Advanced
Insurance Brokerage

ADVANCED INSURANCE BROKERAGE · CLIENT EDUCATION SERIES · PART III

The Math Behind Qualified Life

Parts I and II show term coverage costing far less through a 401(k) than on your own. This guide takes that number apart, line by line, shows it with no employer match and at different tax rates, and answers the ten questions a careful reader should ask.

$1,429
of pay needed to send a $1,000 premium to an insurer on your own (30% income tax)

$1,046
of pay for the same coverage through the plan, with no employer match

$383
year-one difference with no match (27%); $833 when a match covers $450

MEASURE BOTH SIDES THE SAME WAY

01 Same coverage, fewer paycheck dollars

The comparison is not "$1,000 becomes $1,429." It is the reverse. To mail a $1,000 premium to an insurance company, you first earn about $1,429, because income tax comes out before you can spend it. Inside the plan, the premium is paid before income tax. Measured in the same unit, dollars of pay, here is every piece of the difference.

Source of the difference	Year one	What it is
Tax gross-up avoided	$429	$1,429 of pay minus the $1,000 premium: the income tax you no longer need to cover
Unisex rates	$100	A 10% lower premium in this example ($1,000 to $900). Varies by carrier, age and sex
Tax on the REB	−$146	The part that is taxed: $340 REB × 30% = $102, which takes $146 of pay
Difference with no match	**$383**	27% less pay for the same coverage
Employer match	$450	Only if the plan matches, and only partly a saving (see question 4)
Difference with the match	**$833**	The figure used in Parts I and II

The two paths, side by side

$1,429

On your own: $1,429 of pay, $429 income tax, $1,000 to the insurer.

$1,046

Through the plan, no match: $900 premium paid before income tax, plus $146 of pay to cover the tax on the REB.

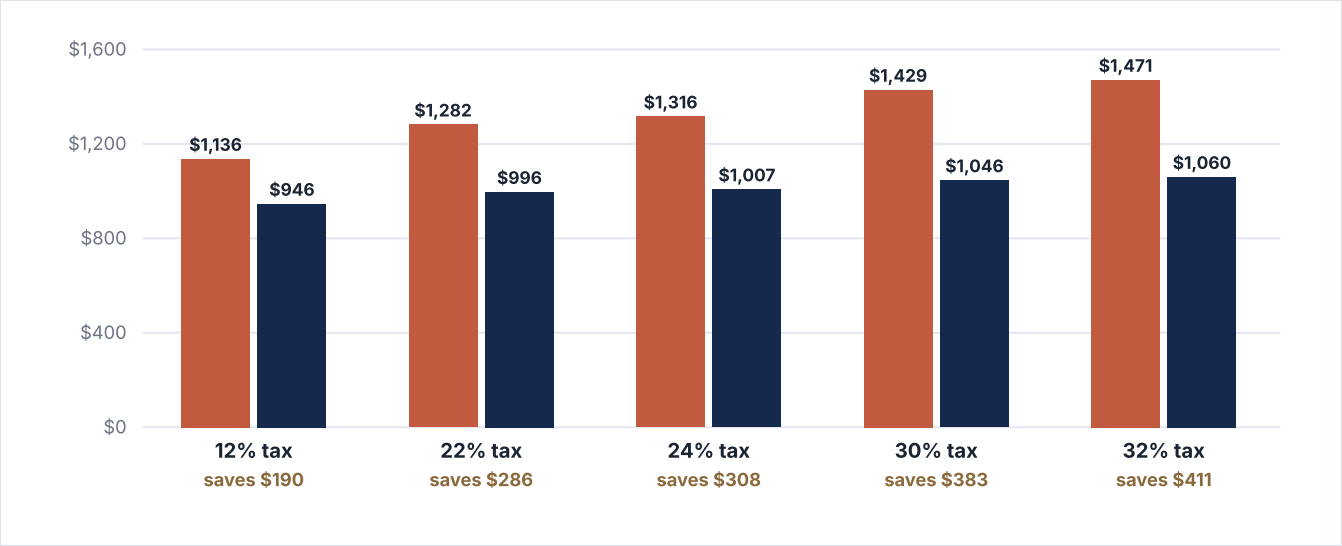
Nothing here creates money. The difference comes from **when income tax applies** (on the REB, not the full premium) and from **unisex pricing**. The match is a separate employer benefit.

