverage Summary	Amount	Premium
Security Financial Life	Life Paid Up at 85 - L85 #	7500000	51040.00
	Conversion Age: 59		
Prepared For:	Current Age: 40	Funding Age: 40	
WILSON	Entry Age: 25	Dividend Option: W	
Female Age 59 - Non-Tobacco			

		--- Guaranteed Basis ----				Non Guaranteed ----- Illustrated Basis -----			
Yr	Age	Contract Premium	Premium Outlay	Surr Value	Death Benefit	Premium Outlay	Annual Dividend	Surr Value	Death Benefit
36	95	0	0	6947925	7500000	0	500625	14847080	16015801
37	96	0	0	7050075	7500000	0	517350	15547430	16532924
38	97	0	0	7155300	7500000	0	548100	16291800	17073224
39	98	0	0	7256400	7500000	0	596025	17081780	17654025
40	99	0	0	7337325	7500000	0	647550	17883150	18279599
41	100	0	0	7500000	7500000	0	488025	18767620	18767625

< Premium outlay assumes that dividends are being used to pay premiums. The policy is not paid-up. If dividends are less than illustrated, additional payments would be required.

Assumes required reserve deposits were made prior to conversion. Premium can change as determined by Trust Administrator.

All values are based on the conversion policy currently in use. Actual values will depend on the policy in use at time of conversion.

Security Financial Life Insurance Co.
 Supplemental Illustration: Conversion Policy
 Annual Premiums and Benefits

Prepared by:	Coverage Summary	Amount	Premium
Security Financial Life	Life Paid Up at 85 - C85 #	3311274	22556.66
	Conversion Age: 59		
Prepared For:	Current Age: 40	Funding Age: 40	
WILSON	Entry Age: 25	Dividend Option: V	
Female Age 59 - Non-Tobacco			

		--- Guaranteed Basis ---				----- Non Guaranteed Illustrated Basis -----			
Yr	Age	Contract Premium	Surr Outlay	Death Value	Premium Outlay	Annual Dividend	Surr Value	Death Benefit	
1	60	112,127	112,127	0	22,557	0	0	3311274	
2	61	112,127	112,127	6854	22,557	181226	188080	3492500	
3	62	112,127	112,127	96391	0<	192716	447777	3662660	
4	63	112,127	112,127	187882	0<	205067	721778	3845170	
5	64	112,127	112,127	280995	0<	218312	1010646	4040925	
6	65	112,127	112,127	375664	0<	232485	1315244	4250853	
7	66	112,127	112,127	471890	0<	247716	1636629	4476013	
8	67	112,127	112,127	569970	0<	264041	1976193	4717498	
9	68	112,127	112,127	670301	0<	281558	2335526	4976499	
10	69	112,127	112,127	773183	0<	300333	2716183	5254275	
11	70	112,127	112,127	878647	0<	320465	3119556	5552183	
12	71	112,127	112,127	986495	0<	342055	3546902	5927608	
13	72	112,127	112,127	1096363	0<	361989	3998519	6502803	
14	73	112,127	112,127	1207589	0<	372088	4483780	7093825	
15	74	112,127	112,127	1319741	0<	382850	4993080	7692596	
16	75	112,127	112,127	1432623	0<	394505	5527181	8300936	
17	76	112,127	112,127	1546398	0<	407287	6087210	8921097	
18	77	112,127	112,127	1661531	0<	421062	6674723	9555464	
19	78	112,127	112,127	1778750	0<	435499	7291506	10205659	
20	79	112,127	112,127	1898983	0<	449373	7938357	10872245	
21	80	112,127	112,127	2015407	0<	462883	8587791	11525090	
22	81	112,127	112,127	2135706	0<	477784	9266463	12195118	
23	82	112,127	112,127	2260971	0<	491757	9974472	12883460	
24	83	112,127	112,127	2392826	0<	505863	10713080	13593654	
25	84	112,127	112,127	2533787	0<	519506	11484040	14329810	
26	85	112,127	112,127	2688059	0<	530797	12289760	15095469	
27	86	0	0	2728755	0	459340	12921520	15642061	
28	87	0	0	2767662	0	482055	13573970	16207494	
29	88	0	0	2805079	0	506658	14250100	16793788	
30	89	0	0	2841371	0	529042	14949310	17398129	
31	90	0	0	2876967	0	553281	15675510	18022337	
32	91	0	0	2912398	0	584043	16438030	18673401	
33	92	0	0	2948359	0	613116	17239390	19348701	
34	93	0	0	2985677	0	639970	18082630	20044830	
35	94	0	0	3025213	0	658314	18965290	20751489	

