

\$12 trillion protection gap

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Helping make America financially
stronger, one family at a time.

Corporate-Owned Life Insurance (COLI) and Non-Qualified Deferred Compensation (NQDC)

What is COLI/BOLI?

Corporate-owned life insurance is called COLI. This refers to life insurance that is purchased by a company. When businesses purchase life insurance, the company is the owner and beneficiary on the policy, and the key employees or owners are the insured. **Bank-owned life insurance is called BOLI.** This is a highly regulated marketplace with very strict requirements designed by Congress and enforced by the IRS and other regulators.



COLI provides essential benefits for employees and businesses



Businesses use life insurance to maintain operations after the death of an owner or key employee, replacing lost revenue and allowing time for recovery, or assisting in recruiting and training a replacement key employee.



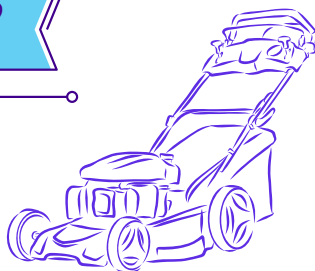
Businesses can utilize life insurance to recruit, retain and reward key employees, and provide important employee benefits.

Life insurance creates an asset to balance health and retirement benefit liabilities. COLI is often used in tandem with retiree health plans and non-qualified deferred compensation plans (NQDC). Employers receive no tax deduction for paying COLI premiums, and employees incur no cost for COLI.

The tax treatment of COLI has been thoroughly examined by Congress

In the early 2000s, the IRS conducted a multi-year review of COLI policyholders' compliance with legal requirements, resulting in no proposed tax adjustments. In 2006, Congress passed the COLI Best Practices Act as part of the Pension Protection Act, recognizing COLI's role in job protection and employee benefits. It codified best practices, including employee eligibility and informed consent under IRC §101(j).

REAL WORLD EXAMPLE



Succession through NQDC: Empowering Key Employees in a Lawn Care Business

The owner of a lawn care business wanted to sell his business to two key employees, neither of whom had enough money to pay out the owner themselves. Instead they designed an NQDC plan for half the purchase price and the two key employees took loans to pay the other half upfront. **This design provided value to the original owner, the key employees taking over, as well as the other employees and customers of the business.**



What is Non-Qualified Deferred Compensation?

Non-Qualified Deferred Compensation (NQDC) plans **help businesses attract and retain top talent** by offering customizable, tax-advantaged benefits beyond standard retirement limits. For small businesses, they provide a competitive edge against larger firms while aligning employer and employee goals for long-term success.

Motivating Key Employees: NQDC Strategy in a Family-Owned Printing Business

A small family-owned printing business with four vital employees designed their NQDC plan to **motivate those key employees to stay with the business in lieu of stock** they might have received from another employer.



REAL WORLD EXAMPLE

NQDC plans are used by all kinds of businesses for their employees

NQDC plans are available to a large percentage of employees;

- a 2020 survey found that 98% of respondents from small and medium companies offer a NQDC plan.¹
- Key employees at all levels and in businesses of all sizes access the benefits of NQDC plans, with recent data indicating that 67% of NQDC participants have a balance of less than \$100,000 in their plan.²
- Survey data indicates that 71% of all participants made annual contributions of less than \$25,000 in 2019.³

Tax treatment of NQDC is appropriate

The tax law governing deferred compensation matches the employer deduction with the employee income inclusion. The employee generally is taxed on the compensation at the time of receipt. The employer receives no deduction until the deferred income is paid.

REAL WORLD EXAMPLE



Rewarding Loyalty: Deferred Compensation for Key Bank Employees

A bank in a mid-sized city has eight employees who have stuck with the bank through hard times, but it had no equity stakes to offer the employees because of its ownership structure. The bank offered a deferred compensation program to **reward these key employees for their loyalty and service**. These employees make between \$75,000 and \$100,000 a year.

1. Newport Group-PLANSPONSOR, 2020 Executive Benefits Survey, <https://finseca.org/layouts/15/onedrive>.
2. Principal, Trends in Nonqualified Deferred Compensation 2019, https://2019.NQDC_Trends.PDF
3. Ibid. P. 10

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