



BANK-OWNED LIFE INSURANCE

A popular, tax-favored asset that outperforms alternative investments.

Large financial institutions and community banks alike utilize BOLI to boost investment returns and offset ever-increasing employee benefit expenses.

INTRODUCTION

Bank-owned life insurance (BOLI) is life insurance on the lives of key bank employees and/or directors. The bank is the owner and beneficiary of the policies, which enjoys tax-deferred cash value growth that is ultimately tax-free if held until the death of the insured. BOLI is recorded on the balance sheet as “other assets.” The increases in cash value and net insurance proceeds at maturity are recorded as “other income.”

When properly structured, BOLI is able to generate earnings that offset expenses related to executive and employee benefits, including those used to help recruit,

retain and reward top talent, protect against key-person loss and provide other health and welfare coverage.

For banks seeking an attractive investment strategy that offers unique advantages, BOLI is a choice asset that serves a variety of business objectives while delivering tax efficiencies and competitive yields.

BOLI financial performance typically exceeds after-tax returns of more traditional bank investments by 125 to 250 basis points.

WHY IS BOLI SO POPULAR?

Favorable Tax Treatment

- Cash value grows on a tax-deferred basis (tax-free if retained until death of insured)
- Death benefits are tax-free
- Tax-advantaged income surpasses after-tax returns of alternative investments

Effective Benefit Cost Recovery

- Enhanced investment returns generate revenue used to offset existing expenses
- Applicable to aggregate employee plan liabilities, not just a specific executive benefit plan

Product Appeal

- Institutional pricing specifically designed for financial institutions
- Generally immediately accretive to earnings
- No surrender charges
- Provides for investment portfolio diversification to better manage risk

Broad Endorsement

- Investment portfolio risks follow standards of safe and sound banking practices
- Well-defined regulatory guidance on permissible usage



BOLI may be used to finance the cost of:

- Executive compensation and retention strategies
- Healthcare and general welfare programs
- Protecting against sudden loss of a critical employee

HYPOTHETICAL INVESTMENT COMPARISON

The following chart illustrates how a hypothetical BOLI purchase compares to various alternative investments. As shown in this example, BOLI provides a competitive yield and notably higher net income.

HYPOTHETICAL INVESTMENT COMPARISON (AS OF MARCH 5, 2024)				
	10-YEAR TREASURY	S&P U.S. MBS INDEX	10-YEAR MUNICIPAL BONDS	BOLI (non-variable product)
INVESTMENT	\$15,000,000	\$15,000,000	\$15,000,000	\$15,000,000
YIELD	4.14%	5.11%	2.51%	4.80%
INCOME	\$621,000	\$766,500	\$376,500	\$720,000
TAX (25%)	(\$155,250)	(\$191,625)		
NET INCOME	\$465,750	\$574,875	\$376,500	\$720,000
TEFRA Disallow. (Est.)			(\$9,000)	
NET INCOME	\$465,750	\$574,875	\$367,500	\$720,000



BOLI REGULATIONS

Performing due diligence is a particularly critical aspect of the pre-purchase decision-making process, as it helps ensure the bank has a thorough understanding of the unique risks, rewards and attributes of a BOLI investment. Fortunately, the Interagency Statement on the Purchase and Risk Management of Life Insurance (OCC 2004-56) provides general supervisory guidance to ensure risk management processes for BOLI are consistent with safe and sound banking practices, including:

- Effective senior management and board oversight
- Comprehensive policies and procedures, including appropriate limits (not to exceed their risk of loss or cost to be recovered)
- A thorough pre-purchase analysis of BOLI products
- An effective ongoing system of risk assessment, management, monitoring, and internal control processes, including appropriate internal audit and compliance frameworks

SUMMARY

Banks use BOLI as a tax-advantaged funding mechanism that provides a more efficient way to finance their employee benefit expenses while enhancing investment portfolio earnings and shareholder value. When used in conjunction with an executive benefit, BOLI helps support efforts to offer enticing financial rewards and retirement savings solutions to those key employees and directors who contribute the most to a bank's success.

Working with a recognized leader in the bank executive and director benefits and BOLI marketplace can help banks achieve their strategic goals while effectively governing their BOLI holdings. A provider with the technical and consultative expertise to guide management through the complexities of properly structuring a BOLI program can help ease concerns related to its design, implementation and ongoing administration and help maximize the use of a bank's financial resources.

This material is intended for informational purposes only and should not be construed as legal or tax advice and is not intended to replace the advice of a qualified attorney, tax advisor or accountant. Please consult with your qualified attorney, tax advisor or accountant.

The tax and legal references attached herein are provided with the understanding that M Benefit Solutions is not engaged in rendering tax or legal services.

If tax or legal advice is required, you should consult your accountant or attorney. M Benefit Solutions does not replace those advisors.

Securities offered through M Holdings Securities, Inc., a Registered Broker/Dealer, Member FINRA/SIPC. #6503961.1

M Benefit Solutions and M Holdings Securities, Inc. are affiliated companies.