Security Financial Life Insurance Co.
 Supplemental Illustration: Conversion Policy
 Annual Premiums and Benefits

Prepared by:	Coverage Summary	Amount	Premium
Security Financial Life	Life Paid Up at 85 - C85 #	3311274	22556.66
	Conversion Age: 59		
Prepared For:	Current Age: 40	Funding Age: 40	
WILSON	Entry Age: 25	Dividend Option: V	
Female Age 59 - Non-Tobacco			

		--- Guaranteed Basis ----				Non Guaranteed ----- Illustrated Basis -----			
Yr	Age	Contract Premium	Premium Outlay	Surr Value	Death Benefit	Premium Outlay	Annual Dividend	Surr Value	Death Benefit
36	95	0	0	3067531	3311274	0	678348	19893600	21469439
37	96	0	0	3112631	3311274	0	700997	20871520	22200537
38	97	0	0	3159088	3311274	0	742619	21909840	22963816
39	98	0	0	3203724	3311274	0	807355	23010770	23782729
40	99	0	0	3239453	3311274	0	876991	24128190	24663130
41	100	0	0	3311274	3311274	0	661857	25324990	25324987

< Premium outlay assumes that dividends are being used to pay premiums. The policy is not paid-up. If dividends are less than illustrated, additional payments would be required.

Assumes required reserve deposits were made prior to conversion. Premium can change as determined by Trust Administrator. Employee must waive insurance at conversion.

All values are based on the conversion policy currently in use. Actual values will depend on the policy in use at time of conversion.

Section 79 GEAR

Sample cases

- With many different sizes and types of businesses these previously listed goals *can* be met:
 - Costs may be **tax deductible***
 - Benefits should be **non-discriminatory**
 - Benefits should be **owner-friendly**, if possible
 - Benefits should **reward long-term employees**, if possible

*The deductibility of contributions made to the plan, and the taxation of such contributions to controlling shareholders or employees, will ultimately depend upon the facts and circumstances surrounding each employer's participation in the plan. Security Financial Life does not provide legal, tax or ERISA advice and does not authorize any of its agents to provide such advice. **All questions of a tax or legal nature should be referred to your independent legal or tax advisors.**

Section 79 GEAR

– Tax Considerations

- Is Section 79 GEAR a taxable employee benefit?
 - IRC section 162 provides that “Business expenses deductible* from gross income include the ordinary and necessary expenditures directly connected with or pertaining to the taxpayer’s trade or business. An expense is necessary if the facts and circumstances establish that it is appropriate and helpful for the development of the taxpayer’s business.” An expense need not be essential to qualify as necessary.

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Section 79 GEAR

– Tax Considerations

- Is Section 79 GEAR a taxable employee benefit?
 - IRC section 79 provides the general rule stating “there shall be included in the gross income of an employee for the taxable year an amount equal to the cost of group-term life insurance on his life provided for part or all of such year under a policy (or policies) carried directly or indirectly by his employer (or employers); but **only to the extent that such cost exceeds the sum of:**
 - » **The cost of \$50,000 of such insurance**, and
 - » The amount (if any) paid by the employee toward the purchase of such insurance, (emphasis added).”

Section 79 GEAR

– Tax Considerations

- Is Section 79 GEAR a taxable employee benefit?
 - For example, a 50 year-old employee receiving \$150K of Section 79 GEAR would be required to report an additional \$276 of taxable income on their year end W-2. In a 30% tax bracket this is a net cost of \$83 in additional tax liability.

