

# **Security Financial Life**

## **Section 79 GEAR**



**A Proposal For:**

**Constantly Green**

**Presented By:**

**M Cole**

## GENERAL PLAN DESCRIPTION

Employers are able to provide employees a death benefit as a fringe benefit on a tax favored basis. To qualify for the tax advantages, the employer's plan must:

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

If these two requirements are met, the employer is able to deduct the entire expense of the plan as an ordinary business expense under IRC Sec. 162. Each employee must pay tax on the "economic value" as determined by IRC Sec. 79. That section states that there is no charge if the death benefit is \$50,000 or less. For amounts greater than \$50,000, the charge is found in a table in the tax code. That table is shown on page 3.

**Fringe Benefit Administrators** administers a multiple-employer 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 statues 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.

## **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. A premium stabilization account is established by additional group insurance premiums. At conversion (a selected age or years of funding), each employee has the right to convert group coverage to an individual life insurance policy. The premium stabilization account permits each employee to pay an affordable premium based on age when employment started. This enables employees to provide a death benefit to their beneficiaries for their whole life.

### **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. IRC Section 79 includes a reference to permitted classes as including an arrangement where the top class is no more than 10 times the lowest class and each class in-between is no more than 2 ½ times the next lower class.

### **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.

## EMPLOYEE TAXATION

### PRE-CONVERSION

Employees are taxed on the economic value of the death benefit as determined by IRC Section 79.

#### *Uniform Premium Table I*

| Age          | Value Per \$,1000 |
|--------------|-------------------|
| Under 25     | \$ .60            |
| 25 to 29     | .72               |
| 30 to 34     | .96               |
| 35 to 39     | 1.08              |
| 40 to 44     | 1.20              |
| 45 to 49     | 1.80              |
| 50 to 54     | 2.76              |
| 55 to 59     | 5.16              |
| 60 to 64     | 7.92              |
| 65 to 69     | 15.24             |
| 70 and above | 24.72             |

### POST-CONVERSION

Section 79 provides that the conversion privilege is not a permanent benefit that results in a taxable event. Because the conversion policy is not part of the employer's plan of group insurance, there is no Table I charge after conversion. With proper ownership, death proceeds can be estate tax free.

## EXPLANATION OF ILLUSTRATION PAGES

- Page 8 – This page shows the total cost in the first year for all employees. The cost includes the term (cost of the death benefit) and the reserve deposit for those who meet requirements for current funding. For others, the year deposits start is shown in the column titled “Dep Start Year”.
- Page 8 – This page shows the costs for 20 years, assuming no change in plan design or census data.
- Page 9 – This page shows the pre-conversion cost for a given employee. The first column lists the yearly cost of the death benefit. The next column lists the annual deposit for the reserve. The total cost is deductible by the employer. The next column shows the value in the reserve for that employee at the end of each year. The “Reported as Income” column is the economic value of the death benefit that must be charged to the employee each year. This amount is not exact. The actual amount will depend upon any other coverage and the date during the year that the coverage is issued.
- Page 10 & 11 – These pages, if included, show the values of an employee’s conversion policy. This illustration demonstrates the maximum death benefit, and assumes the employee pays only a few annual premiums. Policy loans are available for emergencies or any other need. Currently, these loans are not subject to income tax.
- Page 12 & 13 – These pages, if included, are the same as “10 & 11”, except the owner elects a lower death benefit. This option may actually provide a larger death benefit in later policy years by applying the higher dividends to purchase paid-up additional insurance.

**EMPLOYER SUMMARY****FOR Constantly Green, Inc.****SECTION 79 GEAR****GROUP INSURANCE PLAN****GENERAL:**

|                        |            |
|------------------------|------------|
| RUN DATE               | 11-04-2002 |
| EFFECTIVE DATE:        | 09-01-2002 |
| NORMAL CONVERSION AGE: | 59         |

**PRE-CONVERSION COVERAGE:**

|                         |                          |
|-------------------------|--------------------------|
| INSURANCE TYPE:         | SFL ART                  |
| COVERAGE FORMULA:       | 5.000 TIMES COMPENSATION |
| MINIMUM AMOUNT:         | \$0                      |
| MAXIMUM AMOUNT:         | \$0                      |
| NUMBER OF PARTICIPANTS: | 10                       |

