Why is Life Insurance a Popular Funding Vehicle for Nonqualified Retirement Plans?

By Peter N. Katz, JD, CLU ChFC

This article is a sophisticated analysis about the funding of nonqualified retirement plans. It is intended for readers that have some familiarity and expertise in this subject matter.

Financial advisors often treat the suggestion of funding retirement benefits using life insurance with little enthusiasm — and at first glance it would appear with good reason. After all, life insurance bears additional costs and charges for the insurance element of the policy that other accumulation vehicles are not subject to. These charges, of course, reduce the return on the cash value " investment" portion of the policy.

In spite of this, many corporations use life insurance to fund their nonqualified retirement programs. In fact it has been reported[1] that in 1998 the 20 largest writers of Corporate Owned Life Insurance (COLI) wrote a whopping $10.3 billion in premium. Not only does this demonstrate the popularity and importance of nonqualified retirement plans as part of a corporate benefit package, but also that a large number of corporate decision-makers have chosen life insurance to fund these plans. Why are nonqualified retirement plans so popular and why is life insurance often chosen to fund those plans?

The Popularity of Nonqualified Retirement Plans

Corporations face the problem of attracting, retaining, motivating and rewarding their key executives. While bonuses, qualified retirement plans and stock options are sometimes used for this purpose they frequently fail to meet an important objective of many employers, that is, to defer vesting to keep the employee on board for the long haul. Bonuses are spent and soon forgotten, stock options are subject to the vagaries of the market, a variety of complicated tax rules, and can dilute the company's stock. The latter being an especially great concern in closely-held corporations.

Qualified plans like pension, profit-sharing and 401k plans are subject to strict non-discrimination rules and maximum benefit limits. As a result the benefits of qualified plans cannot be weighted towards the key executives. In fact the benefit limits can actually cause reverse discrimination against higher paid employees. Because of these caps, rank and file employees may be eligible for retirement benefits that are a far greater percentage of their pre-retirement income than their highly-paid superiors.

Of course no one realizes these shortcomings more that the executives themselves. In addition to the limitations discussed above, Social Security benefit maximums are yet another example of reverse discrimination, providing significantly smaller benefits as a percent of pre-retirement income as earnings rise. Furthermore, executives are limited

[1] Best's Review, January, 2000

in the amount they can help themselves. In 401k plans not only are their own deferrals subject to the overall dollar and percentage maximums, but frequently "top heavy" tests, which tie the maximum participation of higher paid employees to the participation of lower paid employees, serve to even further reduce their maximum allowable deferrals.

For many employers a solution to these problems is the nonqualified retirement plan. These plans provide an attractive means for an employer to overcome qualified plan limits as well as to provide a special reward for key executives.

The most important features of nonqualified plans are:

- they can be used only for highly paid key executives,
- the employer is not subject to vesting requirements imposed on qualified plans so the plan can truly be an incentive to stay with the company for the long term, and
- many designs are available which provides great flexibility to implement a plan specifically designed to meet the needs of a particular company or executive.

The nonqualified plan design spectrum includes arrangements that mimic qualified plan designs but are intended to overcome or make up for the dollar limits of those plans. These so-called "excess benefit" plans can be designed like the plan they are intended to supplement — defined benefit, defined contribution, profit sharing or 401k.

Supplemental plans typically provide extra benefits for key executives to reward their special contribution to the success of the company. While the qualified plan-like designs previously mentioned can be used, more incentive-oriented designs are available as well. Designs can link a contribution or benefit to a specific individual objective or company target.

One very popular incentive design is the "phantom stock" plan. This arrangement can really tie the executive's benefit to the performance of the company over both the short and long term. A phantom stock plan treats participants as though they received company stock without actually requiring the distribution and dilution of stock. Often based on performance criteria, the eligible executive will be awarded phantom stock. Phantom stock is a bookkeeping account that simulates the distribution of stock to the executive. The value of the executive's account is tied to the value of the company's actual stock. Additional phantom stock awards can be made yearly and ultimately the total account value can be used to pay a retirement benefit.

Phantom stock plans can be used in both public and privately held companies. For public companies the value of the phantom stock is tied to the market value. For private companies usually an agreed upon formula (typically based on company profit and net worth) is used to value the phantom stock.

With the wide range of design flexibility available to nonqualified plans it is not surprising that they are a popular way to meet the significant challenges companies face in rewarding key executives.

Why Use Life Insurance to Fund a Nonqualified Retirement Plan?

