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## Insurance Company Owned Life Insurance (ICOLI): Offset Benefit Costs While Improving the Bottom Line

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# ICOLI: Offset Benefit Costs While Improving the Bottom Line

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## Executive Summary

Insurance Company Owned Life Insurance (ICOLI) is life insurance owned by the insurance company and issued on the lives of directors and select employees and is usually funded with a single premium deposit.

ICOLI earnings are based upon a diversified investment portfolio managed by the life insurance carrier. Three of the top five rated insurers report owning ICOLI; therefore, ICOLI cash values can be backed by highly rated insurances companies with a strong AAA credit rating.

## Benefits of ICOLI

Insurance Company Owned Life Insurance (ICOLI), offers similar advantages to insurance companies as BOLI does for banks. Same with COLI and BOLI, ICOLI provides benefits such as:

- ICOLI is immediately accretive to earnings
- Earnings from ICOLI are income tax-free if held to maturity
- ICOLI provides tax-free death proceeds which are greater than the booked cash value (Below is the sample policy performance of a \$20,000,000 new ICOLI purchase from a AAA rated insurance company. Illustration is dated September 2013 and is based on a sample 45 year old male, nontobacco user.)

**“ICOLI is immediately accretive to earnings.”**

Year		Current Interest Crediting Rate				
		Illustrated Net Cash Value	Illustrated Annual Earnings	Illustrated Cash Value Yield	Tax Equivalent Yield	Illustrated Death Benefit
0	2013	\$20,000,000				\$70,778,940
5	2018	\$23,243,460	\$751,580	3.34%	5.57%	\$69,808,580
10	2023	\$27,980,660	\$1,095,080	4.07%	6.79%	\$71,464,960
15	2028	\$34,377,740	\$1,381,080	4.19%	6.98%	\$75,431,160
20	2033	\$42,097,860	\$1,655,940	4.09%	6.82%	\$80,236,860
25	2038	\$51,214,540	\$1,933,280	3.92%	6.54%	\$85,888,640
30	2043	\$61,767,720	\$2,228,560	3.74%	6.24%	\$92,236,080

- Policies may be issued on a Guaranteed Issue Basis with 10 or more insureds (i.e. limited or no medical underwriting)
- ICOLI provides Keyperson Life Insurance and protects company value

- ICOLI is a long term asset
- Earnings and insurance proceeds can be used to offset costs of:
  - New and existing employee benefit plans expenses
  - Nonqualified plans for key employees

Below is a comparison of alternative investments vs. ICOLI showing ICOLI's advantages:

	10-Year Treasury	Corporate Bonds 5 Year AAA	Municipal Bonds 5 Year AAA	ICOLI
	\$20,000,000	\$20,000,000	\$20,000,000	\$20,000,000
Yield	2.70%	1.74%	1.23%	2.76%
Income	\$540,000	\$348,000	\$246,000	\$552,060
Less: Tax at 40%	(\$216,000)	(\$139,200)	\$0	\$0
Net Income	\$324,000	\$208,800	\$246,000	\$552,060
Advantage vs. Treasuries		(\$115,200)	(\$78,000)	\$228,060

All rates as of 9/23/2013

## Compliance

Similar to COLI and BOLI, there are a few compliance issues ICOLI owners need to consider:

- ICOLI cash values will not need to be marked down as yields rise per FAS 115, but rather FAS 85-4 allows for book value treatment
- ICOLI benefits from reduced reserve requirements:
- Insurers carry ICOLI at an “aggregate write-in for other than invested assets”
- RBC C-1 charges are 0% for life/health carriers and 5% for P&C carriers
- S&P limits ICOLI to 25% of the insurer's total adjusted capital and 10% of the insurer's total adjusted surplus for aggregate exposure to any single entity
- Under IRS Section 101(j), certain eligibility and notice and consent requirements must be satisfied in order for any death benefit payable under an “employer-owned life insurance contract” to qualify for the federal income tax exclusion

**“...must satisfy IRS Section 101(j) to qualify for the federal income tax exclusion.”**

- At the time of policy issuance or a material change of contract, the insured must be either:
  - A director
  - One of the five highest paid officers
  - A 5% owner at any time during the year or preceding year
  - An employee who had compensation of at least \$100,000 in the preceding year (adjusted for cost of living)
  - An employee who is among the highest paid 35% of employees

In conclusion, insurance companies have the same advantages at their disposal as banks and other corporations. With ICOLI, insurance companies have the potential for higher yields, favorable accounting treatment, tax-deferred growth and tax-free death proceeds.

For more information, please contact Executive Benefits Network today.

Executive Benefits Network welcomes questions and comments. Please contact Nikki Kook at (414) 755-8276 or [nkook@ebn-design.com](mailto:nkook@ebn-design.com).

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## About Executive Benefits Network

Executive Benefits Network (EBN) specializes in the design, administration and informal financing of customized **deferred compensation** plans and the procurement of **Bank Owned Life Insurance (BOLI)** programs. BOLI can help offset the costs of **nonqualified plans** for key employees and/or the costs of existing employee benefits. In addition, BOLI is immediately **accrue to earnings** and improves non-interest income and shareholder value.

EBN emphasizes the importance of **education** and builds long-lasting relationships with clients. As the **leading industry advisor**, EBN develops **customized** plans to attract, retain and reward **key executive talent**. EBN can service in all 50 states and has access to the highest rated insurance companies in the nation. Please contact EBN today for more information on how to improve your financial portfolio.

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