Table I. - Uniform Premium Table	
5-year age bracket	Cost per \$1,000.00 of protection per 1-month period
Under 25	\$0.05
25 to 29	\$0.06
30 to 34	\$0.08
35 to 39	\$0.09
40 to 44	\$0.10
45 to 49	\$0.15
50 to 54	\$0.23
55 to 59	\$0.43
60 to 64	\$0.66
65 to 69	\$1.27
70 and above	\$2.06

Uniform premiums for \$1,000.00 of group term life insurance protection

Section 79 GEAR

– Tax Considerations

- Is Section 79 GEAR a taxable employee benefit?
 - IRC section 419(a) and (c)(1) provide special additional rules for funded welfare benefit plans. Deductions* may be allowed for additions to reserves for future payments of life insurance benefits subject to the limits of Code Sec. 419A. A reserve can be set aside for amounts reasonably and actuarially necessary to fund claims incurred but unpaid for the tax year, plus administrative costs.

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Section 79 GEAR

– Tax Considerations

- Is Section 79 GEAR a taxable employee benefit?
 - IRC section 83 provides, in general, such **property is not taxable under section 83 until it has been transferred** to the person and becomes substantially vested [as defined in §1.83-3(a) “the amount (if any) paid for such property (transferred), shall be included in the gross income of the person who performed such services in the first taxable year in which the rights of the person having the beneficial interest in such property are transferable **or are not subject to a substantial risk of forfeiture**] (emphasis added).”

Section 79 GEAR

– Tax Considerations

- Is Section 79 GEAR a taxable employee benefit?
 - IRC section 83 - Additionally, reg. 1.83-3(e) states: **In the case of a transfer of a life insurance contract . . . only the cash surrender value of the contract is considered to be property.** When a policy is converted, the resulting whole life policy is not term insurance. If the conversion into a whole life policy is a transfer to the employee, Reg. Section 1.83-3(e) provides that the cash surrender value is taxable upon a transfer by an employer to an employee (although there is no direct transfer from the employer under GEAR).

Section 79 GEAR

– Tax Considerations

- Is Section 79 GEAR a taxable employee benefit?
 - IRC Section 61 – “However, the following features are ***not permanent benefits***:
 - » A ***right to convert (or continue) life insurance*** after group life insurance coverage terminates
 - » Any other feature that provides no economic benefit (other than current insurance protection) to the employee
 - » A feature under which term life insurance is provided at a level premium for a period of five years or less.”

Section 79 GEAR

– Tax Considerations

- Is Section 79 GEAR a taxable employee benefit?

Right to convert is not permanent, therefore, is excludable from income

Value of transfer is cash surrender value

Transfers not taxable if subject to a “substantial risk of forfeiture”

Reserve can be set aside to fund future claims

Taxable income to employee is the Table I charge

Business expenses are deductible*

*The deductibility of contributions made to the plan, and the taxation of such contributions to controlling shareholders or employees, will ultimately depend upon the facts and circumstances surrounding each employer’s participation in the plan. Security Financial Life does not provide legal, tax or ERISA advice and does not authorize any of its agents to provide such advice. **All questions of a tax or legal nature should be referred to your independent legal or tax advisors.**

Section 79 GEAR

Creating the need

- Several reasons exist for utilizing Section 79 GEAR as a planning tool, including:
 - Employee fringe benefits
 - Buy-Sell alternative
 - Business transition
 - Wealth preservation
 - Lifestyle enhancement and protection

Section 79 GEAR

Creating the need

- Several reasons exist for utilizing Section 79 GEAR as a planning tool, including:
 - Employee fringe benefits
 - Buy-Sell alternative
 - **Business transition**
 - Wealth preservation
 - Lifestyle enhancement and protection

Section 79 GEAR

Creating the need: Business transition

- Scenario 1
 - Jr. Officers want to buy a business from Sr. Officers.
 - Jr. Officers buy for \$1.0 million