**POST-CONVERSION PLAN:**

|                          |                          |
|--------------------------|--------------------------|
| POST-CONVERSION BENEFIT: | Retirement Life          |
| COVERAGE FORMULA:        | 5.000 TIMES COMPENSATION |
| MINIMUM AMOUNT:          | \$0                      |
| MAXIMUM AMOUNT:          | \$0                      |
| NUMBER OF PARTICIPANTS:  | 10                       |

**DEPOSIT FUNDING:**

|                              |                                 |
|------------------------------|---------------------------------|
| BEGINS:                      | EARLIER OF AGE 45 OR 10 YRS SVC |
| ASSUMED RESERVE INTEREST:    | 5.750%                          |
| PAST SERVICE CREDIT:         | NO MAXIMUM YEARS                |
| MINIMUM FUNDING YEARS:       | 10                              |
| RESERVE PLAN:                | 1                               |
| CURRENT PARTICIPANTS FUNDED: | 2                               |

ILLUSTRATION SYSTEM  
P.O. BOX 82248  
VERSION DATE  
01-02-02

Security Financial Life  
4000 Pine Lake Road  
P.O. Box 82248  
Lincoln, NE 68501-2248  
(800) 284-8575

REPRESENTATIVE:  
Michael Cole  
X566

**EMPLOYER SUMMARY**  
**Employee Census & Underwriting**

RUN DATE: 11-04-2002

EMPLOYER: Constantly Green, Inc.  
2002

EFF DATE: 09-01-

| <b>EMPLOYEE</b> | <b>CURRENT<br/>AGE</b> | <b>ENTRY<br/>AGE</b> | <b>COMP</b> | <b>SEX</b> | <b>UND<br/>CLASS</b> |
|-----------------|------------------------|----------------------|-------------|------------|----------------------|
| Bill            | 51                     | 39                   | 200000      | M          | NT                   |
| Sam             | 50                     | 38                   | 200000      | M          | NT                   |
| Jane            | 29                     | 26                   | 32000       | F          | NT                   |
| Wilma           | 28                     | 25                   | 29000       | F          | NT                   |
| Steve           | 37                     | 36                   | 38000       | M          | NT                   |
| Judy            | 42                     | 38                   | 31000       | F          | NT                   |
| Nancy           | 23                     | 22                   | 18000       | F          | NT                   |
| Aaron           | 21                     | 20                   | 16500       | M          | NT                   |
| Jim             | 29                     | 24                   | 28000       | M          | NT                   |
| Carl            | 41                     | 39                   | 34000       | M          | NT                   |

ILLUSTRATION SYSTEM  
P.O. BOX 82248  
VERSION DATE  
01-02-02

Security Financial Life  
4000 Pine Lake Road  
P.O. Box 82248  
Lincoln, NE 68501-2248  
(800) 284-8575

REPRESENTATIVE:  
Michael Cole  
X566

**EMPLOYER SUMMARY  
PRE-CONVERSION EXPENSES**

EMPLOYER: Constantly Green, Inc.

RUN DATE: 11-04-2002

EFF DATE: 09-01-2002

| YEAR         | GROUP<br>INS. PD.<br>EMPLOYER* | RESERVE<br>ANNUAL<br>DEPOSIT** | TOTAL<br>ANNUAL<br>COST | RESERVE<br>ACCUM<br>VALUE** |
|--------------|--------------------------------|--------------------------------|-------------------------|-----------------------------|
| 1            | 9472                           | 60797                          | 70270                   | 8349                        |
| 2            | 10354                          | 60797                          | 71152                   | 63421                       |
| 3            | 11180                          | 60797                          | 71977                   | 126155                      |
| 4            | 11972                          | 63080                          | 75052                   | 192497                      |
| 5            | 12663                          | 65991                          | 78654                   | 264604                      |
| 6            | 13037                          | 67182                          | 80219                   | 343593                      |
| 7            | 13060                          | 67182                          | 80241                   | 428224                      |
| 8            | 12909                          | 69594                          | 82502                   | 518052                      |
| 9            | 12705                          | 73106                          | 85811                   | 614659                      |
| 10           | 12594                          | 74239                          | 86833                   | 720510                      |
| <b>TOTAL</b> | <b>119945</b>                  | <b>662765</b>                  | <b>782710</b>           | <b>720510</b>               |
| 11           | 2515                           | 13442                          | 15957                   | 56646                       |
| 12           | 2705                           | 13442                          | 16147                   | 72731                       |
| 13           | 2895                           | 13442                          | 16337                   | 89742                       |
| 14           | 3085                           | 13442                          | 16526                   | 107730                      |
| 15           | 3283                           | 13442                          | 16724                   | 126825                      |
| 16           | 3431                           | 13442                          | 16873                   | 147108                      |
| 17           | 3547                           | 13442                          | 16989                   | 168595                      |
| 18           | 3045                           | 11159                          | 14204                   | 146283                      |
| 19           | 2280                           | 8248                           | 10528                   | 107929                      |
| 20           | 2357                           | 8248                           | 10605                   | 122194                      |
| <b>TOTAL</b> | <b>149088</b>                  | <b>784513</b>                  | <b>933601</b>           | <b>122194</b>               |

