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Navigating the Executive Benefits Landscape
with The Todd Organization

COLI Helps Banks, Insurance Companies Address Many Business Needs

For banks and insurers, company owned life insurance (COLI) is one of the few vehicles that can provide attractive returns on a secure, tax-advantaged asset while offsetting the costs of employee benefits.

Insurance company owned life insurance (ICOLI) has become increasingly popular with property and casualty companies, as well as life insurers, as it helps to address numerous business needs while generating attractive returns. The result is an increased yield in the permanent surplus within the company.

More than 240 insurance companies report ICOLI holdings on their statutory financials with the amount typically covering between 5-10 percent of surplus.[i] Insurance companies have purchased more than $20 billion of ICOLI.[ii] The interest in ICOLI has grown as perennially low interest rates have left most other tax-advantaged assets with low yields.

Banks have used a similar strategy for the past three decades to increase earnings, return on assets, and cost effectively address long-term employee benefits obligations. More than 3,500 commercial banks and savings associations own bank-owned life insurance with BOLI assets exceeding *$137 billion* according to a study by the Federal Reserve.[iii]

Among the many reasons why insurance companies invest in ICOLI and banks in BOLI are the following:

- They are designed to increase after-tax investment returns through
  - An increase in the rate of growth of capital and surplus
  - An increase in reported earnings
- Unrealized gains are included in earnings
- Potentially lower risk based capital requirements
- Assets may be reallocated without incurring tax
- Assets may be customized to meet specific objectives
- The long-term nature of the asset can be matched to the increasing costs of employee benefits

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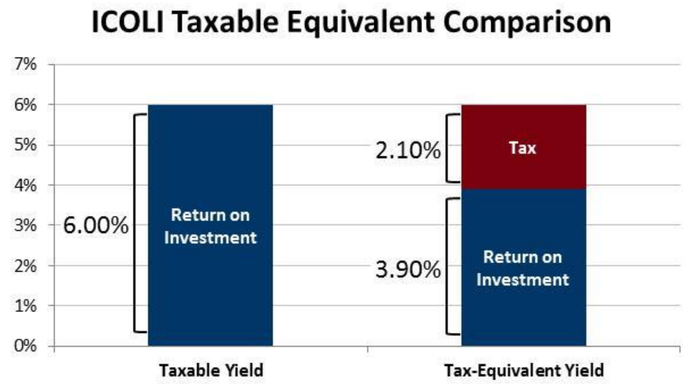
Today, many ICOLI assets can be implemented with an after-tax yield of 3.5 to 4.0 percent. For a business with a 35 percent marginal federal tax rate, the equivalent taxable yield would need to be 5.39 to 6.16 percent.[iv]



Assumes a 35% marginal federal tax rate.

Once banks and insurance companies implement BOLI or ICOLI, they should do so with an administrator who will provide the following services:

- Financial and Accounting Reporting
- Investment Reporting
- Policy Owner Services Reporting
- Annual Plan Review
- Compliance and Legislative Reporting
- Online access

With BOLI and ICOLI, banks and insurance companies can combine maximum return with an emphasis on safety and security. BOLI and ICOLI are cost effective ways to address the long-term costs of employee benefits, while also generating higher returns today, especially in today's low interest rate environment.

The Todd Organization has numerous experts available to help insurance companies institute and refine ICOLI programs. For more information, please contact your Todd consultant or visit us at www.toddorg.com.

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[i] Newport Group, "Insurance Company Owned Life Insurance (ICOLI)," p. 6. March 2016.
[ii] Ibid, p. 4.
[iii] Cynthia L. Course, CPA, Principal, Federal Reserve Bank of San Francisco. "Bank-Owned Life Insurance: A Primer for Community Banks". Community Banking Connections (publication of the Federal Reserve Systems), Second Quarter 2014.
[iv] The Newport Group, Financial Services Team, April 2016.

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