



CLIENT EDUCATION SERIES · HER EARLY BENEFIT, HIS POLICY · PART II

Insured at 50, Protected at 62

Part I showed her Social Security paying for income and asset insurance on him at 62. Part II starts twelve years earlier. At 50 he buys \$500,000 of 20-year term, through his 401(k) or on his own. At 62 a serious health change arrives, and he converts to permanent income and asset insurance (whole life) at the health class he had at 50, with no new medical exam.

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The set-up at 50: two routes

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Route 1: Qualified Life, no cash outlay

03

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The health change at 62

05

The Social Security plan takes over

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Things to know

\$0

out of his paycheck with Qualified Life; the plan pays \$1,244 a year from seasoned money

\$17,624

of pay kept over 12 years with Qualified Life, compared with buying the term on his own

\$418,410

converted to income and asset insurance at 62 at his original preferred plus class, by either route

01 AGE 50 The set-up

He is 50, married, healthy and qualifies for preferred plus. He buys \$500,000 of 20-year term now, while he is healthy, for one reason beyond protection: the right to convert it to permanent income and asset insurance later without new underwriting. There are two ways to own it, depending on his retirement plan.

Item	Assumption
Insured	Male, age 50, preferred plus non-tobacco; married, spouse age 50
Coverage	\$500,000 of 20-year level term, to age 70
Premium	\$1,244 a year with the waiver of premium for disability; \$844 a year without it
Paid from	Route 1: seasoned money already in his 401(k). Route 2: his take-home pay
Tax	22% federal rate. In Route 1 he reports the REB (the value of the life coverage) each year as income, at the carrier's published one-year term rates
Conversion	Convertible to the carrier's whole life without new evidence of insurability until age 70

ROUTE 1 · QUALIFIED LIFE

Term paid from seasoned 401(k) money

For a 401(k) that permits life insurance. The plan pays the premium from money already saved, so his paycheck is untouched. His only cost is income tax on the REB: \$1,516 over 12 years.

ROUTE 2 · ON HIS OWN

Term paid from take-home pay

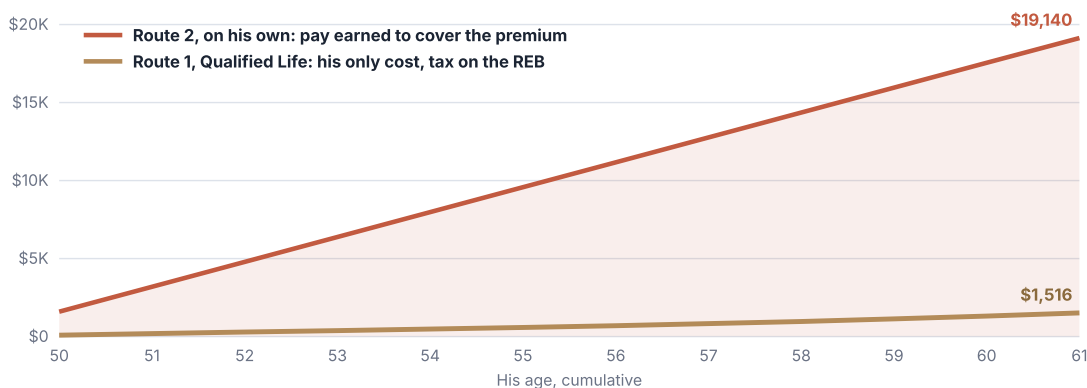
For no 401(k), or one that does not permit life insurance. The premium is paid with taxed dollars: at 22%, each \$1,244 takes \$1,595 of pay. The same conversion right, owned outside any plan.

The waiver works on both routes. For \$400 a year more, premiums are waived if he becomes totally disabled, and the coverage, including the right to convert, stays in force. Without it, the premium is \$844 a year.

02 ROUTE 1 · AGES 50-61

Qualified Life: no cash outlay, year by year

Same coverage, same premium, two ways to pay. Buying the term on his own takes pay that has been taxed first. Through the plan, the premium comes from savings already in the 401(k), and the only thing he pays is tax on a small REB each year.



