



## CORPORATE-OWNED LIFE INSURANCE

Executive benefits are well worth the investment, but require a unique financing solution.

*COLI is the informal funding vehicle of choice to reduce nonqualified plan costs and mitigate earnings volatility in a tax-efficient manner.*

Corporate-owned life insurance (COLI) is a well-established funding strategy utilized by companies to better control the cost of providing competitive compensation and benefit plans to its most valued employees. Nonqualified benefit programs in particular create an unfunded balance sheet liability that if not properly hedged, can create cash flow and balance sheet issues for current and future management. COLI is a popular financing alternative that effectively creates an asset to offset growing liabilities on a tax-efficient basis.

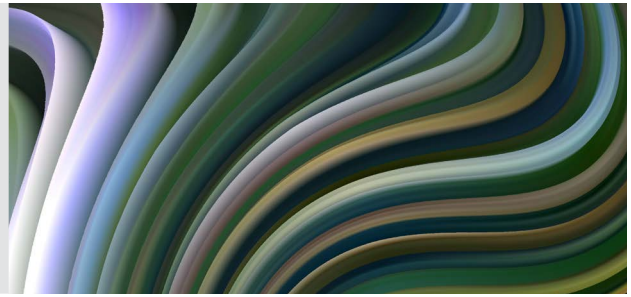
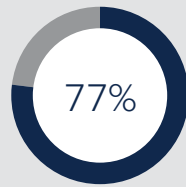
A typical COLI transaction involves the purchase of a life insurance policy on the lives of key employees. The company pays the non-deductible premiums and is the owner and beneficiary of the policies. COLI enjoys

tax-deferred cash value growth that is ultimately tax-free if held until the death of the insured, as well as positive earnings impact upon maturity. COLI is recorded on the balance sheet as “other assets” and the increases in cash value and net insurance proceeds at maturity are recorded as “other income.”

A properly configured COLI program not only delivers prime tax benefits to employers but potential piece of mind to participants as well. Executives who expect to derive the majority of their retirement income from a nonqualified deferred compensation plan may feel more secure in the benefit’s financial viability when their employer has earmarked assets to cover future plan obligations.

**77% of companies that informally fund their nonqualified deferred compensation plans use COLI**

(Source: 2022 Newport/PLANSponsor Executive Benefit Survey)



## WHY COLI?

### FAVORABLE TAX TREATMENT

- Tax-deferred/-free growth of cash value
- Tax-free death benefit proceeds
- Tax-free reallocation among investment funds
- Tax-free access to cash values via loans and withdrawals up to basis
- Net after-tax income may be higher than alternative investments

### EFFECTIVE BENEFIT COST RECOVERY

- Investment returns generate revenue used to offset existing expenses
- Applicable to a range of nonqualified benefit programs, including:
  - Elective deferred compensation plans
  - Supplemental executive retirement plans
  - Phantom stock plans
  - Other employer-sponsored defined contribution plans or arrangements designed to reduce the risk of disruption due to the death of key employees critical to business operations

### PRODUCT APPEAL

- Institutional pricing specifically designed for corporations and other institutional buyers
- Lower expenses and mortality charges
- Can be designed to be immediately accretive to earnings
- Guaranteed issue underwriting that doesn't require insureds to undergo invasive medical exams or financial reviews
- Consent to be insured provides coverage at no cost/impact to the employee
- Wide range of investment choices provides for portfolio diversification to better manage risk
- Well-defined regulatory guidance on permissible usage

### ACCOUNTABILITY

- Helps provide a measure of security for participants to know their employer set aside assets to pay distributions from the plan as they come due
- Holds current management accountable for future benefit program obligations

## COMPARISON: COLI VS. TAXABLE INVESTMENTS

When used for informally funding nonqualified plan liabilities, COLI and taxable investments (e.g. mutual funds) are both useful for tracking deferred compensation balances; however, the tax advantages of COLI are uniquely powerful. Since the cash value of COLI grows tax-free, any earnings are further enhanced by this benefit. For an after-tax funding technique to achieve equivalent returns could require a higher-risk investment strategy.

The tax-advantaged yield COLI offers may be more favorable to a company looking for a less aggressive earnings assumption to employ over the long term. Ultimately, COLI and taxable investments are both quite popular with companies, eclipsing both cash and company stock as the top preferred financing methods. A comparison of variable COLI and mutual funds is provided below.

	MUTUAL FUNDS	VARIABLE COLI
<b>Asset Management Fees</b>	Yes	Yes
<b>Insurance Charges</b>	No	Yes
<b>Death Benefits</b>	No	Yes
<b>Tax Considerations</b>		
Tax-deferred investment income	No	Yes
Tax on dividends and interest income	Yes	No
Tax-free investment allocations	No	Yes
Tax-free proceeds	No	Yes
Tax-free access to cash for benefit payments	No	Yes
<b>P &amp; L Impact</b>		
Assets are marked to market	Yes	Yes
Gains/earnings flow through to income statement	Yes	Yes
Unrealized gains create a tax-deferred liability	Yes	No*
Death proceeds in excess of booked asset values generate tax-free earnings	N/A	Yes

\*tax-free if held until death



## SUMMARY

COLI programs have continued to proliferate amongst sophisticated companies of all sizes looking for a tax-advantaged funding mechanism, and for good reason. These popular strategies provide a more efficient way to finance nonqualified plan benefit expenses while enhancing investment portfolio earnings and shareholder value. The opportunities COLI provides to improve benefit security and address cash flow issues make it favorable to plan participants as well. Those employees may feel more confident that their employer will satisfy plan obligations and perceive their executive benefits to be more valuable and attractive as a result.

Whether devising executive benefit plans that drive key employee motivation and retention or looking to investment alternatives that reduce taxes and increase earnings, companies are constantly in pursuit of strategies that favorably impact their financial performance. Given an organization's unique objectives, realizing the full potential of the tools used to execute their goals is vital to a program's success.

Identifying a strong consultative partner to help navigate the multitude of decisions involved in a COLI purchase is a crucial part of conducting due diligence. To ensure cost effectiveness, tax efficiency, regulatory compliance, and optimal outcomes, choose a provider that specializes in the design, implementation and ongoing administration of these alternative investment vehicles. Comprehensive services should include product evaluations and recommendations, participant enrollment, ongoing policy administration, reporting and periodic review. Selecting a firm with proven expertise can significantly reduce the corporation's administrative burden and maximize the benefits of a COLI funding strategy.

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Variable life insurance products are long term investments and may not be suitable for all investors. An investment in variable life insurance is subject to fluctuating values of the underlying investment options and entails risks, including the possible loss of principal.

Variable Universal Life insurance combines the protection and tax advantages of life insurance with the investment potential of a comprehensive selection of variable investment options. The insurance component provides death benefit coverage and the variable component gives you the flexibility to potentially increase the policy's cash value.

Death benefit guarantees of variable life insurance products are subject to the claims paying ability of the insurance company.

Loans and partial withdrawals will decrease the death benefit and cash value and may be subject to policy limitations and income tax.

Investments in securities involve risks, including the possible loss of principal. When redeemed, units may be worth more or less than their original value.

**Investors should consider the investment objectives and horizons, income tax brackets, risks, charges, and expenses of any variable product carefully before investing. This and other important information about the investment company is contained in each fund's offering memorandum. Please read it carefully before you invest.**

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