Exit Strategies for Life Insurance Policies in a Qualified Plan

The payment of premiums with income tax-deductible contributions is one of the benefits of purchasing life insurance in a qualified plan. However, when an insured plan participant terminates employment or retires, he or she will have to make a decision regarding the insurance policy. The following chart briefly describes the options available to the plan participant, and the advantages and disadvantages of each strategy.

STRATEGY	TAX IMPACT	ADVANTAGES	DISADVANTAGES
Plan Surrenders Policy Roll cash surrender value plus other plan assets into an IRA.	Not taxable.	IRA assets grow tax-deferred until distributed.	No insurance death benefit.
Plan Annuitizes Policy Use cash value plus investment fund to purchase annuity that provides monthly income to retiree and/or spouse.	Taxed as ordinary income as received.	Provides guaranteed income.	No insurance death benefit.**
Plan Distributes Policy Participant may take policy as a distribution from plan and roll remaining plan assets into an IRA. May do trustee-to-trustee transfer to IRA minus 20% mandatory withholding due on policy values.*	Policy value taxed as ordinary income. May be subject to penalty taxes if participant is under age 59 ½ years.	Maintains death benefit. IRA assets grow tax-deferred until distributed.	Individual pays ongoing premiums on an after-tax basis.
Purchase Policy Participant may purchase policy from plan or policy values,* roll remaining plan assets into an IRA.	Not taxable.	Maintains death benefit. IRA assets grow tax-deferred until distributed.	Individual pays ongoing premiums on an after-tax basis.

Retirement Planning

STRATEGY	TAX IMPACT	ADVANTAGES	DISADVANTAGES
Purchase Policy After Taking Maximum Loan Trustee takes maximum loan from policy, participant purchases policy from plan for policy value* less loan amount, rolls remaining plan assets into an IRA.	Not taxable.	Maintains death benefit. IRA assets grow tax-deferred until distributed. Loan reduces purchase price.	Individual pays ongoing premiums on an after-tax basis, pays interest on loan and loan balance reduces death benefit.
Roll Policy into New Plan Participant may roll policy into a plan established by new employer. May also roll remaining assets to new plan.	Not taxable.	Maintains death benefit. Other plan assets grow tax-deferred until distributed.	New plan must allow life insurance as an investment.
Pension Transition Provision Policy surrendered in plan, new policy issued outside plan for net amount at risk (face amount minus cash surrender value) at attained age without underwriting. Roll remaining plan assets into an IRA.	Not taxable.***	No underwriting required. Maintains a reduced death benefit. IRA assets grow tax-deferred until distributed.	Individual pays ongoing premiums on an after-tax basis. Policy is more expensive to maintain; reduced death benefit.

* Policy value to be determined pursuant to the Safe Harbor provisions of IRS Rev. Proc. 2005-25
** Participant may choose a joint and survivor option which provides a death benefit if the annuitant predeceases the beneficiary
*** No known current taxable event; it is unclear whether the underwriting concession has any taxable value

The above is merely a synopsis of the options available as exit strategies for life insurance in a qualified retirement plan. Please consult with your Guardian Financial Representative if you have any questions concerning this document.

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