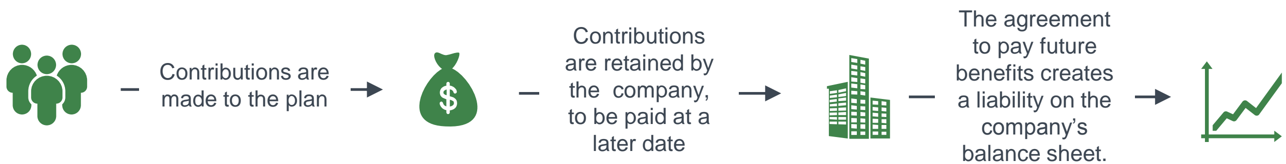
NFP

Nonqualified Plan Portfolio De-Risking

Companies purchase Company Owned Life Insurance (COLI) as a tax-managed financing strategy, to offset the costs associated with executive benefit programs such as Nonqualified Deferred Compensation Plans (NQDC) and Supplemental Executive Retirement Plans (SERP). NQDC's and SERP's that are used as mechanisms to attract, retain, and reward top-level talent, create a growing liability on a company's balance sheet. Employers use COLI to hedge those future benefit obligations and to recoup the cost of maintaining these valuable executive benefit programs.



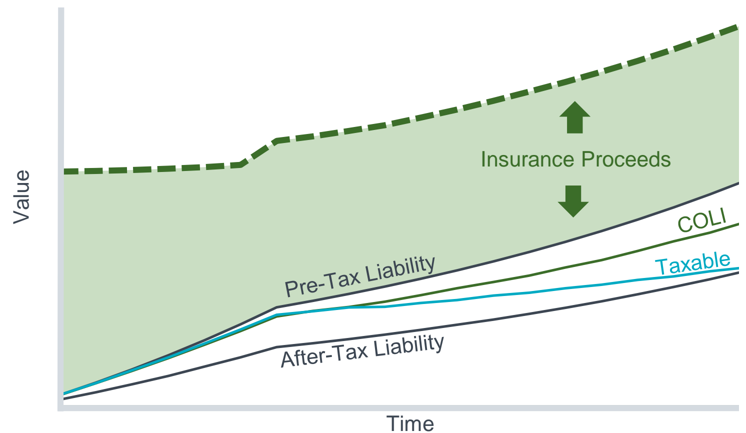
Beyond Hedging The Liability

To hedge the future obligation, the company matches the liability with an asset. Desirable asset traits include liquidity, flexibility, and matched longevity. The most prevalent financing strategies include COLI (tax-managed) and taxable funds. While both taxable funds and COLI can be an effective hedge to the liability, the incremental benefits produced by COLI, not available in taxable funds, could produce meaningful financial gains to the plan sponsor.

Provide Benefits & Recover Your Costs

As the liability of the plan grows, ideally the hedging asset grows with it, allowing the plan sponsor to meet benefit payments as they come due. Plan sponsors who utilize COLI have the added benefit of life insurance proceeds, not available in taxable funds, that provide the opportunity for:

- Benefit payments fulfillment
- Key-person life insurance
- Split-Dollar agreements
- Plan cost recovery

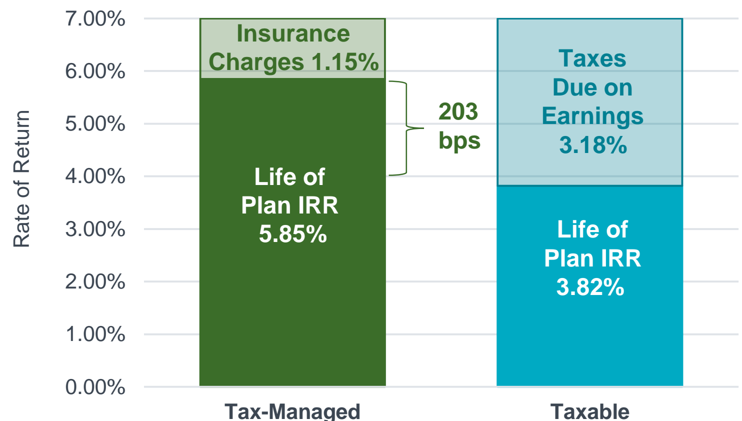


Cost Efficiency

COLI expenses include the cost of insuring your participants. Taxable fund expenses include taxes incurred from plan and investment manager activity. Over time, the tax-deferred nature of COLI can make it a more cost efficient option.

Rate of Return

By utilizing COLI, the plan sponsor benefits from cost efficient growth and insurance proceeds. Assuming the same gross rate of return, these added COLI benefits can create over 200 bps of incremental return on investment.



The Utility of COLI

Utilizing COLI as a financing vehicle allows the owner to offset plan liabilities and also:

- Utilize the tax-preferential features of COLI for the opportunity to minimize long-term costs
- Provide a mechanism to recover plan cost over time on a more efficient basis
- Provide the added protection of key person life insurance

Company-Owned Life Insurance – And a Whole Lot More

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For more information visit, NFP.com.

You have questions about your deferred compensation options, costs, implementation and administration. NFP has answers.

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Model Assumptions: 7% Gross rate of return; .46% IMF; 40% corporate tax rate; seven level annual premiums; Age 45 insured; Guaranteed issue underwriting; Corporate VUL; All base insurance; Revenue share in COLI is 25 bps; Taxes deducted from mutual fund account;

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