



SPLIT-FUNDED DEFINED BENEFIT PLANS



**Life Insurance in Traditional Defined Benefit Plans
Program Highlights & Fact Finder**

What is a Split-Funded Defined Benefit Plan?

A traditional defined benefit plan is a qualified retirement plan that provides a retirement benefit guaranteed by the plan's sponsoring employer. A split-funded traditional defined benefit plan is a type of traditional defined benefit plan that offers investment flexibility as well as the ability to purchase life insurance.

Unlike a 412(e)(3) plan, a traditional defined benefit plan is not restricted to investing in guaranteed insurance policies, which makes it an appealing choice for a small business owner or professional who is looking for large tax-deductible contributions but wants to be able to take advantage of growth in the stock market. The life insurance policy purchased by the plan provides a self-completing element should the business owner suffer a premature death.

Investment choices

- Stocks
- Bonds
- Mutual funds
- Fixed or variable annuities
- Whole or universal life insurance

Potential candidates

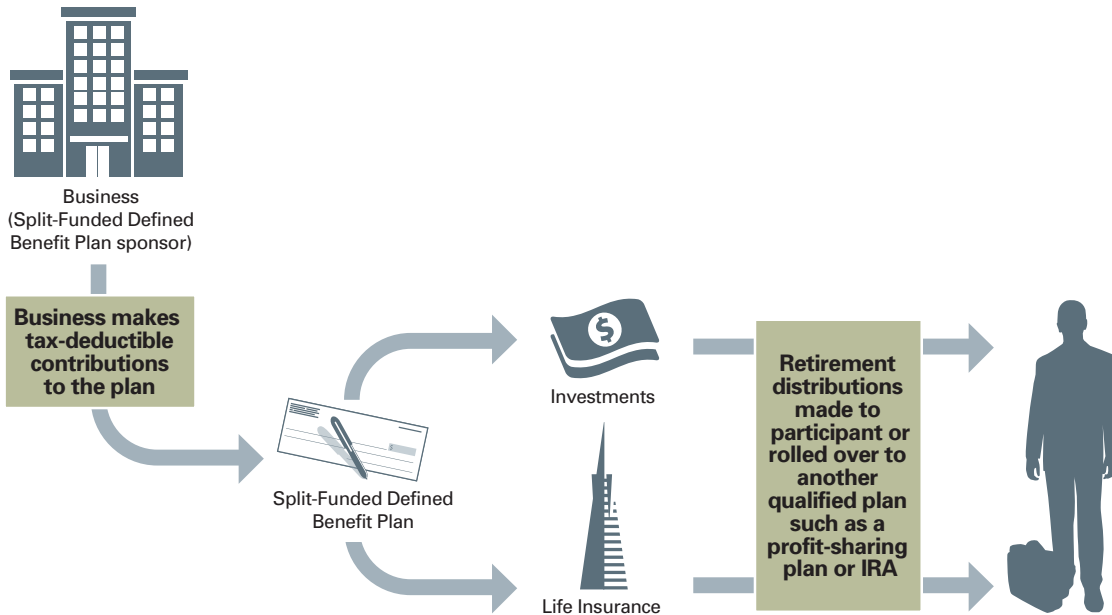
- Highly paid business owners and professionals looking for larger tax deductions than those provided by defined contribution plans
- Smaller, closely held businesses
- Companies with few or no employees

- S corporation owners with W-2 salaries
- Independent contractors
- Companies with larger employee groups and existing defined contribution plans that wish to create defined benefit "carve-out" plans
- Business owners who have not begun to save for retirement and need to catch up with large initial contributions
- Those who prefer investment flexibility over guarantees

The Split-Funded Traditional Defined Benefit Plan accomplishes several key objectives:

- Establishes a plan to provide retirement income
- Allows investment choice options
- Uses pretax dollars to cover personal life insurance needs
- Allows large tax-deductible contributions
- Provides the portability life insurance enjoys
- Generally protects plan assets from creditors

How a Split-Funded Traditional Defined Benefit Plan works



Split-Funded Traditional Defined Benefit Plan purchases life insurance policy and makes other investments to meet projected benefit goals at retirement

Step 1: Business makes tax-deductible contributions to traditional defined benefit plan

Step 2: Plan invests contributions according to plan's investment objectives, which are governed by the targeted lump sum needed to provide the defined retirement benefits

Step 2(a): Plan purchases life insurance policies

Step 3: When employees retire or terminate with vested benefits, plan distributions are made or plan benefits are rolled over to profit-sharing plan or IRA

Step 3(a): If life insurance need still exists and plan provisions permit:

- Life insurance policy can be distributed to participant, who then pays federal income tax based on the fair market value of the life insurance policy
- Life insurance policy can be sold to participant or to his/her irrevocable life insurance trust that is a "grantor trust" for estate tax purposes
- Policy purchase price is based on the fair market value of the life insurance policy

Qualified Retirement Plan Fact Finder

Please note that Transamerica Life Insurance Company and Transamerica Financial Life Insurance Company representatives will work with a third-party administrator (TPA) specializing in qualified retirement plans to generate a plan proposal.

Name of business: _____

Tax status: C Corp. S Corp. LLC taxed as Corp. LLC taxed as Partnership* Sole Proprietor Partnership

Date business began: _____ Date of incorporation: _____

Tax year end date: _____ State of issue: _____

Approximate contribution desired: _____ (percent of payroll or dollar amount)

Current qualified plan in force? Yes No

Do the business owners have ownership interests in any other firms? Yes No If yes, please supply details on a separate sheet.

First Name	Last Name	Gender	Birth Date	Hire Date	% of Stock Owned	W-2 Compensation	Schedule C or K-1 Income	Annual Hours Worked	Smoker (Yes/No)

*Single-member LLC is taxed as a sole proprietor for federal income tax purposes.



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