CORPORATE OWNED LIFE INSURANCE

BENEFITS OF COLI

- Protects a company from financial costs related to the loss of a key employee
- Informally funds the cost of employee benefits
- Can earn a competitive after-tax yield compared to other investments
- Can be retained after an insured employee leaves the company in order to cover the liabilities the company has to other employees
- Can favorably impact a company's financial performance when it increases net after-tax income
- No cost to the employee

KEEP IN MIND

- Premiums are NOT tax-deductible
- Policies can be surrendered for cash value at any time (early surrender penalties may apply)
- Coverage can be transferred to another carrier or insured as company needs change
- Employee consent (for IRC 101(j) purposes) must occur PRIOR to the issuance of coverage
- The company (or Trust) must be the owner and beneficiary of the policies
- A company purchasing insurance on employees must demonstrate an insurable interest in those employees

WHAT IS COLI?

The term corporate owned life insurance (COLI) is generally used to describe a life insurance product owned by a company insuring the life of an employee. The company pays all of the policy premiums and is the named beneficiary of the policy. COLI is used for a number of strategic business approaches. For example, in the event of the untimely death of a key employee, the death proceeds can be used to offset the cost to recruit, hire, and train a key employee's replacement. In addition, COLI policies are often used as a sinking fund for the company to offset benefit plan liabilities.

NONQUALIFIED PLANS & COLI

While nonqualified plans are required to be "unfunded," many companies choose to offset plan liabilities with a corporate asset. COLI is an attractive financing alternative as it provides the sponsoring company the ability to accumulate an asset on a tax-deferred basis, and it can ultimately provide a tax-free return through death proceeds. In addition, most companies can purchase specially priced (i.e., institutionally priced) products which have much lower fees and surrender charges than traditional retail life insurance products.

IRC SECTION 101(j)

Employers who utilize COLI are required to comply with the notice and consent requirements of Internal Revenue Code Section 101(j). First, any employee that is insured by the employer must consent to the insurance and must be notified of the total death benefit, and recognize the policy can be retained after their employment ends. Secondly, employers are required to file an annual Form 8925 with their corporate tax return indicating the number and amount of insurance on employees.