Age	Premium	Route 2: pay needed	REB rate per \$1,000	REB on \$500,000	QL: tax on REB	Pay kept with QL
50	\$1,244	\$1,595	0.85	\$425	\$94	\$1,501
51	\$1,244	\$1,595	0.87	\$435	\$96	\$1,499
52	\$1,244	\$1,595	0.88	\$440	\$97	\$1,498
53	\$1,244	\$1,595	0.89	\$445	\$98	\$1,497
54	\$1,244	\$1,595	0.92	\$460	\$101	\$1,494
55	\$1,244	\$1,595	0.94	\$470	\$103	\$1,492
56	\$1,244	\$1,595	1.02	\$510	\$112	\$1,483
57	\$1,244	\$1,595	1.15	\$575	\$126	\$1,469
58	\$1,244	\$1,595	1.30	\$650	\$143	\$1,452
59	\$1,244	\$1,595	1.50	\$750	\$165	\$1,430
60	\$1,244	\$1,595	1.61	\$805	\$177	\$1,418
61	\$1,244	\$1,595	1.85	\$925	\$204	\$1,391
12 years	\$14,928	\$19,140		\$6,890	\$1,516	\$17,624

Pay needed: premium ÷ (1 – 22%). REB: the carrier's one-year term rate for his attained age × 500. Tax on REB at 22%. Premiums paid from the plan reduce the 401(k) balance by \$14,928 over 12 years; growth on that amount is not shown.

\$0

from his paycheck for the premium in any year

\$126

his average yearly cost: income tax on the REB

\$17,624

of pay he keeps over 12 years, against buying the term on his own

03 ROUTE 2 No 401(k), or a plan that does not allow it

Not every 401(k) permits life insurance, and not everyone has one. The conversion right does not depend on the plan. He can buy the same \$500,000 20-year term on his own and keep the same protection at 62.

12 years, ages 50–61	Route 1: Qualified Life	Route 2: on his own
Premium, with waiver	\$1,244 a year, paid by the plan	\$1,244 a year, paid by him
From his paycheck	\$0	\$1,595 of pay a year (\$19,140 total)
Tax on the REB	\$1,516 total	None
401(k) balance used	\$14,928	None
Without the waiver	\$844 a year, paid by the plan	\$844 a year (\$1,082 of pay)
Who can own it	The plan, until conversion	He or his wife, from day one
Conversion to income and asset insurance	Same right on both routes: no new underwriting, original class, until age 70	
At conversion	Moved out of the plan; small tax on its value	Nothing to move; already owned personally

Premiums shown at the same rate on both routes for comparison; a personally owned policy may be priced slightly differently.

ROUTE 1 IS BEST WHEN

A plan that permits it

He has seasoned money in a 401(k) that allows life insurance, and wants nothing taken from his paycheck.

ROUTE 2 IS BEST WHEN

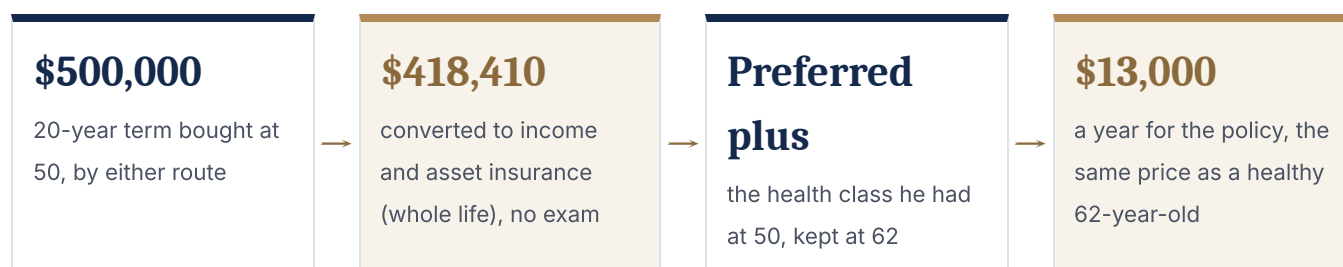
No plan, or a plan that won't

There is no 401(k), the plan will not add life insurance, or the couple wants her to own the policy from the start for estate reasons.

