

§412(i)* Plans Questions & Answers



What is a §412(i) plan?*

It is a qualified defined benefit (DB) pension plan, funded exclusively with fixed annuities or with a combination of fixed annuities and level premium, permanent life insurance. As a qualified plan, it must meet all of the requirements of such plans, including eligibility and non-discrimination. All firm employees, age 21 and over, who have been employed for one year must be included in these plans.

Why have §412(i) plans become so popular?

Section 412(i) requires that the funding of retirement benefits be calculated by using the guaranteed cash accumulation of life insurance contracts and fixed annuities combined with a guaranteed annuity purchase rate. This allows the taxpayer to fund contributions on a tax-deductible basis in amounts greater than are typically allowed for other qualified plans.

With features such as a guaranteed monthly benefit, the ability to generate a large income tax deduction for the employer and the ability to provide for substantial death benefits, a §412(i) plan offers employers an attractive tool to recruit and retain key talent as well as providing employees with guaranteed retirement benefits.

Why are §412(i) plans special?

Traditional DB plans must meet complex rules for funding adequacy, and the certification of an enrolled actuary is required in each plan year.

§412(i) plans represent an exception to the general funding rules of IRC Sec. 412. They do not require any actuarial certification.

Since a §412(i) plan is funded exclusively with fixed annuities or with a combination of fixed annuities and life insurance products, the guarantee elements of these products replace the usual actuarial assumption needed in a defined benefit plan are key

**412(i) was renumbered to 412(e)(3) by the Pension Protection Act of 2006*



INVEST

INSURE

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to the sale. As long as policy premiums are paid each year, the guarantees offered by the issuing Life Insurance Company provide the employer with assurance that the plan's obligation will be met. As with defined benefit plans in general, §412(i) plans may not provide for participant loans from the plan.

What happens with excess policy interest and dividends?

In the event that the annuity policy generates interest over and above the guaranteed rate, the excess interest credits must be applied against future premiums. Similarly, any dividends credited to the life insurance contract must be used to reduce future premiums. Reduced premium must be used for all §412(i) plans.

Why include Life Insurance in a §412(i) Plan?

§412(i) plans provide a tax-deductible means of providing death benefits. The pure term portion (Face value less cash value) of the life policy death benefit is received income tax free by the named beneficiary. Plan participants in a §412(i) plan, even self-employed individuals, who are impaired risks can effectively deduct the cost of the rating.

Life insurance in the plan can provide for the participant's beneficiary as well as provide the estate with liquidity.

How much death benefit may be included in a §412(i) Plan?

Traditional life insurance in a §412(i) plan must meet one of two "incidental benefit" tests.

1. Death benefit coverage may not exceed 100 times the projected monthly retirement benefit. – For 2007 the maximum death benefit for a participant with retirement benefits of \$15,000 per month is \$1.5 million.
2. Premium payable for life insurance (whole life only) cannot exceed 49% of the total annual contribution.

Plan participants with life insurance coverage must include in annual taxable income the cost of the term insurance component. For example, a 50 year old with a \$1 million policy would include \$980 in taxable income that year.

What MassMutual life and annuity products may be issued in a §412(i) plan?

Three of our traditional life products are most appropriate. Pension Whole Life (WL 9900)¹; Pension Life Paid-Up at Age 65 (LPL65)² and Pension High Early Cash Value Whole Life (HECV)³, which are all issued by MassMutual Life Insurance Company. Check with your Regional Life Specialist to determine which product may be best for your prospect.

The Odyssey 5 and 7 fixed annuity product is available for sale in §412(i) plans. Odyssey 5 and 7 are issues C.M. Life Insurance Company in all states except New York; Massachusetts Mutual Life Insurance Company in New York. Check with your regional annuity wholesaler to select the most appropriate version for your prospect.

Who provides the needed plan administration and how much does it Cost?

MassMutual does not provide any plan administration. We have compiled a list of approved third party administrators (TPAs) who will administer §412(i) plans for a competitive installation and annual administration fee. These TPAs provide all IRS-required plan documentation, as well as annual reporting and disclosure.

Some of our TPAs in the marketplace take split commissions and may provide sales support, but others just provide calculations with a commission split. The ultimate selection of a TPA is up to the client and the producer.

How do I have a §412(i) calculation prepared?

From the home office, a producer can get an estimated contribution amount based on an assumed benefit for the employees of an employer. While the calculator can be very helpful for analyzing and evaluation a §412(i) plan a full §412(i) proposal needs to be obtained from a TPA. You may contact your regional life specialist, or you may call the Home Office Advanced sales team at extension 21215.

What steps are required to sell and install a §412(i) plan?

1. Have an illustration prepared, using the MassMutual census form. Review the proposal to ensure that the contribution and benefit levels are in keeping with prospect expectations. For technical assistance please contact the following based on your inquiry:
 - a. Legal questions, Estate and business Planning Department ext 2-2257
 - b. Plan administration, your preferred TPA
 - c. Plan design, Advanced sales Desk 2-1215
2. Contact a TPA and get a full §412(i) plan proposal (the list of Home Office-approved TPAs is attached). Determine what installation and administration fees will be assessed. In order to limit installation costs, inquire about the possibility of using prototype documents prepared by the TPA.

3. Have the TPA send you a copy of their administrative service agreement, elements of which should be completed by the prospect with your help. The client completes the administration agreement and writes a check for the installation fee.
4. Complete the annuity and life insurance applications at this time. Remember that the TPA must verify the annuity premiums and life insurance premiums and face amount before the Home Office will issue policies.

The documentation that should be submitted to the home office consists of:

- A completed annuity application for each participant
- §412(i) Statement of Intent form (F6953 or F6954)
- If applicable, a completed life insurance application for each participant with required submission materials.
- A commission disclosure form (F6885)
- A group billing form (F6748)
- A copy of the final illustration verified by the TPA.

For additional information or questions please call your designated Life Regional Sales Director or Greg Roberts of the Advanced Sales Concepts Management team at 803-378-9431.

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- 1 *Whole Life (WL) (Policy Form 110-9900 and 110-NC-9900 in North Carolina) is a level-premium, permanent life insurance policy issued by Massachusetts Mutual Life Insurance Company, Springfield, MA 01111-0001*
 - 2 *Life Paid-Up at Age 65 (LPL 65) Whole Life Insurance (Policy Form 123-9400 and 123-NC-9400 in North Carolina) is a level-premium, permanent life insurance policy issued by Massachusetts Mutual Life Insurance Company, Springfield, MA 01111-0001*
 - 3 *High Early Cash Value Whole Life (HECV) (Policy Form 120-9900 and 120-NC-9900 in North Carolina) is a level-premium, permanent life insurance policy issued by Massachusetts Mutual Life Insurance Company, Springfield, MA 01111-0001*

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