



# Permanent Benefit Group Life Insurance Under Code Section 79

Expanding the Benefits of Group Life Insurance



## Advantages

### of Permanent Benefit Group Life Insurance.

Giving employees the option to use cash value life insurance for their coverage may add valuable flexibility to a group life insurance plan. This strategy has the potential to give participating employees supplemental retirement income and coverage that can last beyond the date of their retirement or separation from service.

#### For the Employer:

- Contributions to the plan are 100% income tax deductible (to the extent compensation is reasonable under IRC Sec. 162).
- A cost-efficient way to attract, retain and reward key employees.
- Minimal documentation and reporting requirements.

#### For the Employee:

- Income tax-free death benefits that are portable – the employee owns the policy and has the ability to continue it into retirement.
- The value of the first \$50,000 of death benefits is generally income tax-free.
- Tax-deferred cash value accumulation – the cash values in these policies grow income tax-deferred and potentially can be accessed through withdrawals and policy loans\* for supplemental retirement income.
- Policy premiums are paid by the employer – the employee's cost is the income on the cost of the permanent benefits and the cost of coverage exceeding \$50,000.
- The policy's death benefits can be assigned to an irrevocable life insurance trust and may be received estate tax-free.

\* Income tax-free distributions are achieved by withdrawing to the cost basis (premiums paid) then using policy loans. Loans and withdrawals may generate an income tax liability, reduce available cash value and reduce the death benefit or cause the policy to lapse. This assumes the policy qualifies as life insurance and is not a modified endowment contract.



## Disadvantages

### of Permanent Benefit Group Life Insurance.

There are some possible disadvantages to using cash value insurance in a group insurance plan. They include:

#### For the Employer:

- Non-discrimination rules for both eligibility and benefits must be satisfied.
- There are some record keeping and plan administration costs.
- Owners may only participate if they are employees and if the employer is a C corporation or an LLC that is taxed like a C corporation; if the corporation is a Subchapter S corporation they may participate if they don't own more than 2% of the stock.

#### For the Employee:

- Employees pay income taxes on both the cost of coverage exceeding \$50,000 (under IRS Table 1) and the cost of the permanent benefit. This tax cost is measured in accordance with Section 79 and the regulations thereunder, and is typically less than the full amount of premium.\*

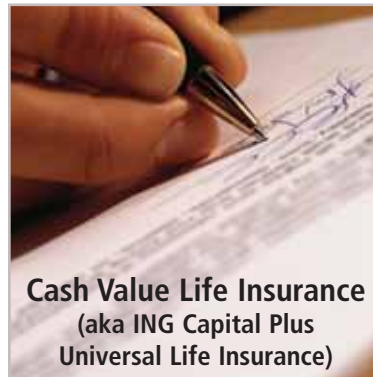
\*Please consult with the plan administrator(s) responsible for calculating the taxable income of policy benefits.

# How Does Permanent Benefit Group Life Insurance Work?



Purchases

1



Cost Incurred by Employee

2

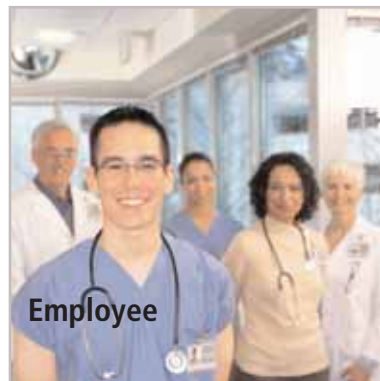
Income Tax on  
Table 1 Costs

3

Income Tax on  
Permanent Benefit Costs

Income Tax-Free  
Death Benefit

4



## Step 1

A C Corporation establishes a group term plan under IRS Section 79 and allows employees to choose among three options: (1) a cash value life insurance policy, (2) group term insurance coverage based on a formula (often a multiple of salary) and (3) \$50,000 group term insurance. The corporation pays the premiums (which are generally 100% tax deductible). The employee chooses option #1.

## Step 2

The employee is taxed on the cost of coverage amounts above \$50,000 (the taxable value is determined using IRS Table 1).

## Step 3

The employee is also taxed on the cost of permanent benefit as determined under the regulations for group term plans.

The employee owns the policy and has the ability to access its cash values (through withdrawals and policy loans) for emergencies, supplemental retirement income or other financial needs. Loans and withdrawals may generate an income tax liability, reduce available cash value and reduce the death benefit or cause the policy to lapse.

## Step 4

Upon the employee's death, the employee's beneficiaries will receive an income tax-free death benefit.



## Opportunity

Many employers use group term life insurance to provide a foundation of insurance protection for their employees. Coverage amounts up to \$50,000 are paid by the employer and are generally income tax-free to employees. But while group term life insurance provides a death benefit for employees during their employment, it does not provide portable life insurance protection that can remain in force during retirement. The coverage ceases upon the earlier of retirement or termination of employment. Additionally, group term life insurance often doesn't meet the needs of owners and highly paid key employees. Limits on coverage amounts and the fact that the life insurance benefit is tied to employment may leave these key people without adequate protection if they are only covered by their employer's group term plan.

Adding a permanent benefit to a group term life insurance program can help employers attract, retain and reward owners and key employees. Internal Revenue Code Section 79 allows a corporation to offer participating employees the ability to own a cash value life insurance policy (such as universal life insurance) as part of the group insurance plan. Including cash value life insurance in the plan allows the corporation to use excess pre-tax profits to potentially provide tax-advantaged benefits to participating employees.

# Maximize a permanent benefit group life insurance strategy by choosing the right universal life insurance product

To effectively use a cash value life insurance policy in a group insurance plan, it's important to use a high quality life insurance product. Such a policy should focus on providing both cash value accumulation potential and cost-efficient death benefits.

ING has designed such a product – ING Capital Plus universal life insurance, issued by ReliaStar Life Insurance Company, a member of the ING family of companies. It can assist with estate tax and liquidity planning, executive benefits and supplemental retirement planning.

Ask your ING Financial Professional to show you how ING Capital Plus UL can add a valuable permanent benefit to your group life insurance plan.



**ReliaStar Life Insurance Company**

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ING Capital Plus Universal Life, policy form #86-996, may vary by state and may not be available in all states, is issued by ReliaStar Life Insurance Company, a member of the ING family of companies. All guarantees are based on the financial strength and claims-paying ability of ReliaStar Life Insurance Company who is solely responsible for the obligations under its own policies.

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