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

\*\* Reserve deposits assume 5.750% 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.

ILLUSTRATION SYSTEM  
P.O. BOX 82248  
VERSION DATE  
01-02-02

Security Financial Life  
4000 Pine Lake Road  
P.O. Box 82248  
Lincoln, NE 68501-2248  
(800) 284-8575

REPRESENTATIVE:  
Michael Cole  
X566

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

|                          |                   |         |          |
|--------------------------|-------------------|---------|----------|
| FOR: Bill                |                   |         | First Yr |
| Male 51 - Non-Tobacco    | Coverage          | Amount  | Premium  |
| Conversion Age 59        | Group Term        | 1000000 | 4274.00  |
| Funding Begins at Age 51 | 2002 GEAR Deposit | 1000000 | 30895.37 |
| Funding Period 10 Years  |                   |         |          |
| Entry Age 39             |                   |         |          |

| Yr/<br>Age       | Group<br>Ins. Pd<br>Employer* | Reserve<br>Annual<br>Deposits** | Total<br>Annual<br>Cost* | Reserve<br>Accum<br>Value** | Reported<br>As Inc.+ | Tax Cost<br>In 30 %<br>Tax Brac |
|------------------|-------------------------------|---------------------------------|--------------------------|-----------------------------|----------------------|---------------------------------|
| 1                | 4274                          | 30895                           | 35169                    | 4243                        | 2622                 | 787                             |
| 2                | 4690                          | 30895                           | 35585                    | 32229                       | 2622                 | 787                             |
| 3                | 5073                          | 30895                           | 35968                    | 64109                       | 2622                 | 787                             |
| 4                | 5407                          | 30895                           | 36302                    | 97823                       | 2622                 | 787                             |
| 5                | 5693                          | 30895                           | 36588                    | 133474                      | 4902                 | 1471                            |
| 6                | 5715                          | 30895                           | 36610                    | 171176                      | 4902                 | 1471                            |
| 7                | 5620                          | 30895                           | 36515                    | 211046                      | 4902                 | 1471                            |
| 8                | 5455                          | 30895                           | 36350                    | 253208                      | 4902                 | 1471                            |
| 9                | 5297                          | 30895                           | 36192                    | 297794                      | 4902                 | 1471                            |
| 10               | 5206                          | 30895                           | 36101                    | 344944                      | 7244                 | 2173                            |
| <b>Total</b>     | <b>52429</b>                  | <b>308954</b>                   | <b>361382</b>            | <b>344944</b>               | <b>42242</b>         | <b>12673</b>                    |
| <b>Total @60</b> | <b>47223</b>                  | <b>278058</b>                   | <b>325281</b>            | <b>297794</b>               | <b>34998</b>         | <b>10499</b>                    |
| <b>Total @61</b> | <b>52429</b>                  | <b>308954</b>                   | <b>361382</b>            | <b>344944</b>               | <b>42242</b>         | <b>12673</b>                    |

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 5.750% 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.

ILLUSTRATION SYSTEM  
P.O. BOX 82248  
VERSION DATE  
01-02-02

Security Financial Life  
4000 Pine Lake Road  
P.O. Box 82248  
Lincoln, NE 68501-2248  
(800) 284-8575