Corporate income tax rules can make it quite difficult for employers to accumulate assets to pay retirement benefits on a nonqualified basis. And while employers are not required to fund[2] many employers do choose to create an informal sinking fund. The informal sinking fund will ease the strain on the corporation's cash flow when the time comes to pay benefits and helps assure the executive that the corporation will meet its obligations under the plan.

Unlike qualified plans, money set aside to fund nonqualified retirement plans do not receive especially advantageous tax treatment. Contributions to qualified plans are deductible to the employer when made. Assets held in trust for a qualified plan grow tax deferred. The executive is taxed upon receiving the benefits, however, payment of these benefits does not result in an additional tax deduction for the employer.

For nonqualified plans, the employer gets no deduction for contributions to the plan. Corporations must pay income tax on the accumulated funds when taxable earnings and gains occur. The corporation does receive a deduction when the benefits are paid to the executive. So that while a nonqualified plan produces tax consequences almost identical to a qualified plan for the executive, the tax consequences to the corporation are quite different. These differences must be taken into account when funding a nonqualified plan.

The hypothetical examples that follow are for illustrative purposes only. This is not a prediction or guarantee of actual results. Actual results will vary from those described. The examples are not intended to represent the value or performance of any specific product. The concepts presented here must be reviewed independently by you or a tax professional because individuals purchasing insurance and investment products must rely on the advice of their own tax advisors.

Consider the case of a 35% tax bracket corporation that wishes to provide a 55-year old executive with a $100,000 per year benefit for 10 years beginning at age 65. How much will the corporation have to put aside each year to accumulate the funds necessary to pay the benefit? This will, of course, depend on the performance of the investments used to fund the plan as well as the tax consequences of those investments.

---

[2] The term funding is intended to mean an informal sinking fund that is set aside by the employer to meet retirement plan obligations. To preserve the intended tax consequences, the covered executives must be general creditors and cannot have an interest in any specific property. A complete discussion of the tax aspects of deferred compensation is beyond the scope of this article. Corporations contemplating this type of arrangement should consult with their own tax advisors.

The corporation has a number of investment strategies that could be pursued: mutual funds, stocks, bonds, bank savings are all options. While deferred annuities may be a good choice for individual retirement savings, they are generally not a viable choice for a corporation. The primary advantage of a deferred annuity for an individual is that within the annuity money grows tax-deferred. This tax treatment, however, does not apply to corporations who must recognize the annual increase in value as ordinary income. IRC §72(u)

As for other types of investments, capital gains can be deferred until realized, but they lose part of their luster, as well, for corporations because long and short-term capital gains are taxed at the same rate as ordinary income. Individuals pay a maximum rate of 20% on long term capital gains which is substantially less than the 38.6% maximum rate on ordinary income.

Suppose, like in many qualified plans, the employer chooses to fund the arrangement with a mix of investments, some of which produce capital gains and others that produce ordinary income. Let's assume a total return of 10% on the portfolio with modest turnover and 9.5% after any investment charges, administration and transaction fees. The breakdown between current income (interest, dividends[3], and realized capital gains) is 3% current and 6.5% deferred capital gains. Because the $100,000 annual benefit is a deductible expense for the corporation, the after tax cost of providing the benefit is only $65,000. The corporation will need to generate after tax cash flow of $65,000 to meet its benefit obligation. Hypothetical funding for a 35% tax bracket corporation is illustrated in Exhibit 1.

Exhibit I shows that a hypothetical gross rate of 9.50% will produce an after tax internal rate of return of only 6.80%. Taxes absorb 2.70% of the return, an effective tax rate of 28.4%.

[3]Dividends may be eligible for as much as a 70% exclusion from taxable income. The exclusion is not considered in this particular analysis. It is assumed most current income is derived from capital gains, since dividend yields in recent years have been very low when measured against most major indexes. In addition the ability to fully use this exclusion is subject to a variety of conditions. If a corporation intends to make dividend paying stock a significant portion of its funding portfolio, the exclusion should be taken into account for their analysis.