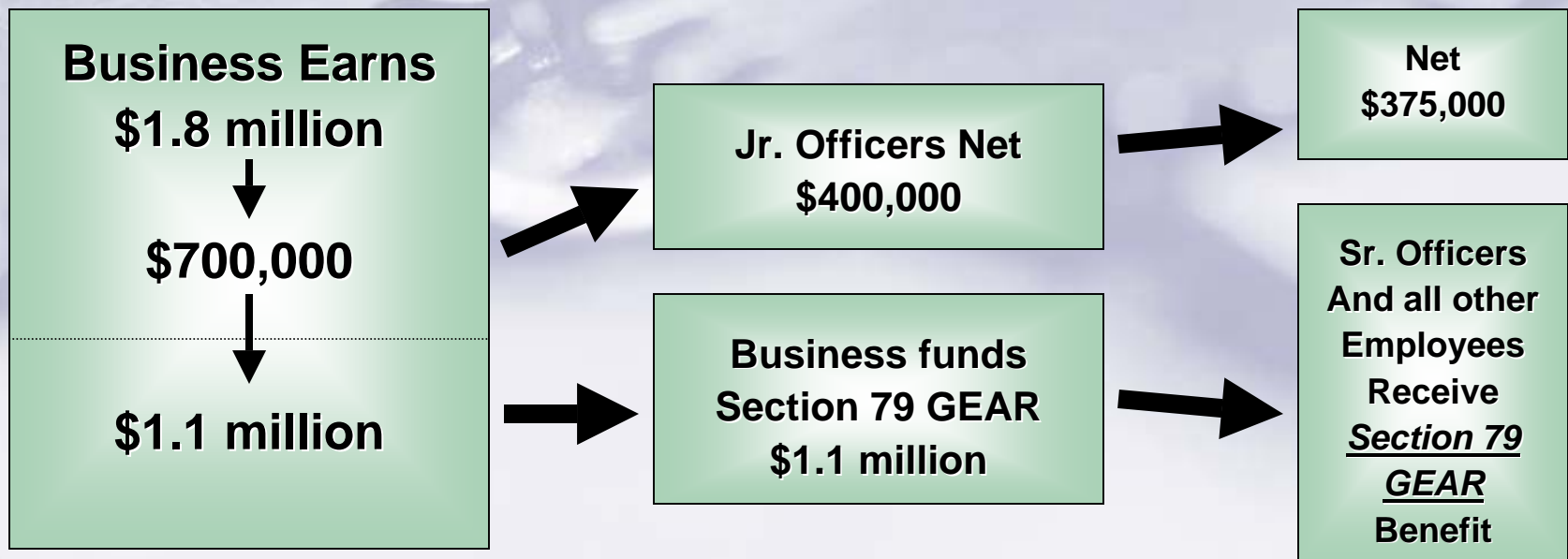


Assumptions: Business basis of \$300,000, 20% capital gains tax rate, 45% income tax rate

Section 79 GEAR

Creating the need: Business transition

- Scenario 2
 - Jr. Officers buy for \$400,000.
 - Business adopts Section 79 GEAR Plan for \$1.1 million