REPRESENTATIVE:  
Michael Cole  
X566

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

**OPTION 1 – Non-Waive Down Page 1**

|                           |                    |                             |
|---------------------------|--------------------|-----------------------------|
| Prepared by:              | Coverage Summary   | Amount Premium              |
| M. Cole                   | Life Paid Up at 85 | <b>L85</b> # 441536 6950.04 |
|                           | Conversion Age: 59 |                             |
| Prepared For:             | Current Age: 51    | Funding Age: 51             |
| Bill                      | Entry Age: 39      | Dividend Option: V          |
| Male Age 61 - Non-Tobacco |                    |                             |

| Guaranteed Basis |     |                  |                     |                  |               | Non-Guaranteed Illustrated Basis |                 |            |                    |
|------------------|-----|------------------|---------------------|------------------|---------------|----------------------------------|-----------------|------------|--------------------|
| Yr               | Age | Contract Premium | Surr Premium Outlay | Death Surr Value | Death Benefit | Premium Outlay                   | Annual Dividend | Surr Value | Death Benefit      |
| 1                | 62  | 49,690           | 49,690              | 0                | 1000000       | 15,690                           | 0               | 0          | <b>\$1,000,000</b> |
| 2                | 63  | 49,690           | 49,690              | 5460             | 1000000       | 15,690                           | 17320           | 22780      | 1031590            |
| 3                | 64  | 49,690           | 49,690              | 38540            | 1000000       | 0 $\alpha$                       | 17380           | 57600      | 1033860            |
| 4                | 65  | 49,690           | 49,690              | 71760            | 1000000       | 0 $\alpha$                       | 17450           | 92660      | 1036200            |
| 5                | 66  | 49,690           | 49,690              | 105140           | 1000000       | 0 $\alpha$                       | 17520           | 128010     | 1038630            |
| 6                | 67  | 49,690           | 49,690              | 138700           | 1000000       | 0 $\alpha$                       | 17600           | 163650     | 1041140            |
| 7                | 68  | 49,690           | 49,690              | 172480           | 1000000       | 0 $\alpha$                       | 17680           | 199640     | 1043740            |
| 8                | 69  | 49,690           | 49,690              | 206540           | 1000000       | 0 $\alpha$                       | 17770           | 236050     | 1046430            |
| 9                | 70  | 49,690           | 49,690              | 240850           | 1000000       | 0 $\alpha$                       | 17860           | 272840     | 1049220            |
| 10               | 71  | 49,690           | 49,690              | 275350           | 1000000       | 0 $\alpha$                       | 17960           | 309980     | 1052110            |
| 11               | 72  | 49,690           | 49,690              | 309940           | 1000000       | 0 $\alpha$                       | 18070           | 347350     | 1055120            |
| 12               | 73  | 49,690           | 49,690              | 344500           | 1000000       | 0 $\alpha$                       | 18190           | 384860     | 1058260            |
| 13               | 74  | 49,690           | 49,690              | 378970           | 1000000       | 0 $\alpha$                       | 18310           | 422440     | 1061530            |
| 14               | 75  | 49,690           | 49,690              | 413380           | 1000000       | 0 $\alpha$                       | 18450           | 464260     | 1069080            |
| 15               | 76  | 49,690           | 49,690              | 447910           | 1000000       | 0 $\alpha$                       | 18590           | 507080     | 1077480            |

$\alpha$  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.

ILLUSTRATION SYSTEM  
P.O. BOX 82248  
VERSION DATE  
01-02-02

Security Financial Life  
4000 Pine Lake Road  
P.O. Box 82248  
Lincoln, NE 68501-2248  
(800) 284-8575

