



Funding Post Retirement Life & Medical Expenses During Employment On A Pre-Tax Basis

Do you have clients who are business owners that are looking for a tax-deductible way to set aside funds for post retirement life insurance, long-term care and medical expenses? If yes – they might want to consider a single employer welfare benefit plan.

Facts: Denny Dentist runs a very successful practice (Minnesota Dental LLC) that generates significant cash flow. His practice consists of three dental hygienists and a bookkeeper. In a recent visit Denny indicated a desire to retire in 5 years, but is concerned the spiraling cost of health care will diminish his retirement income. In addition, Denny has shown interest in a survivorship policy to address his estate tax. Denny wants to know if the business can set funds aside to provide life insurance and post retirement medical benefits on a tax-deductible basis.

Solution: You identify one way Denny can address his need for life insurance and his retirement medical concerns on a tax deductible basis is with a single employer welfare benefit plan. In a single employer welfare benefit plan, an employer can set aside funds, over the working lives of the covered employees, to provide the following retirement benefits:

- Medical
- Long Term Care
- Life Insurance

You indicate the plan must comply with ERISA nondiscrimination requirements (age 25+ and 36 months of service); however, the program provides a golden handcuff feature since termination before reaching entitlement date results in forfeiture of the employee's benefits back to the plan.

You provided Denny the names of several independent concept sponsors/Third Party Administrators (TPAs) - who further explain their specific plan design, benefits, process and costs to implement and administer their plan for his situation.

Denny is provided an analysis by one of the TPAs that indicates for the total cost of approximately \$100,000 a year in today's marketplace the plan trustee could purchase a \$2,000,000 survivorship universal life

¹ The benefit fund represents the amount available to pay post retirement medical benefits as of the entitlement age. After five years, only Denny will have reached the entitlement age. Each of the other participants will have a balance that is less than the benefit fund shown.

Insurance issued by The Prudential Insurance Company of America, Newark, NJ and its affiliates.

² For additional information on life insurance and its use see Prudential Financial's Single Employer Welfare Benefit Producer Guide IFS- A086814

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insurance on the life of Denny and his spouse that could accumulate at current non-guaranteed interest rates approximately \$300,000 of cash value over a five-year period to offset costs of his post retirement medical expenses. Of course, policy loans and withdrawals will reduce cash value and death benefit, and may have tax consequences. To better meet the objectives of the employees a blend of term insurance and other investments is used to create the benefit fund. The following representation is an approximation of how the contribution could be divided:

Contribution Summary	%	Marital Status	Age
Orthodontist – Denny	85%	M	55
Hygienist – Jane	9%	M	45
Hygienist – Julie	2%	S	40
Hygienist – Marie	0% *	M	30
Bookkeeper – Brook	4%	M	43

* - 3 years of service required before participation.

Benefits:	Benefit Fund ¹	Ins. Face Amt.	Benefit Age
Denny	\$300,000	\$ 2,000,000	60
Jane	\$200,000	\$ 600,000	60
Julie	\$100,000	\$ 150,000	60
Marie	\$ 0	\$ 0	61 *
Brook	\$200,000	\$ 350,000	68 *

* - 33 service years before post-retirement benefit

Under this analysis, the question to Denny is whether to pay tax on the \$100,000 of business earnings at his 35% tax bracket, or to take advantage of the potential benefits that the welfare benefit plan provides.

Insurance Solution: Taxable earnings of a welfare benefit fund will reduce the employer's deductible contribution. To avoid tax on earnings, single employer welfare benefit plans are often financed with insurance policies issued on the participants and owned by the welfare benefit trust. A plan trust can purchase any type of life insurance policy and a mixture is possible.²

QUESTIONS TO ASK ON OTHER SIDE

Identifying Where There May Be A Need For A Single Employer Welfare Benefit Plan

Questions To Ask The Employer	Yes	No
Is the business structured other than as a sole proprietorship?		
Is the business profitable and seeking to provide tax-deductible fringe benefits to their employees and dependants?		
Is the business interested in any of the following: <ul style="list-style-type: none"> a. Helping loyal employees to protect against expenses that could exhaust their retirement income. b. Having funds available to provide for post retirement life insurance, long term care and/or medical expenses. c. Establishing a “golden handcuff” type program to help retain key employees. 		
Is the business willing to comply with ERISA nondiscrimination participation requirements, knowing that an employee’s termination prior to entitlement age will result in forfeiture of the benefit back to the plan?		
Does the business have reoccurring cash flow?		
Would the business like some flexibility with regards to contributions in a benefit plan?		
If the employer would like to have most of the plan benefit allocated to key personnel is there an age and large income disparity between key personnel and rank and file employees?		

**If most of the answers to these questions are “yes” ...
 Fax this questionnaire to Advanced Marketing to learn more about
 419 Single Employer Welfare Benefit Plans**

Broker:	Phone:
Fax:	Email:

This questionnaire is designed to assist you in identifying a single employer welfare plan prospect and should not be used with the prospect. This training material has been prepared to assist our licensed financial professionals. It is designed to provide general information in regard to the subject matter covered. It should be used with the understanding that Prudential is not rendering legal, accounting or tax advice. Such services should be provided by the client’s own advisors. Prudential’s sole role with regard to any 419 arrangement is that of a product provider. Prudential is not providing the 419 concept. Clients must obtain the concept from an individual entity that is independent of Prudential and who has responsibility for its implementation. Prudential shall not have any involvement, not even as a product provider only, with regard to multi-employer 419A(f)(6) plans. Additionally, Prudential is neither endorsing the use of the 419 strategy nor the use of any 419 concept sponsor.