"Fully Insured" Plan Overview & FAQ 2021

SECURITY MUTUAL LIFE
The Company That Cares.®

What is a "Fully Insured" Plan?

A "Fully Insured" Plan is a Defined Benefit Pension Plan where all forms of benefit are guaranteed by an insurance company whose annuity and life insurance contracts are exclusively used to fund the Plan.

Why are these Plans popular?

"Fully Insured" Plans are an exception to the usual funding rules of IRC Sections 412 and 430 as, by statute, the value of the accrued benefit always equals the cash surrender value of the contracts. The guaranteed returns remove investment market risk and create large tax-deductible contributions for the Plan Sponsor.

How much life insurance can I put in a "Fully Insured" Plan?

Despite its "Fully Insured" name, the amount of whole life insurance that can be acquired is limited in all Defined Benefit Plans. Generally, death benefits will be considered incidental if less than 50% of the employer's contribution is used to purchase whole life insurance.

When does the life insurance need to be removed?

The life insurance held by the Plan is used to fund the pre-retirement survivor benefit. Thus, upon retirement or separation from service, it needs to be removed from the Plan. Generally, the policy may be: 1) surrendered for its cash value, 2) distributed to the participant, 3) purchased by the participant, or 4) exchanged for a policy outside the Plan. *(Please refer to "Beyond Retirement and Separation from Services," form 0014975XX.)*

Can a "lump-sum" distribution be taken from a "Fully Insured" Plan?

Yes. However, as with all Defined Benefit Plans, the lump-sum limit is defined by IRC 415(b)(2)—not the insurance company. Stated another way, all Defined Benefit Plans share the same limit—a "Fully Insured" Plan will simply guarantee that the lump sum will be there at Normal Retirement Age. Plan guarantees are derived from the life insurance and/or annuity contracts and are dependent on the financial strength and claims-paying ability of the issuing insurance company.

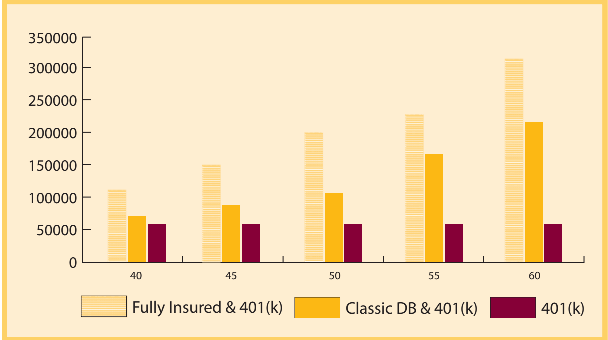
How does the IRS view "Fully Insured" Plans?

"Fully Insured" Plans entered the Code in 1974 along with ERISA, and Security Mutual Life has designed, issued and serviced these Plans for many years. An abusive Plan is generally one whose life insurance form or amount is inappropriate, including "springing cash values" and insurance coverage that is not *incidental* to the Plan benefits.

Please read our "Fully Insured" Professional Advisor's Guide for more detailed information. Visit SMLplans.com for comprehensive resources 24/7.

First-Year Plan Contributions by Age

Business Owner with $290,000 of Compensation



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