REPRESENTATIVE:  
Michael Cole  
X566

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

**OPTION 1 – Non-Waive Down Page 2**

|                           |                    |                             |
|---------------------------|--------------------|-----------------------------|
| Prepared by:              | Coverage Summary   | Amount Premium              |
| M. Cole                   | Life Paid Up at 85 | <b>L85</b> # 441536 6950.04 |
|                           | Conversion Age: 59 |                             |
| Prepared For:             | Current Age: 51    | Funding Age: 51             |
| Bill                      | Entry Age: 39      | Dividend Option: V          |
| Male Age 61 - 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 |
| 16               | 77  | 49,690           | 49,690         | 482870     | 1000000       | 0α                               | 18740           | 551210     | 1086750       |
| 17               | 78  | 49,690           | 49,690         | 518690     | 1000000       | 0α                               | 18880           | 597110     | 1096880       |
| 18               | 79  | 49,690           | 49,690         | 555860     | 1000000       | 0α                               | 19020           | 645320     | 1107930       |
| 19               | 80  | 49,690           | 49,690         | 594930     | 1000000       | 0α                               | 19180           | 696500     | 1120000       |
| 20               | 81  | 49,690           | 49,690         | 636560     | 1000000       | 0α                               | 19330           | 751370     | 1133160       |
|                  |     |                  |                |            |               |                                  |                 |            |               |
| 21               | 82  | 49,690           | 49,690         | 678430     | 1000000       | 0α                               | 19510           | 800760     | 1140560       |
| 22               | 83  | 49,690           | 49,690         | 724250     | 1000000       | 0α                               | 19700           | 854590     | 1148440       |
| 23               | 84  | 49,690           | 49,690         | 775590     | 1000000       | 0α                               | 19910           | 914560     | 1156910       |
| 24               | 85  | 49,690           | 49,690         | 834880     | 1000000       | 0α                               | 20110           | 983240     | 1166140       |
| 25               | 86  | 0                | 0              | 844110     | 1000000       | 0                                | 36460           | 1026350    | 1205760       |
|                  |     |                  |                |            |               |                                  |                 |            |               |
| 26               | 87  | 0                | 0              | 852930     | 1000000       | 0                                | 37970           | 1070780    | 1246590       |
| 27               | 88  | 0                | 0              | 861420     | 1000000       | 0                                | 39290           | 1116420    | 1288400       |
| 28               | 89  | 0                | 0              | 869740     | 1000000       | 0                                | 40890           | 1163740    | 1331520       |
| 29               | 90  | 0                | 0              | 878040     | 1000000       | 0                                | 42600           | 1213050    | 1376060       |
| 30               | 91  | 0                | 0              | 886530     | 1000000       | 0                                | 43950           | 1264310    | 1421590       |
| =                |     |                  |                |            |               |                                  |                 |            |               |
| 31               | 92  | 0                | 0              | 895450     | 1000000       | 0                                | 45350           | 1317900    | 1468110       |
| 32               | 93  | 0                | 0              | 905100     | 1000000       | 0                                | 46250           | 1373820    | 1515020       |
| 33               | 94  | 0                | 0              | 915760     | 1000000       | 0                                | 47460           | 1432890    | 1562590       |
| 34               | 95  | 0                | 0              | 927610     | 1000000       | 0                                | 49200           | 1495990    | 1611290       |
| 35               | 96  | 0                | 0              | 940590     | 1000000       | 0                                | 52510           | 1564740    | 1662680       |

α 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.

ILLUSTRATION SYSTEM  
P.O. BOX 82248  
VERSION DATE  
01-02-02

Security Financial Life  
4000 Pine Lake Road  
P.O. Box 82248  
Lincoln, NE 68501-2248  
(800) 284-8575

REPRESENTATIVE:  
Michael Cole  
X566

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

**OPTION 2 – Waive Down Page 1**

|                           |                    |                             |
|---------------------------|--------------------|-----------------------------|
| Prepared by:              | Coverage Summary   | Amount Premium              |
| M. Cole                   | Life Paid Up at 85 | <b>C85</b> # 441536 6950.04 |
|                           | Conversion Age: 59 |                             |
| Prepared For:             | Current Age: 51    | Funding Age: 51             |
| Bill                      | Entry Age: 39      | Dividend Option: V          |
| Male Age 61 - 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                | 62  | 21,962           | 21,962         | 0          | 441536        | 6,950                            | 0               | 0          | <b>\$441,536</b> |
| 2                | 63  | 21,962           | 21,962         | 2411       | 441536        | 6,950                            | 29044           | 31455      | 470580           |
| 3                | 64  | 21,962           | 21,962         | 17017      | 441536        | 0 $\alpha$                       | 30700           | 69811      | 494330           |
| 4                | 65  | 21,962           | 21,962         | 31685      | 441536        | 0 $\alpha$                       | 32484           | 110013     | 519864           |
| 5                | 66  | 21,962           | 21,962         | 46423      | 441536        | 0 $\alpha$                       | 34396           | 152197     | 547310           |
| 6                | 67  | 21,962           | 21,962         | 61241      | 441536        | 0 $\alpha$                       | 36458           | 196522     | 576817           |
| 7                | 68  | 21,962           | 21,962         | 76156      | 441536        | 0 $\alpha$                       | 38670           | 243157     | 608537           |
| 8                | 69  | 21,962           | 21,962         | 91195      | 441536        | 0 $\alpha$                       | 41050           | 292295     | 642636           |
| 9                | 70  | 21,962           | 21,962         | 106344     | 441536        | 0 $\alpha$                       | 43606           | 344100     | 679292           |
| 10               | 71  | 21,962           | 21,962         | 121577     | 441536        | 0 $\alpha$                       | 46357           | 398740     | 718699           |
| 11               | 72  | 21,962           | 21,962         | 136850     | 441536        | 0 $\alpha$                       | 49311           | 456374     | 761060           |
| 12               | 73  | 21,962           | 21,962         | 152109     | 441536        | 0 $\alpha$                       | 52485           | 517169     | 806595           |
| 13               | 74  | 21,962           | 21,962         | 167329     | 441536        | 0 $\alpha$                       | 55903           | 581341     | 855548           |
| 14               | 75  | 21,962           | 21,962         | 182522     | 441536        | 0 $\alpha$                       | 59572           | 650980     | 909994           |
| 15               | 76  | 21,962           | 21,962         | 197768     | 441536        | 0 $\alpha$                       | 63519           | 724928     | 987933           |

