BANK OWNED LIFE INSURANCE

WHAT IS BOLI?

The term bank owned life insurance (BOLI) is generally used to describe a single premium life insurance product owned by a bank insuring the life of an employee. The bank pays the policy premium and is the named beneficiary of the policy. Banks and federal savings associations are allowed to purchase life insurance to (1) help offset the cost of employee compensation and benefit plans, (2) to insure key employees, and (3) to recover the cost of providing employee benefits during and following their employment. The performance of BOLI typically exceeds the return offered by other permissible investments, while the employee benefits can be used to attract, retain and reward key executives.

COMPLIANCE

The Inter-Agency Statement on Bank Owned Life Insurance, commonly referred to as OCC 2004-56, sets forth guidelines banks must follow prior to and after the purchase of BOLI. Prior to the purchase of BOLI, the bank must perform a thorough pre-purchase analysis to validate the necessity, determine the quantity, and evaluate the risks of the purchase. After the insurance is in place, banks are obligated to perform ongoing risk management assessments on the BOLI to ensure a successful and effective BOLI program.

IRC SECTION 101(j)

Companies who utilize COLI are required to comply with the notice and consent requirements of Internal Revenue Code Section 101(j). First, any employee that is insured by the company must consent to the insurance and must be notified of the total death benefit, and recognize the policy can be retained after their employment ends. Second, companies are required to file an annual Form 8925 with their corporate tax return indicating the number and amount of insurance on employees.

BENEFITS OF BOLI

- Protects a company from financial costs related to the loss of a key employee
- Informally funds the cost of employee benefits
- Can earn a competitive after-tax yield compared to other investments
- Can be retained after an insured employee leaves the company in order to cover the liabilities the company has to other employees
- Can favorably impact a company's financial performance when it increases net after-tax income
- No cost to the employee

PRE-PURCHASE ANALYSIS REQUIREMENTS

- Identify the need for BOLI and determine economic benefits and appropriate insurance types
- Quantify the amount of insurance needed
- Assess vendor qualifications
- Review the characteristics of the available insurance products
- Perform financial due diligence on recommended carriers
- Determine the reasonableness of compensation provided to the insured employee if the insurance results in additional compensation
- Analyze associated risks and the ability to monitor and respond to those risks
- Evaluate alternatives
- Document decision