



A Smart Approach to Retirement for Small Business Owners

THE COMPLEXITIES of the current economic climate have many Americans worrying about whether or not they'll be able to save enough for retirement. It's of even more concern for those working at large corporations where traditional retirement options, such as the defined benefit (pension) plan, are being replaced by more employee-directed defined contribution plans, such as a 401(k). However, for the small business owner, defined benefit plans continue to provide a number of attractive benefits for retirement savings, especially for those nearing retirement age. Transamerica's unique option for these retirement vehicles offers you a way to expand your sales while meeting the retirement savings needs of small business owner clients and giving them guarantees, flexibility and control.



Why Defined Benefit Plans Make Sense

A defined benefit plan can be an excellent strategy to help clients put more money away for retirement and guarantee a more secure financial future. Compared to defined contribution plans, defined benefit plans allow for higher contribution limits in order to provide an annual retirement benefit.¹ A defined benefit plan can purchase a life insurance policy with pre-tax contributions and offers participants a way to help make sure there are funds for their family in the event of their premature death. In addition, the guaranteed cash value component of permanent life insurance is not subject to the volatility of the stock market and can be an excellent alternative asset class when funding the plan's overall investment portfolio.

Upon retirement, the defined benefit plan typically surrenders the policy and uses the cash value to fund a portion of a guaranteed income stream from the defined benefit plan. However, individual client objectives may change over time and, as a result, the client may still need life insurance

protection at retirement or separation from service. For example, the client's focus may then be on estate planning and may need the life insurance for estate liquidity. This can present some planning challenges, depending upon the client's individual circumstances. For instance, if the client were to take a distribution of the life insurance policy from the plan, he/she would be faced with having to pay income taxes on the fair market value of the policy.

The Transamerica Advantage

One solution is to offer Transamerica's TransSecure® II whole life policy. Transamerica currently offers participants with this coverage added flexibility at retirement if life insurance is still needed. Under a current company practice, Transamerica will allow a former plan participant who was insured by a TransSecure II policy to purchase a brand new policy for the net amount at risk without any evidence of insurability.³ Beginning in the eighth policy year, the defined benefit plan could surrender the TransSecure II policy for its cash value and the participant may be able to roll the cash surrender value over to a profit sharing plan or IRA. After the policy's

According to a recent survey conducted by the National Institute on Retirement Security, 84% of participants surveyed believed those with pensions were more likely to have a secure retirement. 58% of those without a pension thought a pension would help them feel more confident in their chances of having a secure retirement.²

cash value is rolled over, the participant can purchase a new universal life policy outside the defined benefit plan.⁴ The benefit to clients of this company practice is that they can continue life insurance protection with a new policy without having to undergo new underwriting.

For example, consider the case of Jeff, a small business owner who is ready to retire. He has a traditional defined benefit plan funded partially with a \$1 million life insurance policy. The life insurance cash value is \$400,000. Upon retirement, the plan can surrender the policy and Jeff may be able to roll the \$400,000 cash surrender value into an IRA along with other plan assets. Transamerica will issue a separate universal life policy to Jeff for the net amount at risk, \$600,000, with no new underwriting required.

Conclusion

Permanent life insurance in qualified plans provides small business owners with the guarantees they need to provide for loved ones and the flexibility to meet their changing needs in the future. Since clients' financial goals can change over time, it is important that they have options to choose from for their retirement and estate planning needs. By using a TransSecure II or TransSecure II NY policy as part of a defined benefit plan, you can continue to offer valuable flexibility in meeting clients' changing objectives.

From *The Source*, a newsletter from Transamerica Insurance & Investment Group.

¹ The annual retirement benefit limit under defined benefit plans (not to exceed 100% of compensation) is \$195,000 per year in 2011.

² <http://www.forbes.com/sites/ashleaebeling/2011/03/08/wish-you-had-a-pension/>

³ Transamerica reserves the right to change or discontinue the company practice at any time. Thus, purchase of a new universal life policy without any evidence of insurability is not guaranteed to continue, even for participants insured under TransSecure II policies issued while practice was available. The net amount at risk is equal to the current death benefit minus the current accumulation value.

⁴ The surrender of the old policy and application for the new universal life policy must occur simultaneously such that coverage remains continuous.

TransSecure® II is a nonparticipating, limited payment, interest-sensitive whole life insurance policy issued by Transamerica Life Insurance Company, Cedar Rapids, IA 52499. Policy Form Nos. ICC08-180 (in states that form part of the Interstate Insurance Compact), 1-18011108; Group Certificate No. 2-18036108 for certificates issued under a group policy issued to the Rhode Island National Consumer Protection Trust. Policy forms and numbers may vary, and this policy may not be available in all jurisdictions.

TransSecure® II NY (Policy Form No. 3-18038108) is a nonparticipating, limited payment, interest-sensitive whole life insurance policy issued by Transamerica Financial Life Insurance Company, Harrison, NY 10528. This policy is available only in New York.



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