Example: $1,000,000 of 20-year level term, age 40, 30% income tax rate (federal and state), $900 unisex premium, $340 REB using the insurance company's published term rates.

THE BASELINE

02 No match, five tax rates

Remove the employer match and the result is smaller, but still real. The higher your income tax rate, the more the gross-up costs you on your own, and the more the plan saves.



Income tax rate	On your own	Plan premium	Tax on REB	Through the plan	Difference	Savings
12%	$1,136	$900	+$46	$946	**$190**	17%
22%	$1,282	$900	+$96	$996	**$286**	22%
24%	$1,316	$900	+$107	$1,007	**$308**	23%
30%	$1,429	$900	+$146	$1,046	**$383**	27%
32%	$1,471	$900	+$160	$1,060	**$411**	28%

$1,000 retail premium, $900 unisex premium and $340 REB in every row; no employer match. Tax on the REB is shown in pay dollars: REB × rate ÷ (1 − rate).

The baseline: through the plan, the same coverage takes roughly 17% to 28% less pay with no match, depending on your tax rate. A match adds more, with the caveats in question 4.

TOO GOOD TO BE TRUE?

03 Ten fair questions

1. Isn't 401(k) money taxed when it comes out?

Yes, when it is withdrawn. Premium dollars spent inside the plan are never withdrawn, so the only income tax on them is the tax on the REB, reported on your W-2 each year. That is the $146 in the example.

2. Doesn't this take money away from my retirement?

Yes. Premiums are paid from your account, so that money does not grow for retirement. Part II shows one way to rebuild it: keep spending what retail term would cost and send the difference into the plan.

3. What about Social Security and Medicare tax?

401(k) contributions are still subject to Social Security and Medicare tax. It applies equally to both paths, so it does not change the comparison. The example uses income tax only.

4. Is the employer match really a saving?

Only partly. The match comes with your own contributions whether or not you buy insurance, and match dollars spent on premiums are not invested. That is why this guide shows every result with no match.

5. Is unisex pricing always cheaper?

No. Unisex rates blend men's and women's pricing. They usually help men; women may pay the same or more than sex-based retail rates. The 10% in the example is not guaranteed.

6. Is a $340 REB realistic?

It uses the insurance company's own published term rates, which the IRS allows when they meet its requirements. Under the IRS Table 2001 rates the REB is higher (about $1,100 at age 40), and the savings are much smaller. Ask which rates your carrier uses.

7. Why do the savings shrink each year?

The REB, and the tax on it, rise with age while a level term premium does not. In the Part II example, year-one savings of $833 fall to $443 by age 59.

8. Are there limits?

Yes. IRS incidental benefit rules limit how much of your contributions can buy term coverage (generally 25%), with exceptions for "seasoned" money. Part I has the details.

9. What happens if I leave the job?

Depending on the plan and the carrier, you may take the policy personally, convert it, or let it end. Ask before you enroll.

10. Is the death benefit tax-free?

The protection portion is paid income-tax free when the REB has been reported each year. Plan rules, including any spousal consent, decide who the beneficiary can be.

Who should not do this? Someone not contributing to the 401(k), someone who needs every dollar invested for retirement, someone whose plan does not permit life insurance, or someone who would pay more under unisex rates.

CHECK IT YOURSELF

04 Your own numbers

Type into the boxes or print and fill in by hand. Use your retail term quote, a quote through the plan, the REB from the insurance company and your own tax rate.

A	Annual premium for retail term (from your quote)	
B	Your income tax rate (federal + state)	
C	Pay needed for retail term: A ÷ (1 − B)	
D	Annual premium through the plan (unisex quote)	
E	REB for the year (from the insurance company)	
F	Tax on the REB, in pay dollars: E × B ÷ (1 − B)	
G	Pay used through the plan, no match: D + F	
H	Year-one difference: C − G	
I	Optional: employer match applied to the premium	
J	Year-one difference with the match: H + I	

Hypothetical example. Figures illustrate the arithmetic and are not a quote or guarantee. Premiums, REB rates, tax rates and plan rules vary. Savings decline in later years as the taxable REB rises.

Plan rules. The employer's plan must permit life insurance, and the trustee or sponsor approves it. IRS incidental benefit limits apply. 401(k) contributions remain subject to Social Security and Medicare tax.

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