Exhibit I

Year	(a) Benefit Funding or Withdrawal	(b) Hypothetical Earnings @ 9.5%	(c) Taxes On Earnings	(d) End of Year Balance	(e) After Tax Liquidation Value	(f) After Tax IRR on Liquidation
1	-33,668	3,198	354	36,513	35,747	6.17%
2	-33,668	6,667	737	76,112	73,749	6.22%
3	-33,668	10,429	1,153	119,057	114,197	6.26%
4	-33,668	14,509	1,604	165,630	157,296	6.31%
5	-33,668	18,933	2,093	216,139	203,271	6.35%
6	-33,668	23,732	2,623	270,917	252,365	6.39%
7	-33,668	28,936	3,198	330,322	304,841	6.44%
8	-33,668	34,579	3,822	394,748	360,986	6.48%
9	-33,668	40,700	4,498	464,617	421,109	6.52%
10	-33,668	47,337	5,232	540,391	485,547	6.56%
11	65,000	44,557	11,297	508,651	449,508	6.60%
12	65,000	41,434	12,081	473,004	411,441	6.64%
13	65,000	37,940	12,825	433,119	371,102	6.68%
14	65,000	34,044	13,529	388,634	328,230	6.71%
15	65,000	29,709	14,192	339,151	282,541	6.74%
16	65,000	24,898	14,814	284,236	233,725	6.76%
17	65,000	19,570	15,395	223,411	181,446	6.78%
18	65,000	13,679	15,935	156,154	125,337	6.79%
19	65,000	7,174	16,435	81,893	65,000	6.80%
20	65,000	0	16,893	0	0	6.80%

(a) Annual amount invested by employer or withdrawn to pay benefits from hypothetical sinking fund.
(b) Total annual earnings on sinking fund.
(c) Taxes due on earnings assuming the following:
- During accumulation current earnings are subject to current income taxation;
- During retirement assets liquidated to pay benefits are assumed to have a basis in the same proportion as the portfolio as a whole.

(d) End of year sinking fund balance increased by investments and earnings, and decreased by taxes and withdrawals.
(e) Value of sinking fund if liquidated at the end of year shown. Previously deferred portion of earnings are taxed at that time.
(f) The pure untaxed interest rate that would be required to equal the liquidation value based on the cash flows shown through that year.

The actual rates of return will not remain stable and may not be as favorable as those rates used in the hypothetical illustration.

For corporations, life insurance can replace the annuity, as a retirement accumulation tool with favorable tax treatment. Like the individually owned annuity, cash value accumulations grow tax deferred. But life insurance has even greater tax benefits than an annuity in that accumulations can be accessed in a tax advantaged manner by withdrawing values to basis and then using loans. Using this approach the cash values can be accessed free of income tax. For individual annuities, loans and withdrawals are treated as income distributions first, then basis. Going yet a step further, unlike the

annuity where remaining values are taxed upon or shortly after death, life insurance death proceeds are generally received income tax free under IRC §101(a)(1).

This combination of tax factors can allow a life insurance policy to produce an internal rate of return that exceeds that of a taxable portfolio growing at a similar rate. In a nutshell, the life insurance carrying costs are frequently less than the 2.7% tax cost illustrated. Furthermore, the life insurance death benefit provides the corporation with the opportunity to offer, in conjunction with the retirement benefit, a pre and post-retirement death benefit for the executive's family.

The tax cost of nonqualified plan funding can be even more significant in defined contribution and 401k look-alike plans. These plans are often designed to permit the participant to choose among several different investment strategies similar to many qualified 401k plans. The participant may choose into which strategy contributions go and may also reallocate existing contributions. This choice can provide even greater tax management problems for the employer.

Typically corporations fund these defined contribution and 401k look-alike plans with assets that attempt to match the investment strategy selected by the executive. In doing so the corporation avoids the risk of investment performance and places it with the executive as would be the case in a similarly designed qualified plan. For example, one strategy available to the participant could be indexed to the Dow Jones Industrial Average. The employer will seek to invest in assets that match the Dow. While the turnover rate of such a portfolio would be rather low, the executive could, at any time, change investment strategies, choosing to go into cash if fearful of a market downturn or, alternatively, selecting a more volatile index like the NASDAQ. In order to match assets to the executive's allocation, the corporation could be forced to liquidate assets with significant capital gains causing a large tax liability.

Similarly, at retirement, it is not uncommon for retirees to switch to a more conservative approach as their investment time horizon shrinks and withdrawals of income from the plan might force sales during a market downturn. If an executive chooses this course, the prudent employer might have to liquidate highly appreciated investments and buy others in order to match fund assets to the plan liabilities.

