Qualified Life Insurance
Beyond Retirement or Separation from Service

When investigating financial-planning options, you may find it beneficial to acquire life insurance within a retirement plan to fund a "pre-retirement survivor benefit." The pre-tax features of this arrangement allow you to acquire life insurance to address your specific objectives and to do so by paying premiums with pre-tax dollars. While this arrangement has many advantages, it is important to bear in mind that once you separate from service, or otherwise terminate employment with the employer, retire, or the plan terminates, it may be necessary to remove the life insurance from the plan.

Options to Choose

If a life insurance policy is to be removed from a retirement plan, you may choose from any one of these options:

- Distribute the Policy
- Purchase the Policy
- Surrender the Policy
- Exchange the Policy
- Annuitize

When exploring which option may be most suitable for you, it is important to keep in mind that a distribution of a life insurance contract from a qualified plan will be taxed using the Fair Market Value of the policy. The IRS has published a "safe harbor" that Security Mutual uses to help you determine the correct value. Please contact our Individual Customer Service team at (800) 765-6668 to obtain this value.

Distribute the Policy

If you elect to take a taxable distribution, the life insurance policy is taken out of the retirement plan, and you continue to maintain the same policy on a non-qualified basis. At the time of the distribution, tax is due on the fair market value of the policy less any accumulated one-year term (often referred to as "PS 58") costs already declared as income. Current federal rules mandate that at least 20 percent of the fair market value be withheld for tax purposes. Dividends can be surrendered, if available or a loan taken to pay the taxes due.

Consider the following example:

- Participant: Current Age 60
- Face Amount of Policy: $100,000
- Fair Market Value: $15,000
- Surrender Value: $10,000
- Tax Basis: $1,000

The taxable amount in this example would be $14,000: the fair market value of $15,000 less the $1,000 "PS 58" cost. Your plan may then need to withhold $2,800 for federal income tax purposes. The original policy may then be continued outside the qualified plan as with any other individual life insurance policy. Any premiums due will then need to be paid with after-tax dollars. Alternatively, a nonforfeiture option may be elected (e.g., reduced paid-up life insurance).

Purchase the Policy from the Plan

Another option you may select is to purchase the life insurance policy for its fair market value. Using this strategy, the assets of the retirement plan are not depleted; you still maintain the life insurance policy outside of the plan unchanged.

Purchase for Fair Market Value

When you purchase the policy for its fair market value, the net cost of the transaction is zero because the value of the policy is substituted for cash, dollar for dollar. In addition, the purchase does not result in a taxable event. Using the previous example, to purchase the policy, $15,000 would need to be contributed to the retirement plan for the life insurance policy with a value of $15,000 to be removed.

To make the policy purchase more affordable, you may modify the policy cash values inside the plan, subject to limitations, prior to the purchase (e.g., surrender paid-up additional insurance or take a withdrawal or partial surrender on a universal life insurance contract).

Surrender the Policy

If your circumstances are such that you no longer desire or need life insurance protection, you may simply surrender the life insurance policy and retain the cash surrender values inside your retirement account. This amount may then be used along with all other retirement plan assets to provide retirement income or can be rolled over to an IRA if you are not yet retired, but you have separated from service, otherwise terminated employment with the employer, or the plan has been terminated.

Exchange the Policy

Through a rider, Security Mutual offers a unique provision in each of its cash value pension life insurance policies–the right to exchange the qualified life policy inside the plan for a new permanent Security Mutual life insurance policy outside the plan, without evidence of insurability, at your attained age. Your risk class will be substantially comparable to that of the pension policy, regardless of your current health. The rider can be exercised due to plan termination, retirement, separation from service or in situations in which the insured remains in service, the policy has been in force at least 10 years from it Policy Date and the insured has attained the age of 55. When you exchange the policy, there is no current taxable event. The old policy is simply surrendered for its cash value, which value remains in the retirement plan.

The face amount of the new policy is based on the policy's net-amount-at-risk as determined by the Company at the time of the exchange. This amount is generally the face amount of the original policy less any accumulated cash value. This new policy may be any single life policy form issued by the Company for the amount of the insurance of the new policy, except for Term insurance or a policy that provides for accelerated benefits in the event of long term care or chronic illness or other long term care or chronic illness benefits.

Planning Considerations

To help you determine which option may be the most beneficial for your particular circumstances, you may wish to ask yourself the following questions:

- Does my policy have sufficient values that I may easily access to pay any taxes due? If so, it may be beneficial to take a taxable distribution.
- Do I have assets I may easily substitute for the cash surrender value? If so, purchasing the policy may be an attractive option.
- Would there be a premature tax penalty for distributing the policy (e.g., not age 55 and retired)? If so, exchanging the policy may be a good choice.
- Has my need for life insurance changed? Perhaps the life insurance policy should be modified.

More Information

It is important to weigh all of your options when you make financial-planning decisions. Your Security Mutual Life Insurance Company of New York representative will be happy to answer any questions you may have about retirement planning; or you may contact our Individual Client Services Department at (800) 765-6668 regarding an existing qualified life insurance policy.

Please note: *The cases illustrated within this brochure are hypothetical and are not intended to reflect your personal retirement plan arrangement. The information contained herein is provided with the understanding that the Company is not engaged in rendering tax, legal, accounting or other professional services. Before making any decisions or taking any action regarding your life insurance policy within a qualified retirement plan, the services of a competent advisor should be sought. Removal of the life insurance policy from the retirement plan could be considered a taxable event or could change the policy's benefits.*

The Security Advantage

For more than 130 years, Security Mutual Life Insurance Company of New York has earned the trust, respect and confidence of hundreds of thousands of policyowners.

Security Mutual is committed to conducting business according to high standards of fairness, honesty and integrity. This guiding philosophy, combined with sound investment and management practices, enables the Company to keep its commitments and earn the public's confidence, year after year.

Security Mutual: commitment to policyowners, a tradition of excellence, a vision for the future.

There are various income, gift and estate tax consequences of utilizing life insurance within a qualified plan. A decision to purchase life insurance within a qualified plan should be made after considering the tax results and your non-tax needs for insurance. We recommend that you discuss your situation with your tax and legal counsel before purchasing an insurance product within a qualified plan.

SECURITY MUTUAL LIFE
INSURANCE COMPANY OF NEW YORK
SECURITY MUTUAL BUILDING • 100 COURT ST.
P.O. BOX 1625 • BINGHAMTON, NY 13902-1625
607-723-3551 • www.smlny.com

The Company That Cares.®

0014975XX 01/2020

Rider Form Nos. MK-3013 Rev. 2/14 in NY; ICC14-MK3013 Rev. 3/14; Series MK-3013