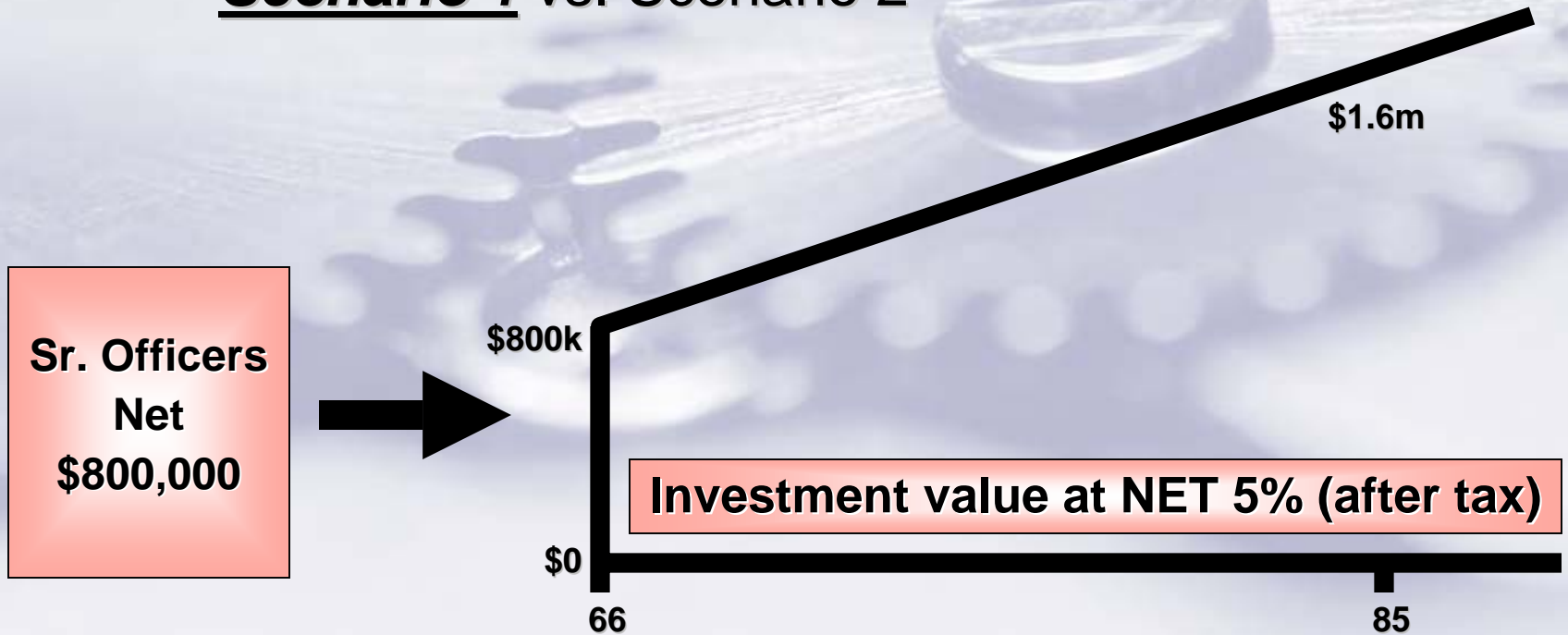


Assumptions: Business basis of \$300,000, 20% capital gains tax rate, 45% income tax rate

Section 79 GEAR

Creating the need: Business transition

- Scenario 1 vs. Scenario 2



Assumptions: Business basis of \$300,000, 20% capital gains tax rate, 45% income tax rate

