

Comparison

Informal funding alternatives

	CORPORATE OWNED LIFE INSURANCE (COLI)	MUTUAL FUNDS¹ (EQUITIES)	UNFUNDED
OVERVIEW	<p>Life insurance policy owned by the employer that insures the lives of its eligible executives with death benefits payable to the employer</p> <p>The cash value is allocated to variable investment sub-accounts and redirected as per the investment choices made by the executive</p>	<p>Employer makes investment contributions into mutual funds equal to annual nonqualified plan contributions and uses withdrawals from account to fund pre-tax benefits</p>	<p>The employer simply pays the benefits out of corporate cash flow as they are due</p>
ACCOUNTING & TAXATION	<p>Any increase in cash surrender value above net premiums paid flows through the P&L statement as income²</p> <p>The appreciation in COLI cash values is not taxed unless the policies are surrendered (even if values are re-allocated among investment sub-accounts with the policies)</p>	<p>Only realized gains can flow through as income on the P&L statement; unless fair value option is selected³</p> <p>Realized gains and re-allocation among different investments will also trigger taxation (which can be substantial if executives frequently balance and re-allocate their investment choices)</p>	<p>P&L expense will be higher since there is no gain on assets to offset benefit expense</p>
FUNDING CONSIDERATIONS	<p>Institutionally-priced COLI is a highly liquid funding vehicle and can be surrendered without any charge</p> <p>Guaranteed Issue underwriting simplifies insurance enrollment without any medical exams</p>	<p>Liquid investments that may be bought or sold at any time</p>	<p>Employer does not have to set aside funds and deferrals can be invested back into the company</p> <p>May have short-term cash flow benefits, but offers lower benefit security to executives and could hurt perceived value</p>
DEATH BENEFIT/ RETURNS FROM LIQUIDATION	<p>Provides tax-free life insurance death benefits. Some of the tax-free death benefit may be allocated to the executive's beneficiaries</p> <p>With a large group of insured executives, the likelihood of some early deaths is greater and can provide significant cash inflows to help reduce the overall cost of the nonqualified plan</p>	<p>Equities do not provide any death benefit</p> <p>Returns are entirely dependent on the investment performance</p> <p>At liquidation, previously unrealized gains are realized and taxable</p>	<p>There are no death benefits associated with unfunded plans</p>

1. This table assumes that mutual funds held to informally fund nonqualified plans are classified as "Available for Sale," 2. FASB Technical Bulletin 85-4 - Accounting for Purchases of Life Insurance, 3. Statement of Financial Accounting Standards No. 159 ("FAS 159") - The Fair Value Option for Financial Assets and Financial Liabilities