Corporate Owned Life Insurance (COLI)
- Tax-favored investment maintained by companies to provide a source of funds to satisfy future obligations.
- Company is the owner and beneficiary of the policy and the policy is considered an asset of the company.
- **COLI** is an attractive investment because its cash values generate investment income that grows tax free, unlike a mutual fund or a managed corporate portfolio.
- If the policy is properly designed, funds can be withdrawn on a tax-free basis when needed, and death benefits received by the corporation are generally income tax free.
- COLI costs include insurance related charges which will lower the investment rate of return. Often, the decision to use COLI is based on whether these charges are less than the taxes a company would incur with a mutual fund or managed corporate portfolio.

**What Are Some of the Specific Benefit Plans that COLI may Informally Fund?**
1. Buy-sell, transition planning or key employee coverage
2. Supplemental employee retirement plan (SERP)
3. True deferral plan; policy earnings covering any company matches plus the interest on the employee’s deferred income
4. Defined contribution plan, where plan values increase based on the actual earnings of the life insurance policy
5. Pre-and/or post-retirement costs associated with employee health and welfare plans
6. An employee stock option plan or funding a 401(k) by offsetting start-up and maintenance costs
7. In place of group term life insurance for executives, “carving” them out of the group plan and, in the process, providing the opportunity for a lifetime benefit. This allows the company to recover all costs instead of paying the unrecoverable cost of a group term life policy.

**Institutionally-Priced Life Insurance**
- More efficient life insurance product for organizations and high net worth individuals
- Plans requiring $50,000 or more of premiums
- Larger death benefits
- More insured lives
- Non-medical Underwriting
- Guaranteed Issue (GI) / Simplified Issue (SI)
- High early cash values and low internal costs

**Retail Life Insurance Products**
- Available for individual policies, small businesses or low-premium case designs
- Relatively high commissions paid
- Proportionately low cash values
- May include a surrender charge to help offset the cost of implementing the policy
Construction Firm Case Study

**ISSUE:**
- A construction firm has 50 employees and two owners.
- Each owner runs a different part of the business, and without each other they believe the business would fail without a suitable replacement.
- No insurance is in place and both dislike the idea of spending money on insurance they feel they won't use.
- Company has $2.5 million in a cash account earning 1%.

**SOLUTION:**
- **$1 million Company Owned Life Insurance (COLI) on each owner**
- No charge to earnings
- COLI provides a higher yield than cash plus term insurance or cash by itself
- Cash values are available via policy loans or withdrawals
- Should other investment yields increase, cash values can be stripped out with the policy functioning like term insurance
- Coverage is in place without the necessity of future underwriting

25-Year Comparison Between a Cash Position Earning 1.00% Gross Paying for 20 Year Term Insurance and Cash Value Via COLI Insurance Policy Illustrated Crediting 4.30% and Guaranteed to Credit 2.00%. Assumed Total Death Benefit for both policies is $2,000,000.

<table>
<thead>
<tr>
<th>Year</th>
<th>Age</th>
<th>New Cash</th>
<th>BOY Cash Position</th>
<th>BOY Term Insurance Cost</th>
<th>Net A/T Earnings on Cash Position*</th>
<th>FOY Cash Position (2)+(3)</th>
<th>IRR on FOY Cash Position</th>
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</thead>
<tbody>
<tr>
<td>1</td>
<td>47/49</td>
<td>(102,959)</td>
<td>102,959</td>
<td>(3,629)</td>
<td>596</td>
<td>99,926</td>
<td>-2.95%</td>
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<tr>
<td>2</td>
<td>48/50</td>
<td>(102,959)</td>
<td>202,885</td>
<td>(3,629)</td>
<td>1,196</td>
<td>200,451</td>
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<tr>
<td>3</td>
<td>49/51</td>
<td>(102,959)</td>
<td>303,410</td>
<td>(3,629)</td>
<td>1,799</td>
<td>301,579</td>
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<tr>
<td>4</td>
<td>50/52</td>
<td>(102,959)</td>
<td>404,538</td>
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<td>2,405</td>
<td>403,134</td>
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<tr>
<td>5</td>
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<td>506,273</td>
<td>(3,629)</td>
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<tr>
<td>6</td>
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<td>(102,959)</td>
<td>608,619</td>
<td>(3,629)</td>
<td>3,630</td>
<td>608,620</td>
<td>-0.43%</td>
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<tr>
<td>7</td>
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<td>(102,959)</td>
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<td>4,248</td>
<td>712,197</td>
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<tr>
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<tr>
<td>10</td>
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<td>11</td>
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<td>719,914</td>
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<td>4,428</td>
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</table>

(720,713) (720,713)

*{(2)+(3)} x (1.00% x(1-40%))

All values shown are for illustrative purposes only. Actual values will vary depending on a variety of factors.

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