Section 79 GEAR

Creating the need: Business transition

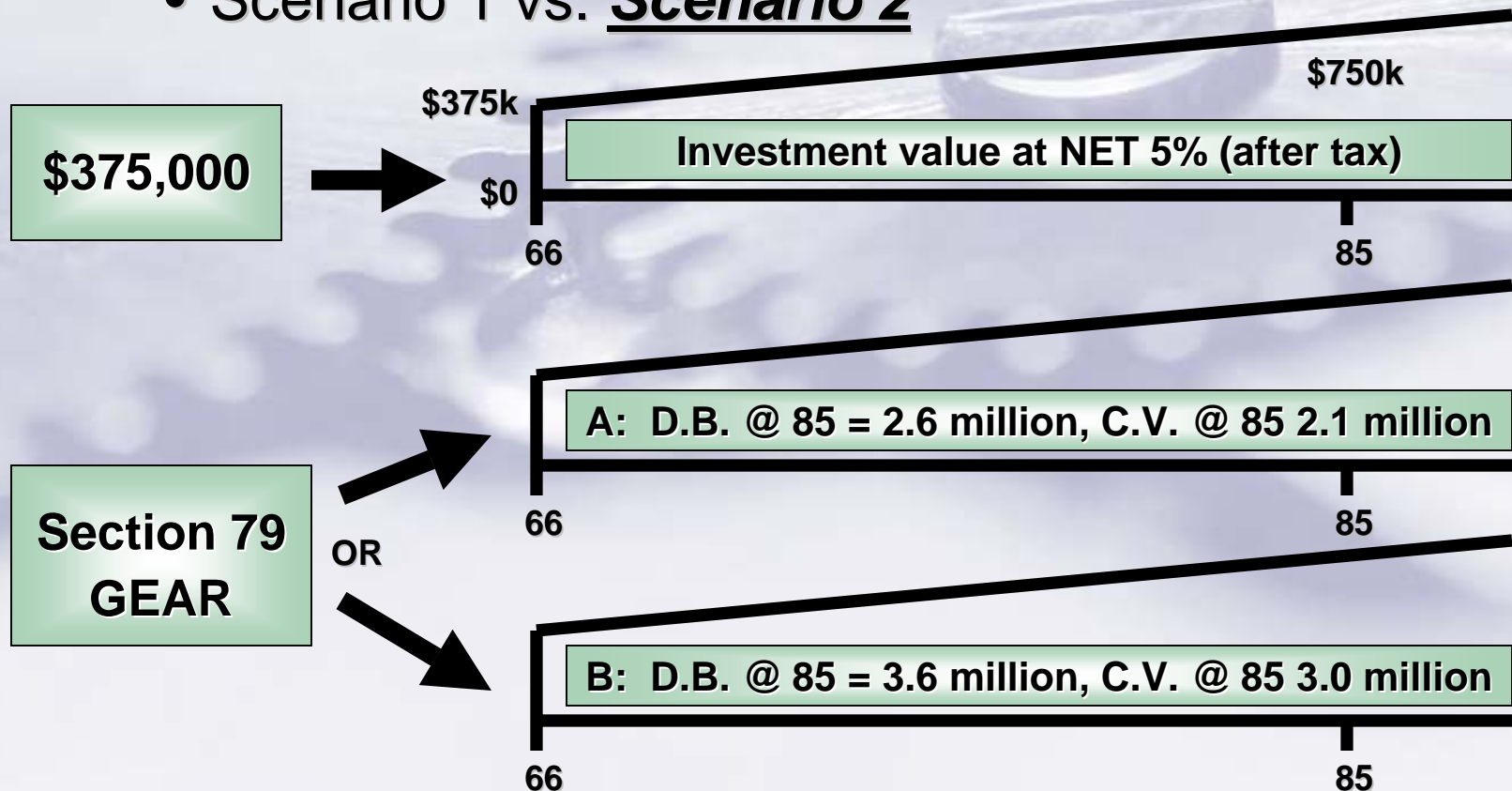
- Scenario 1 vs. Scenario 2

Scenario 1 Net Total
\$1.6 million

Section 79 GEAR

Creating the need: Business transition

- Scenario 1 vs. Scenario 2



Assumptions: Business basis of \$300,000, 20% capital gains tax rate, 45% income tax rate

Section 79 GEAR

Creating the need: Business transition

- Scenario 1 vs. Scenario 2

Scenario 2 Net Total

**A: Net C.V. \$2.8 million
and D.B. \$3.3 million**

**B: Net C.V. \$3.7 million
and D.B. \$4.3 million**

Section 79 GEAR

**Scenario 1 Net Total
\$1.6 million**

Scenario 2 Net Total

**A: Net C.V. \$2.8 million
and D.B. \$3.3 million**

**B: Net C.V. \$3.7 million
and D.B. \$4.3 million**

Section 79 GEAR

Scenario 2

**A 75% to 168%
IMPROVEMENT !!!**

Section 79 GEAR

Creating the need

- Several reasons exist for utilizing Section 79 GEAR as a planning tool, including:
 - Employee fringe benefits
 - Buy-Sell alternative
 - Business transition
 - Wealth preservation
 - Lifestyle enhancement and protection