Either way, what he is really buying at 50 is the right to convert. It costs the same to keep, and it pays off the same way when his health changes.

04 The health change: converting at his original class

At 62 he has a serious health change. Applying for new coverage now could mean a decline or a heavily rated, much more expensive policy. Instead he uses the conversion right in the term he already owns, by either route. The right lasts until 70, so he could also wait.



What conversion protects

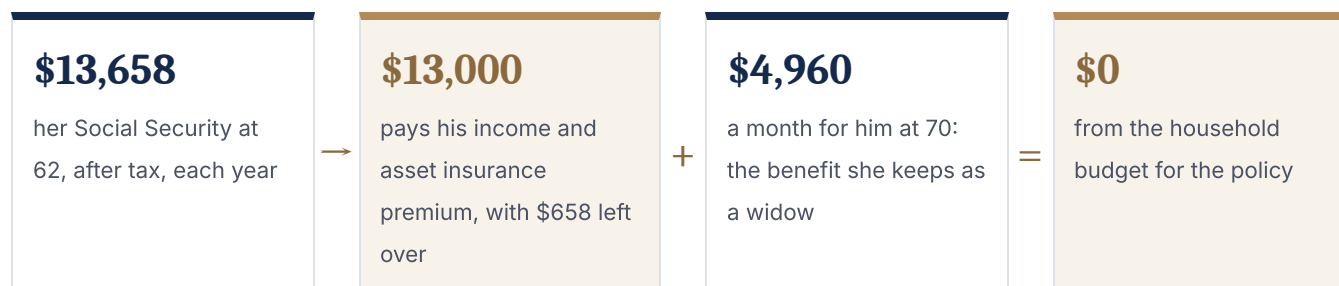
INSURABILITY No new underwriting The diagnosis does not affect the new policy. No exam, no medical records, no decline.	HEALTH CLASS Preferred plus kept The new policy is priced at the class earned at 50, not at a rating based on his health at 62.	PERMANENT COVERAGE Past the term The term would end at 70. Income and asset insurance lasts for life, with cash value and a growing death benefit.
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At conversion	What happens
Coverage converted	\$418,410 of the \$500,000; the remaining \$81,590 of term can stay in force to age 70 or be dropped
New policy	Whole life, preferred plus, \$13,000 a year payable to age 100, initial face \$418,410, dividends buy paid-up additions
Ownership	Route 1: the policy is moved out of the 401(k) so the couple can own it personally, coordinated with the plan's TPA; the value moved out is taxable, and small for a new policy. Route 2: already owned personally.
Who pays	His wife claims Social Security at 62, and her benefit after tax pays the premium, as shown in Part I .

Twelve years of term bought the one thing money cannot buy after a diagnosis: the right to stay insured at his best health class.

05 After conversion: the Social Security plan takes over

With income and asset insurance in place at 62, the plan from Part I takes over. She claims Social Security early and her benefit pays the premium. He waits until 70, so the larger benefit is the one she keeps if she outlives him.



If he dies first: her income each year

His age at death	Death benefit	His Social Security + 4% on the death benefit	With the plan	No insurance, both claim at 67	More each year
70	\$436,292	\$48,390 + \$17,452	\$65,842	\$39,024	+\$26,818
75	\$469,576	\$48,390 + \$18,783	\$67,173	\$39,024	+\$28,149
80	\$520,626	\$48,390 + \$20,825	\$69,215	\$39,024	+\$30,191
85	\$584,636	\$48,390 + \$23,385	\$71,775	\$39,024	+\$32,751

After tax: Social Security 85% taxable at 22%; death benefit received income-tax free and invested at 4% after tax, principal kept for heirs. Without the plan there is no death benefit, and she receives his \$4,000 benefit from 67.

