



R_x FOR SUCCESS

LATEST UPDATE:
UNDERWRITING
INFORMATION

Single Employer 419(e) Welfare Benefit Plans

A single employer welfare benefit plan is the generic name used to describe a plan established by an employer that provides miscellaneous welfare benefits to its employees and their beneficiaries. A wide variety of benefits may be provided in a single employer benefit plan, including medical and hospitalization, short and long term disability, life insurance, and other benefits such as child care benefits or facilities, recreation benefits, and vacation and dismissal wages.

Employers are concerned that the rising cost of health care might diminish the retirement income of employees since typically these benefits may be lost or reduced after retirement. In a single employer welfare benefit plan, an employer can set aside funds over the working lives of the covered employees, to provide post retirement benefits. The contributions made for a Single Employer Benefit plan are tax deductible under IRS code 419A. Employers often use plan contributions to purchase life insurance or annuities to provide ongoing funds/reserves to cover the costs of future benefits such as health care expenses and life insurance. Benefits received by the plan participants and beneficiaries generally receive tax-favored treatment.

Eligible businesses include most employers, except sole proprietors. (Sole proprietors with W-2 employees may be eligible.) The owner and beneficiary of the life insurance policy will be the welfare benefit trust established for this purpose. Normal ERISA employee exclusion rules apply:

- ▶ 70% of employees must participate in any plan that includes post retirement health benefits. (Plans that provide only a pre-retirement death benefit require participation by as few as two employees if one of the plan participants is also an owner of the business. If an owner is not one of the plan participants, then as few as one employee may be covered. These plans are typically referred to as Death Benefit Only plans, or DBO's.)
- ▶ Employees with less than 36 months of service are excluded
- ▶ Employees younger than 25 are excluded
- ▶ Employees working less than 35 hours per week are excluded
- ▶ Participation in the plan is voluntary.

IRS code requires every plan providing post retirement benefits to be non-discriminatory in nature, so if one participant is provided life insurance under the plan, then all participants must be provided life insurance, if they are insurable at a rate that is economically feasible for the plan. Full underwriting is a requirement of all cases, so there may be employees who are excluded from life insurance participation due to declinations or high ratings. Ideally, plans desire to purchase life insurance at the lowest possible rate, with the highest possible cash accumulation that still avoids a MEC. This scenario provides the plan with the highest economic value for each funding dollar spent.

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Once the business has decided on the benefits to be made available to plan participants, an independent concept sponsor (ICS) constructs a proposal using actuarially sound calculations to determine the reasonable contribution amount necessary to fund future eligible claims or benefits. Face amounts for life insurance are a representation of a multiple of the participants' income. The specific multiple to be used is determined by calculating the funding needed to provide future benefits to the most highly compensated key employee. From that calculation, the ICS works with the insurance agent to determine the face amount and/or cash accumulation that provides that level of funding.

Where the plan provides post retirement benefits, a copy of the actuarial calculations MUST be provided and retained in the underwriting file. As a rule of thumb, amounts up to a multiple of 20-25 times income are generally acceptable, however good underwriting judgment must be exercised. Death Benefit Only contracts, or DBO's, typically provide for traditional insurance needs such as income replacement or estate planning. As such, the formula above is not applicable, and face amounts are determined on a traditional "needs" basis.

Prudential's role in the arrangement is only that of an insurance product provider. The client must sign a disclosure letter that, among other things, specifically acknowledges that the company's role in the transaction is limited to being a product provider only. For additional details, contact the Advanced Marketing area.

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Single Employer 419(e) Welfare Benefit Plans - Ask "Rx" pert underwriter (ask our experts)

Producer _____ Phone _____ Fax _____

Client _____ Age/DOB _____ Sex _____

Identifying where there may be a need for a Single Employer Welfare Benefit Plan.

1. Is the business structured other than as a sole proprietorship?

- yes
 no

2. Is the business profitable and seeking to provide tax-deductible fringe benefits to employees and their dependents?

- yes
 no

3. Is the business interested in any of the following?

a. Helping loyal employees to protect against expenses that could exhaust their retirement income?

- yes no

b. Having funds available to provide for post retirement life insurance, long term care and/or medical expenses?

- yes no

c. Establishing a "golden handcuff" type program to help retain key employees?

- yes no

4. 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?

- yes
 no

5. Does the business have recurring cash flow?

- yes
 no

6. Would the business like some flexibility with regards to contributions in a benefit plan?

- yes
 no

7. 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?

- yes
 no

If most of the answers to these questions are "yes", contact "Rx" perts in Advanced Marketing to learn more about Single Employer 419(e) Welfare Benefit Plans.

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