Section 79 GEAR

Creating the need

- Several reasons exist for utilizing Section 79 GEAR as a planning tool, including:
 - Employee fringe benefits
 - Buy-Sell alternative
 - Business transition
 - Wealth preservation
 - **Lifestyle enhancement and protection**

Section 79 GEAR

Creating the need: Lifestyle enhancement and protection

- Problem

- Small business owner has fully funded a qualified plan with 10 years to retirement
- Desires additional employee benefit* planning
- Concerned about retirement income for surviving spouse



Assumptions: Standard life expectancy, Male age 65, Female age 65, 5% after-tax rate of return

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Section 79 GEAR

Creating the need: Lifestyle enhancement and protection

- Problem
 - Small business owner has fully funded a qualified plan with 10 years to retirement
 - Desires additional employee benefit* planning
 - Concerned about retirement income for surviving spouse

A \$42,000 Reduction in Annual Income!

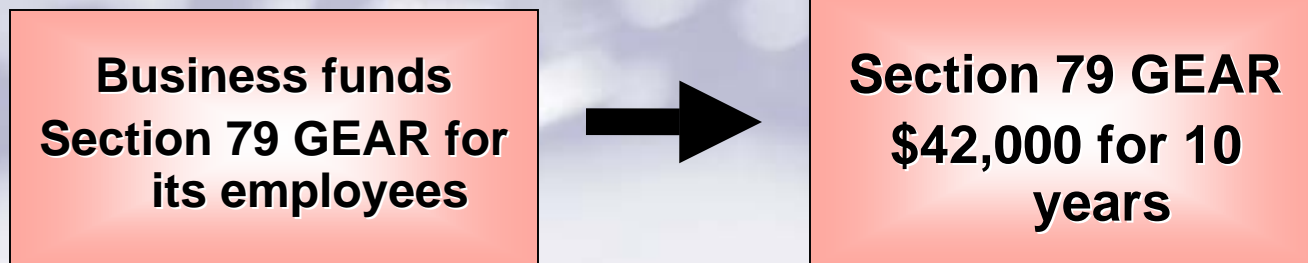
Assumptions: Standard life expectancy, Male age 65, Female age 65, 5% after-tax rate of return

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Section 79 GEAR

Creating the need: Lifestyle enhancement and protection

- Solution
 - Instead, adopt a Section 79 GEAR plan, funded with \$42,000 for 10 years



Section 79 GEAR

Creating the need: Lifestyle enhancement and protection

- Solution
 - Instead, adopt a Section 79 GEAR plan, funded with \$42,000 for 10 years

**Section 79 GEAR
Death Benefit
\$850,000 to 1.2 million**



**For Surviving Spouse
Death Benefit Replaces
\$110,000
Income p/yr @ age 70+**

AND/OR



**For Heirs/Charity
\$850,000 to 1.2 million
Death Benefit**

Group Life Insurance and Taxation

Goals Today:

- ✓ – Understanding group life insurance history and its role in today's tax law.
- ✓ – Helping small business owners discover how to best utilize a unique tax-advantaged fringe benefit
- ✓ – Creating the opportunity for the fringe benefit to last well beyond the working years of participants

Section 79 GEAR

What Next?:

– Suitability

- To determine if a particular business is a potential candidate, please complete an “Employer Census”.

Section 79 GEAR

Marketing:

– Quality Prospects

- The best Section 79 GEAR prospects fall into three categories
 - Your existing small business owner clients
 - Client base of local CPA
 - People in your community with whom you do business

Section 79 GEAR

Marketing:

– Quality Prospects

- The best Section 79 GEAR prospects should have all of the following business characteristics:
 - C corporation (or are considering becoming one)
 - Profitable business
 - Small size (1-200 employees)

Section 79 GEAR

Marketing:

– SFL's Role:

- Marketing material, including brochures and presentations are available
- SFL is available to do in-person meetings with CPAs, clients and prospects in effort to generate business.
- Please contact us at, (800) 284-8575 x566 for more information on how to utilize our resources to help you successfully market Section 79 GEAR.