Let's examine the relative positions of the employer and employee based on a variety of earnings assumptions. A 55-year old executive is participating in a nonqualified deferral plan and is deferring $50,000 of income annually over and above any 401k contribution. The deferral plan offers investment choices similar to the 401k plan and the executive chooses a strategy that mimics the S&P 500.[4] Exhibits II and III illustrate a 20-year return by the S&P 500 of 0%. If the employee's account is correspondingly credited with no return and the employer's sinking funding performs similarly, there would be no difference between the employer's funding requirement and the executive's deferrals.

[4] In actuality the employee is choosing to index their account to the S&P 500 since as a nonqualified plan the employee cannot have an actual interest in any particular assets.

At 0% earnings the executive's benefit would only be a return of cumulative deferrals at $50,000 per year. Because the executive's deferral is no longer deductible, as it would be if taken as current compensation, the cash flow value of the $50,000 deferral to the employer is only $32,500 in a 35% tax bracket. The lost deduction results in an additional tax expense for the employer of $17,500.

Exhibit II

Year	(a) Annual Deferral or Payout	(b) Hypothetical Earnings @0%	(c) End of Year Balance
1	50,000	0	50,000
2	50,000	0	100,000
3	50,000	0	150,000
4	50,000	0	200,000
5	50,000	0	250,000
6	50,000	0	300,000
7	50,000	0	350,000
8	50,000	0	400,000
9	50,000	0	450,000
10	50,000	0	500,000
11	-50,000	0	450,000
12	-50,000	0	400,000
13	-50,000	0	350,000
14	-50,000	0	300,000
15	-50,000	0	250,000
16	-50,000	0	200,000
17	-50,000	0	150,000
18	-50,000	0	100,000
19	-50,000	0	50,000
20	-50,000	0	0

(a) Annual amount of income deferred or (-) received. Deferrals are amounts of income the employee defers on a before tax basis. Receipts are payments employee expects to receive from the employer based on the interest rate shown. The payouts are taxable to the employee upon receipt.

(b) Annual earnings credited on accumulated deferrals at the specified percentage.

(c) End of year balance. Prior end of year balance, plus or minus deferral or receipt of income, plus earnings at the specified percentage.

The actual rates of return will not remain stable and may not be as favorable as those rates used in the hypothetical illustration.

Exhibit III shows that the corporation can match this benefit by funding $32,500 annually. Although the pay out at retirement is $50,000 per year, the cost to the corporation is reduced by the value of the tax deduction. The cash flow required to pay the benefit is only $32,500 annually.

Exhibit III

Year	(a) Benefit Funding or Withdrawal	(b) Hypothetical Earnings @0%	(c) Taxes On Earnings	(d) End of Year Balance	(e) After Tax Liquidation Value	(f) After Tax IRR on Liquidation
1	-32,500	0	0	32,500	32,500	0.00%
2	-32,500	0	0	65,000	65,000	0.00%
3	-32,500	0	0	97,500	97,500	0.00%
4	-32,500	0	0	130,000	130,000	0.00%
5	-32,500	0	0	162,500	162,500	0.00%
6	-32,500	0	0	195,000	195,000	0.00%
7	-32,500	0	0	227,500	227,500	0.00%
8	-32,500	0	0	260,000	260,000	0.00%
9	-32,500	0	0	292,500	292,500	0.00%
10	-32,500	0	0	325,000	325,000	0.00%
11	32,500	0	0	292,500	292,500	0.00%
12	32,500	0	0	260,000	260,000	0.00%
13	32,500	0	0	227,500	227,500	0.00%
14	32,500	0	0	195,000	195,000	0.00%
15	32,500	0	0	162,500	162,500	0.00%
16	32,500	0	0	130,000	130,000	0.00%
17	32,500	0	0	97,500	97,500	0.00%
18	32,500	0	0	65,000	65,000	0.00%
19	32,500	0	0	32,500	32,500	0.00%
20	32,500	0	0	0	0	0.00%

See Exhibit 1 for column explanations

So as long as the executive's deferral earns nothing, the employer incurs no income tax on the deferral account and no additional employer cash flow is needed to fund the plan. Consider what happens, however, if the S&P 500 produces positive returns, as it has done so many times in the past.

Using the same investment assumptions as under the defined benefit plan, the fund, indexed to the S&P 500, earns 9.5% each year after any fees and charges. 3% is current income representing interest, dividends and currently recognizable capital gains. The executive would expect to see a plan that accumulates 9.5% free of tax as in a qualified 401k plan as shown in Exhibit IV.

