Taxes, Retirement and Other Insurance Concepts

1. **3rd Party Ownership**
    a. When insured and policy owner are different
        i. Child/Parent
        ii. Key Person
        iii. Group Life
        iv. Viatical Settlements -selling policy to a 3rd party when you have a terminal illness
        v. Life Settlements - old person selling policy to a 3rd party
2. **Group Life**
    a. Employer is policyholder – gets Master Policy
    b. Employees get Certificates of Insurance
    c. Evidence of insurability not required
    d. Type of insurance is ART
    e. Conversion Privilege
        i. Convert to a permanent policy – 31 days
        ii. Without proof of insurability
    f. Contributory Plan – employee pays part or all of the premium – 75% participation required
    g. Non-Contributory Plan – employer pays all the premium – 100% participation required
3. **Retirement Plans**
    a. **Qualified Plans** – Qualify for preferential tax treatment – pre-tax dollars used
        i. Must have IRS approval
        ii. Vesting requirement
        iii. Designed for employees and their beneficiaries
        iv. Not favor highly paid employees
        v. Contributions grow tax deferred
    b. **Rollovers** – no penalty for direct rollover
        i. From Qualified Plan to Qualified Plan
        ii. One Plan Trustee to another Plan Trustee
        iii. Direct distribution - 20% withheld - 60 days to put in new plan

c. **Premature Distributions** – 10% IRS Penalty – 59 ½
d. **IRA – Individual Retirement Account**
   i. Anyone with earned income can contribute
   ii. **Low contribution limits**
   iii. Contributions may be tax deductible or even pre-tax dollars
e. **ROTH IRA**
   i. Funded with after tax dollars
   ii. Grows tax free – after 5 years
f. **SEP – Simplified Employee Pension**
   i. Suitable for small employers
   ii. **High contribution limit**
g. **Keogh Plan (HR 10)**
   i. For self employed partners and their employees
h. **TSA – Tax Sheltered Annuity**
   i. **403B** – employees of public school systems
   ii. **501C-3** – Certain non-profits and religious organizations
i. **401K** – Retirement plans for large corporations
j. **SIMPLE Plans** - less than 100 employees
k. **Profit Sharing** - "Systematic and Substantial"

4. Life Insurance Needs/Analysis and Suitability
   a. **Personal Needs –**
      i. **Survivor Protection**
      ii. **Cash accumulation – in a permanent policy**
         1. Living Benefits (Liquidity)
      iii. **Estate Creation**
      iv. **Estate Conservation** – so assets don't have to be sold off

   b. **Business Needs for Life Insurance**
      i. **Executive Bonus**
         1. Employer gives employee wage increase in the amount of the premium on life insurance policy
         2. Employee owns and pays for the policy

i. **Key Person Policy**
    1. Specialized knowledge, skills or business contacts
    2. Business pays premiums – not deductible
    3. Business gets benefit – tax free

ii. **Buy/Sell Agreement**
    1. How is a business going to change hands if one of the owners dies
    2. Funded with life insurance
    3. Business pays the premiums – not deductible
    4. Business gets benefit – tax free
    5. Multiple partners – Cross Purchase Plan

5. **Social Security Benefits**
    a. Formally called Old Age Survivor Disability Insurance
    b. **Insured Status**
        i. Fully insured – 40 quarters of coverage – equivalent to 10 years of work
        ii. Partially insured – 6 out of the last 13 quarters before becoming eligible for benefits
    c. **Retirement**
        i. Age 66 and fully insured
        ii. Partial benefits at 62
        iii. Amount of benefits based on PIA – Primary Insurance Amount
            1. Workers average earnings, age at retirement and any additional earnings earned after retirement
    d. **Disability**
        i. Very hard to qualify for – must have a disability expected to last 12 months or end in death
        ii. 5 month waiting period for benefits to begin
        iii. Fully insured – 40 quarters
            1. Age 23 and under – 6 credits
            2. Ages 24 to 31 – 12 credits

6. **Tax Treatment of Insurance Premiums, Proceeds and Dividends**
   a. **Individual**
      i. Premiums paid with after tax dollars – not tax deductible
      ii. Death benefit tax free – Lump Sum
      iii. Death benefit taxable to an estate if no beneficiary is alive or none listed
      iv. Dividends are tax free
         1. Accumulate at Interest – Interest always taxable
      v. Policy loans not taxed
      vi. Surrender policy - anything in excess of premiums paid is taxed
      vii. Accelerated Benefits not taxed
   b. **Group Life**
      i. Premiums paid by an employer are deductible as a business expense
      ii. Any coverage in excess of $50k - employee pays tax on premiums
   c. **Modified Endowment Contract (MEC)**
      i. Applies to cash value policies
      ii. When over-funded – lose their tax advantages
      iii. 7 Pay Test
      iv. 7 Pay Whole Life Contract
      v. MEC
      vi. LIFO – Last In, First Out (withdrawals or at surrender)
      vii. 10% IRS Penalty – 59 ½
      viii. Tax Deferred – Cash Value