$\alpha$  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.

ILLUSTRATION SYSTEM  
P.O. BOX 82248  
VERSION DATE  
01-02-02

Security Financial Life  
4000 Pine Lake Road  
P.O. Box 82248  
Lincoln, NE 68501-2248  
(800) 284-8575

REPRESENTATIVE:  
Michael Cole  
X566

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

**OPTION 2 – Waive Down Page 2**

|                           |                    |                             |
|---------------------------|--------------------|-----------------------------|
| Prepared by:              | Coverage Summary   | Amount Premium              |
| M. Cole                   | Life Paid Up at 85 | <b>C85</b> # 441536 6950.04 |
|                           | Conversion Age: 59 |                             |
| Prepared For:             | Current Age: 51    | Funding Age: 51             |
| Bill                      | Entry Age: 39      | Dividend Option: V          |
| Male Age 61 - Non-Tobacco |                    |                             |

| Guaranteed Basis |     |                  |                     |                  |               | Non-Guaranteed Illustrated Basis |                 |            |               |
|------------------|-----|------------------|---------------------|------------------|---------------|----------------------------------|-----------------|------------|---------------|
| Yr               | Age | Contract Premium | Surr Premium Outlay | Death Surr Value | Death Benefit | Premium Outlay                   | Annual Dividend | Surr Value | Death Benefit |
| 16               | 77  | 21,962           | 21,962              | 213205           | 441536        | 0 $\alpha$                       | 65974           | 802731     | 1074916       |
| 17               | 78  | 21,962           | 21,962              | 229020           | 441536        | 0 $\alpha$                       | 67886           | 884357     | 1164507       |
| 18               | 79  | 21,962           | 21,962              | 245432           | 441536        | 0 $\alpha$                       | 69719           | 969997     | 1256832       |
| 19               | 80  | 21,962           | 21,962              | 262683           | 441536        | 0 $\alpha$                       | 71476           | 1059907    | 1352147       |
| 20               | 81  | 21,962           | 21,962              | 281064           | 441536        | 0 $\alpha$                       | 73017           | 1154250    | 1450666       |
| 21               | 82  | 21,962           | 21,962              | 299551           | 441536        | 0 $\alpha$                       | 74430           | 1248875    | 1548064       |
| 22               | 83  | 21,962           | 21,962              | 319783           | 441536        | 0 $\alpha$                       | 75732           | 1347956    | 1649132       |
| 23               | 84  | 21,962           | 21,962              | 342451           | 441536        | 0 $\alpha$                       | 76721           | 1451946    | 1754557       |
| 24               | 85  | 21,962           | 21,962              | 368630           | 441536        | 0 $\alpha$                       | 76690           | 1561036    | 1864667       |
| 25               | 86  | 0                | 0                   | 372705           | 441536        | 0                                | 61166           | 1637595    | 1935553       |
| 26               | 87  | 0                | 0                   | 376599           | 441536        | 0                                | 63700           | 1716524    | 2008605       |
| 27               | 88  | 0                | 0                   | 380348           | 441536        | 0                                | 65908           | 1797617    | 2083441       |
| 28               | 89  | 0                | 0                   | 384022           | 441536        | 0                                | 68601           | 1881659    | 2160599       |
| 29               | 90  | 0                | 0                   | 387686           | 441536        | 0                                | 71463           | 1969140    | 2240230       |
| 30               | 91  | 0                | 0                   | 391435           | 441536        | 0                                | 73728           | 2059951    | 2321605       |
| 31               | 92  | 0                | 0                   | 395373           | 441536        | 0                                | 76081           | 2154780    | 2404751       |
| 32               | 93  | 0                | 0                   | 399634           | 441536        | 0                                | 77604           | 2253609    | 2488643       |
| 33               | 94  | 0                | 0                   | 404341           | 441536        | 0                                | 79649           | 2357776    | 2573736       |
| 34               | 95  | 0                | 0                   | 409573           | 441536        | 0                                | 82558           | 2468796    | 2660820       |
| 35               | 96  | 0                | 0                   | 415304           | 441536        | 0                                | 88091           | 2589357    | 2752514       |

$\alpha$  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.