Exhibit IV

Year	(a) Annual Deferral or Payout	(b) Hypothetical Earnings @ 9.5%	(c) End of Year Balance
1	50,000	4,750	54,750
2	50,000	9,951	114,701
3	50,000	15,647	180,348
4	50,000	21,883	252,231
5	50,000	28,712	330,943
6	50,000	36,190	417,132
7	50,000	44,378	511,510
8	50,000	53,343	614,853
9	50,000	63,161	728,015
10	50,000	73,911	851,926
11	-123,911	69,161	797,176
12	-123,911	63,960	737,225
13	-123,911	58,265	671,578
14	-123,911	52,028	599,695
15	-123,911	45,199	520,983
16	-123,911	37,722	434,793
17	-123,911	29,534	340,416
18	-123,911	20,568	237,072
19	-123,911	10,750	123,911
20	-123,911	0	0

See Exhibit II for column explanations

But because of the way the corporation is taxed, the accumulation picture from the employer's side looks very different. Again remember that because the executive's deferral is no longer deductible, as it would be if taken as current compensation, the cash flow value of the $50,000 deferral to the employer in a 35% tax bracket is only $32,500. The $123,911 retirement benefit is deductible compensation so the employer requires only $80,542 after tax to pay the benefit.

Exhibit V shows that the employer would have to invest $41,719 per year to be able to fund the employee's expected retirement benefit. Since the deferral only produces cash flow of $32,500, for the corporation to properly fund the plan would require an additional annual outlay of $9,219.

Exhibit V

Year	(a) Benefit Funding or Withdrawal	(b) Hypothetical Earnings @ 9.5%	(c) Taxes On Earnings	(d) End of Year Balance	(e) After Tax Liquidation Value	(f) After Tax IRR on Liquidation
1	-41,719	3,963	438	45,244	44,295	6.17%
2	-41,719	8,261	913	94,311	91,384	6.22%
3	-41,719	12,923	1,428	147,525	141,503	6.26%
4	-41,719	17,978	1,987	205,235	194,907	6.31%
5	-41,719	23,461	2,593	267,821	251,876	6.35%
6	-41,719	29,406	3,250	335,696	312,709	6.39%
7	-41,719	35,854	3,963	409,307	377,733	6.44%
8	-41,719	42,847	4,736	489,138	447,303	6.48%
9	-41,719	50,431	5,574	575,714	521,802	6.52%
10	-41,719	58,656	6,483	669,606	601,647	6.56%
11	80,542	55,211	13,998	630,276	556,992	6.60%
12	80,542	51,342	14,970	586,106	509,822	6.64%
13	80,542	47,012	15,892	536,684	459,838	6.68%
14	80,542	42,184	16,764	481,562	406,715	6.71%
15	80,542	36,813	17,585	420,247	350,101	6.74%
16	80,542	30,852	18,356	352,201	289,612	6.76%
17	80,542	24,250	19,076	276,832	224,832	6.78%
18	80,542	16,950	19,746	193,493	155,307	6.79%
19	80,542	8,889	20,365	101,475	80,542	6.80%
20	80,542	0	20,933	0	0	6.80%

See Exhibit 1 for column explanations.

More portfolio turnover and higher returns can actually increase the plan cost for the employer. The next exhibits demonstrate what might happen if the executive did some market timing and pursued a more aggressive strategy by switching market sectors from time to time or weighting the portfolio towards cash. Assume the executive is more successful than most at market timing and is actually able to increase the portfolio's return from 9.5% to 11.5%. Unfortunately, in doing so the increased portfolio turnover requires the employer to liquidate capital gain investments from time to time and the proportion between current and deferred income changes to 50/50 or 5.75% current and 5.75% deferred.

Exhibit VI

Year	(a) Annual Deferral or Payout	(b) Hypothetical Earnings @11.5%	(c) End of Year Balance
1	50,000	5,750	55,750
2	50,000	12,161	117,911
3	50,000	19,310	187,221
4	50,000	27,280	264,501
5	50,000	36,168	350,669
6	50,000	46,077	446,746
7	50,000	57,126	553,872
8	50,000	69,445	673,317
9	50,000	83,181	806,499
10	50,000	98,497	954,996
11	-148,497	92,747	899,246
12	-148,497	86,336	837,085
13	-148,497	79,188	767,775
14	-148,497	71,217	690,494
15	-148,497	62,330	604,327
16	-148,497	52,420	508,250
17	-148,497	41,372	401,124
18	-148,497	29,052	281,679
19	-148,497	15,316	148,497
20	-148,497	0	0

See Exhibit II for column explanations

The executive's successful investment strategy, producing a 11.5% return brings him a larger income at retirement, $148,497 per year. Unfortunately, the corporation that is required to match the executive's success is burdened with more taxes and will need to contribute even more to the sinking fund to keep up. To pay the benefit of $148,497 requires the corporation to produce $96,523 in after tax yearly income. The higher return strategy does produce a better return for the company as well, but because of the higher portfolio turnover rate and the increased impact of taxes, the corporation actually falls further behind.