What Parts I and II deliver together

The plan delivers	Value
Pay kept with Qualified Life, ages 50–61 (Route 1)	\$17,624
Income and asset insurance bought after a serious health change, at preferred plus	\$418,410 death benefit, \$584,636 by 85
Premium paid by her early benefit, ages 62–66, before she would otherwise collect anything	\$65,000
Her income as a widow if he dies at 75, compared with no plan	+\$28,149 a year, plus \$469,576 for heirs
The cost while both are living: her smaller check after 67, and his benefits skipped from 67 to 70	–\$5,854 a year; \$117,072 skipped

The result: term bought at 50 from 401(k) money becomes permanent coverage at 62, paid for by Social Security, with a larger survivor income and a tax-free death benefit for her.

06 BEFORE YOU DECIDE Things to know

- **The conversion window.** This term converts to whole life without new underwriting until age 70. After that the right ends, so the decision has to be made by then.
- **Route 1: the plan must permit life insurance.** Qualified Life requires a plan document that allows it. Seasoned money is money that has been in the plan at least two years; the plan's rules decide how it may be used.
- **Route 1: the REB is taxable each year.** He reports the value of the life coverage as income while the plan owns the policy. Rates shown are the carrier's published one-year term rates.
- **Route 1: premiums reduce the 401(k) balance.** \$14,928 comes out of the plan over 12 years, along with what it would have earned. In exchange, nothing comes out of his paycheck.
- **Route 1: moving the policy out of the plan.** At conversion, the policy is distributed or sold to him at its value. Talk with your tax advisor and the plan's TPA before converting.
- **The waiver of premium, both routes.** It costs \$400 a year and keeps the coverage and conversion right in force if he becomes totally disabled. Definitions and waiting periods are in the policy.
- **Dividends are not guaranteed.** Whole life values after conversion depend on the carrier's dividend scale.
- **Underwriting applies at 50.** The plan works only if he qualifies when healthy. The best time to buy the conversion right is before it is needed.

One plan in two parts: **Part I, Her Early Benefit, His Policy**, shows her Social Security paying for his income and asset insurance. **Part II** shows how he keeps the right to buy it at his best health class.



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Hypothetical illustration for education. Premiums and REB rates from the carrier's published rates; whole life values from a carrier illustration. Not a contract or offer. Guarantees are based on the claims-paying ability of the issuing insurer. Advanced Insurance Brokerage does not provide tax or legal advice.

II Insured at 50, protected at 62

50

BUYS TERM WHILE HEALTHY

\$1,244 a year

\$500,000, 20-year, convertible to whole life until 70, waiver of premium included.

TWO WAYS TO OWN IT

50–61

ROUTE 1 · QUALIFIED LIFE

\$0 from pay

Paid from seasoned 401(k) money. Nothing from his paycheck; his only cost is tax on the REB, \$126 a year on average.

ROUTE 2 · ON HIS OWN

\$1,595 of pay

For no 401(k), or a plan that won't allow it. Paid with taxed dollars: \$1,244 takes \$1,595 of pay.

62

SERIOUS HEALTH CHANGE

\$13,000 a year

Converts \$418,410 to income and asset insurance (whole life) at his original preferred plus class. No exam, no medical records.

OWNERSHIP

Route 1: moved out of the 401(k) to be owned personally. Route 2: already owned. The other \$81,590 of term can run to 70 or be dropped.

62+

THE PART I PLAN TAKES OVER

\$0 from the budget

She claims early and her \$13,658 a year pays the premium. He waits until 70 for \$4,960 a month.

IF HE DIES AT 75

\$67,173 a year

Her income: his Social Security plus 4% on the death benefit, against \$39,024 with no plan.

What he bought at 50 was the right to convert. Route 1 kept \$17,624 of pay over 12 years; both routes kept his preferred plus class.

How to read this chart

- Age when it happens
- Gold: what the plan pays, saves or protects
- Navy: a step or a choice
- Red: the event the plan is built for
- Read top to bottom; side-by-side boxes happen together

KEY NUMBERS

\$0

from his paycheck on Route 1

\$17,624

of pay kept over 12 years

\$418,410

converted at preferred plus, no exam

WHERE TO READ MORE

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Part III shows what happens if he becomes disabled at 55. Your AIB professional will run the numbers for your own ages and benefits.