

Section 79 GEAR



Group Entry Age Reserved

A Plan of Group Insurance

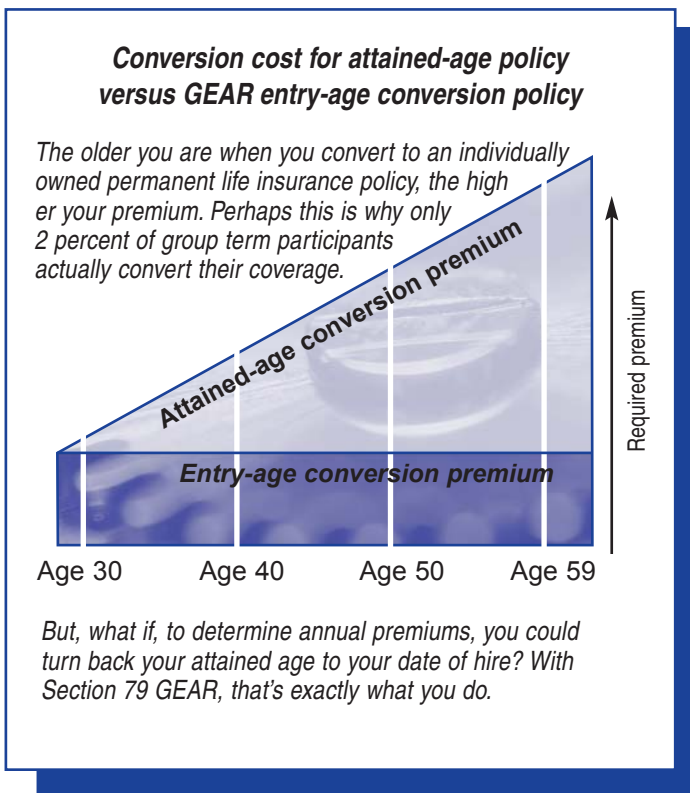
SECURITY
Financial Life

What is Section 79 GEAR?

Section 79 GEAR is a superior employee benefit plan of **group term** life insurance.

What sets Section 79 GEAR apart from other group term arrangements is the opportunity for covered employees to receive **entry-age conversion** rights based on the date they were hired.

The convenience and cost-effectiveness of **group term** life insurance coupled with the **entry-age conversion** feature serve to create one of the most powerful and unique employee benefits available in the marketplace.



What can Section 79 GEAR do for my business?

For the successful business, Section 79 GEAR can provide innovative solutions to several complex problems:

- How can my business successfully fund life insurance utilizing **tax-deductible*** dollars?
- How can my business ensure convertibility to **affordable** post-retirement life insurance protection?
- How can my business provide **significant levels of life insurance** for estate and business solvency planning?

How does Section 79 GEAR work?

Installing a Section 79 GEAR plan is easy.

1. Employers join the Section 79 GEAR Master Trust by executing a board resolution and a set of plan documents. These documents include a master group term life insurance policy that details the benefit structure selected by the employer. The death benefit amounts are based upon a nondiscriminatory formula set by IRS regulators.
2. The employer then begins paying group term premiums for covered employees. In addition to the term insurance funding, the policy also includes a premium stabilization reserve to stabilize mortality and conversion costs that may occur throughout the life of the plan.
3. Covered employees, upon reaching the designated conversion age, become eligible to convert their group term coverage to an individual permanent policy without evidence of insurability with premiums based on entry age rather than age at time of conversion.

What flexibility does Section 79 GEAR have?

Section 79 GEAR offers flexibility of funding and design options necessary in an ever-changing business environment. A business that adopts and implements a Section 79 GEAR plan has several areas of flexible elements:

- Covered employees have the right to name and/or change their own beneficiary at any time.
- Annual, bi-annual, quarterly or monthly payments are permitted.
- Employers have the option to revise the level of benefit provided if their coverage needs or financial conditions change in subsequent years.
- A helpful and knowledgeable administrative staff is available to assist employer and employees with any needs during participation.

What does an actual Section 79 GEAR case look like?

The simple case below represents a good example of how installing Section 79 GEAR can be a powerful and effective way to provide meaningful employee benefits.

The owners of Constantly Green, Inc., a small, successful landscaping business, were looking to provide the following benefits for their employees on a tax-deductible* basis.

- Current death protection
- Right to name policy beneficiary
- Affordable conversion privileges
- Opportunity for estate-tax-free death benefits*

Constantly Green, Inc.

- Started by Bill and Sam 12 years ago
- 10-person C corporation (two owner/employees)
- Benefit level – five times salary
- Eligibility - All full-time employees, minimum of 1,000 hours annually.

Employer Advantages:

These results show how effectively an employer can provide a meaningful employee benefit in a nondiscriminatory manner that remains owner-friendly:

- Constantly Green should recognize a tax deduction for the entire cost of \$74,240.*
- All covered employees can convert their group term coverage to individual permanent policies without evidence of insurability and with premiums based on their date of hire.

Employee Advantages:

Looking at what happens upon conversion for an individual employee provides more insight into the power of Section 79 GEAR conversions:

- Without any evidence of insurability, Jim is eligible for an individually owned permanent life insurance policy with a \$140,000 death benefit.
- Without the entry-age conversion option, his annual premium would be \$6,228.
- Using Jim's date of hire to calculate the annual premium requires him to pay only \$1,167.

THAT'S A SAVINGS OF OVER 81 PERCENT!

- After conversion, Jim owns the permanent life insurance policy and all of its many benefits.

Constantly Green Employee Summary

Name	Entry Age	Current Age	Conversion Age	Wages	Death Benefit	Cost
Bill	39	51	59	\$200,000	\$1,000,000	\$30,895
Sam	38	50	59	200,000	1,000,000	29,902
Jane	26	29	59	32,000	160,000	1,304
Wilma	25	28	59	29,000	145,000	1,109
Steve	36	37	59	38,000	190,000	3,512
Judy	38	41	59	31,000	155,000	2,283
Nancy	22	23	59	18,000	90,000	578
Aaron	20	21	59	16,500	82,500	555
Jim	24	29	59	28,000	140,000	1,191
Carl	39	41	59	34,000	170,000	2,911
						\$74,240

**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.*

IRS CODES AND REVENUE RULING RELATED TO THE SECTION 79 GEAR PLAN

CODE SECTION

BRIEF EXPLANATION

61	Life insurance premiums paid by an employer are taxable income to the employee, unless part of the "plan of group life insurance" or a Welfare Benefit Plan.
79	The cost of a no-discriminatory "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)	Nondiscrimination requirements of a "plan of group life insurance."
83(e)	Makes Sec. 83 not applicable to death benefit plans and group life insurance.
83(h)	Property transferred from an employer to an employee may result in taxable income to the employee.
101(a)	Death benefits from a life insurance contract are income-tax-free to the beneficiary.
162	Employer's deduction of reasonable and necessary business expenses.

REVENUE RULING

55-193	The right to convert group life insurance does not give rise to taxable income to employees.
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