To accumulate sufficient funds to pay the employee's benefit now requires the employer to set aside $44,193 in the sinking fund. The net outlay including the $32,500 offset of the after tax deferral grows to $11,693 from $9,219 — an increase of nearly 27%! Although the employer's internal rate of return has risen to 8.13% (from the previous 6.80%), the tax cost has increased from 2.7% to 3.37%. The aggregate tax rate is 29% of the return.

Exhibit VII

Year	(a) Benefit Funding or Withdrawal	(b) Earnings	(c) Taxes On Earnings	(d) End of Year Balance	(e) After Tax Liquidation Value	(f) After Tax IRR on Liquidation
1	-44,193	5,082	889	48,385	47,496	7.47%
2	-44,193	10,646	1,863	101,362	98,609	7.52%
3	-44,193	16,739	2,929	159,364	153,682	7.57%
4	-44,193	23,409	4,097	222,869	213,091	7.62%
5	-44,193	30,712	5,375	292,399	277,246	7.66%
6	-44,193	38,708	6,774	368,526	346,599	7.71%
7	-44,193	47,463	8,306	451,875	421,642	7.75%
8	-44,193	57,048	9,983	543,132	502,916	7.79%
9	-44,193	67,542	11,820	643,048	591,012	7.84%
10	-44,193	79,033	13,831	752,442	686,575	7.87%
11	96,523	74,619	20,118	710,420	638,554	7.92%
12	96,523	69,626	20,639	662,883	587,288	7.96%
13	96,523	63,994	21,092	609,261	532,360	7.99%
14	96,523	57,656	21,473	548,921	473,313	8.03%
15	96,523	50,538	21,782	481,154	409,640	8.06%
16	96,523	42,557	22,015	405,173	340,779	8.08%
17	96,523	33,622	22,170	320,101	266,110	8.11%
18	96,523	23,629	22,245	224,961	184,945	8.12%
19	96,523	12,464	22,237	118,665	96,523	8.13%
20	96,523	0	22,141	0	0	8.13%

See Exhibit 1 for column explanations

Life insurance avoids this unpleasant scenario because in addition to the other tax advantages previously described, there is no tax consequence to switching between investment accounts within a variable life insurance policy. The employer can track the executive's strategy without being burdened with additional taxes; without having to increase the annual funding to match the executive's investment preferences.

If the executive's investment strategy actually produces a 2% lower return, 7.5%, rather than a higher one while keeping the same 50/50 mix, the corporation's required funding outlay would decrease, but less significantly than the increase required for a 2% higher return. Under the lower return assumption the corporation's annual funding would be $40,449. The after tax internal rate of return for the employer is 5.17%. The poorer performance produces less tax cost, only 2.33% but the aggregate tax rate increases to 31.1%.

If the executive's strategy accomplishes nothing but the same 9.5% return while increasing turnover the employer's internal rate of return falls to 6.64% from 6.80%, increasing the annual funding cost from $41,719 to $42,362.

Nonqualified retirement plans are being increasingly used to compensate highly paid key executives. Tax liabilities, however, can significantly increase the employer's outlay to fund these plans. Life insurance is widely used as an informal funding vehicle because it can lower the plan's cost. Many corporate decision-makers have concluded that, in addition to providing a life insurance benefit, the tax advantages of life insurance can produce higher after tax internal rates of return than other funding approaches.

Variable universal life insurance may be suitable for investors who need life insurance coverage or estate planning benefits. Because variable universal life is designed as a life insurance product with a long-term investment vehicle, early loans or withdrawals may have a negative impact on the cash value of the policy and decrease the death benefit. Guarantees are based upon the claims-paying ability of the issuing life insurance company.

Variable universal life insurance subaccount options charge investment and management fees which are specified in the prospectuses for the product. The prospectuses also contain mortality and expense fees associated with the product in addition to the cost of insurance. You should obtain the appropriate prospectuses from your financial advisor and read them carefully before you invest or send money.

Variable products distributed by Phoenix Equity Planning Corporation, 56 Prospect Street, Hartford, CT 06115.