ILLUSTRATION SYSTEM  
P.O. BOX 82248  
VERSION DATE  
01-02-02

Security Financial Life  
4000 Pine Lake Road  
P.O. Box 82248  
Lincoln, NE 68501-2248  
(800) 284-8575

REPRESENTATIVE:  
Michael Cole  
X566

### **SUMMARY OF LEGAL AND TAX ISSUES**

1. Contributions made by participating employers are deductible in the year made, provided they are actuarially sound, made on a timely basis, and the total compensation paid to each employee is not unreasonable.
2. Employer contributions are not taxable to the employee.
3. A participating employee will be taxed on the economic value of the death benefit as determined by IRC Section 79.
4. Death benefits are income tax free.
5. The death benefit (with proper ownership) can be excluded from the employee's gross estate.

These conclusions may not apply to every employer who participates in the plan. The deductibility of contributions and the taxation to controlling shareholders, will ultimately depend upon the facts and circumstances surrounding each employer's plan. Employers must consult their own tax advisors.

## **DISCRIMINATION IN GROUP LIFE INSURANCE**

For a plan to realize the maximum tax advantages, the plan must not discriminate in favor of KEY EMPLOYEES. Discrimination must be prevented both as to eligibility and how benefits are determined.

### **EXCLUDED EMPLOYEES**

Specified employees may be excluded when testing for eligibility:

1. Employees with less than 3 years service (6 months if the plan covers less than 10 employees).
2. Part-time employees (less than 20 hours per week) or seasonal employees (less than 5 months in a calendar year).
3. Union employees covered with collectively bargained life insurance.
4. Certain non-resident aliens.

### **ELIGIBILITY REQUIREMENTS**

If a plan meets any one of the following tests, it is a non-discriminatory plan for eligibility:

1. The plan covers all full time employees.
2. The plan benefits 70% or more of all employees.
3. No more than 15% of the covered employees are defined as KEY-EMPLOYEES.
4. The plan is part of a 125 cafeteria plan.

### **BENEFITS REQUIREMENTS**

Benefits must be arrived at by a formula that is found to be nondiscriminatory. The following arrangements have been found to be non-discriminatory:

1. Benefits are a uniform multiple of compensation.
2. Benefits are a flat amount on all covered employees.
3. Benefits are based on classes, with each class no more than 2 ½ times the next lower class, and the top class is no more than 10 times the lowest class.
4. The terms must be non-discriminatory. For example, a conversion privilege must not be offered only to KEY-EMPLOYEES.

**IRS CODES, REGULATIONS AND REVENUE RULINGS  
APPLICABLE TO GROUP LIFE INSURANCE**

| <b>CODE</b> | <b>BRIEF EXPLANATION</b>  |
|-------------|---|
| 61          | Life insurance premiums paid by an employer are taxable income to the employee, UNLESS part of a “plan of group life insurance”.  |
| 79          | The cost of a “plan of group life insurance” paid by an employer is not taxable income to the employee except for death benefits greater than \$50,000. For amounts over \$50,000, the charge to income is based on a Uniform Premium Table found in Reg. 1.79-3(d)(2). |
| 79(d)(5)    | Non-discrimination requirements of a “plan of group life insurance”.  |
| 83(e)       | Makes Sec.83 not applicable to group life insurance.  |
| 83(h)       | Property transferred from an employer to an employee may result in taxable income to the employee. A conversion privilege in group life insurance is not presently a taxable transfer.  |
| 101(a)      | Death benefits from a life insurance contract are income tax free to the beneficiary.   |
| 162         | Authority for an employer to deduct the cost of group life insurance.   |
| 404(a)(5)   | This section deals with deferred compensation and when such costs are deductible to an employer and taxable to an employee and generally should not be applicable to group life insurance.  |
| 461         | This determines in what tax year a deduction is taken.  |
| 7702        | The definition of an “insurance contract”.  |
| RR55-193    | The right to convert group life does not cause a charge to employee income.   |