



EMPLOYER OR TRUST OWNED LIFE INSURANCE

While Delaware Law broadly refers to this life insurance product as Employer Owned Life Insurance or Trust Owned Life Insurance, the product is usually referred to as Corporate Owned Life Insurance in the insurance industry. It is more commonly called COLI, TOLI or BOLI, depending on the status of the policyholder (Corporate owned, Trust owned, Bank owned, etc.). Whatever name is applied to this particular life insurance product, the brief description below explains some of the characteristics that make this product distinctive.

GUIDELINES ON CORPORATE OWNED LIFE INSURANCE*

Corporate Owned Life Insurance (COLI) is life insurance a corporate employer buys covering one or more employees. With COLI, the employer is generally the applicant, owner, premium payer and beneficiary of the policy. COLI can be acquired on an individual or group basis and can take many forms. For example, it can be used to indemnify the employer for the loss of earnings or costs of replacing a key employee who becomes disabled or dies, or to finance the cost of a stock redemption agreement or a deferred compensation plan. COLI has also increasingly been used as a financing vehicle for broad-based welfare benefit plans, such as health benefit plans.

COLI and TOLI are attractive methods of financing liabilities such as an employer's obligations under a retiree health benefit plan. When for example, retiree health benefits are provided through an insured health benefit plan, the policy's cash values can be used to finance the after-tax cost of the health insurance premiums for the retired employees. When an insured retired employee dies, the policy death benefit allows the company to recover part or all of the costs of the plan. The policy values and death benefit also represent a source of funds which can be used to pay premiums for other employees who are covered under the plan.

When an employer provides health benefits to retired employees on a self-insured basis, the cash values and death benefits of the coverage are used to finance the coverage. Moreover, contributions to the VEBA Trust may, within well defined limits, be deductible to the employer.

Because of COLI's and TOLI's attractiveness in financing an employer's obligation under a plan established to provide broad-based welfare benefits to retirees, there has been increased interest in the use of COLI and TOLI for this purpose. There has also been increased interest in assuring that COLI and TOLI arrangements satisfy insurable interest requirements.

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COLI TAXES

The Delaware Insurance Code contains specific instructions for the reporting and taxation of COLI premiums. Each “case” must be reported to the Insurance Department and the premium is taxed on a sliding scale basis as detailed below:

If Total Delaware Taxable Premium Amount (Line 4) is \$10,000,000 or less:

Multiply amount by 2%

If Total Delaware Taxable Premium Amount (Line 4) is \$10,000,001 to \$24,999,999:

2% x first \$10,000,000 plus

1.5% x \$10,000,001 to \$24,999,999

If Total Delaware Taxable Premium Amount (Line 4) is \$25,000,000 to \$99,999,999:

2% x first \$10,000,000 plus

1.5% x \$10,000,001 to \$24,999,999 plus

1.25% x \$25,000,000 to \$99,999,999

If Total Delaware Taxable Premium Amount (Line 4) is \$100,000,000 or higher:

2% x first \$10,000,000 plus

1.5% x \$10,000,001 to \$24,999,999 plus

1.25% x \$25,000,000 to \$99,999,999 plus

1.0% x \$100,000,000 and higher

In addition, in subsequent calendar years the premium tax rate shall not be higher than the lowest rate established for the next preceding year.

Insurers writing COLI premiums complete a separate tax working form (WFT-8) to report the premiums for each case. The total tax due from all cases is then reported on the Annual Premium Tax and Fees Report (WFT-1). Only companies writing COLI premium should complete WFT-8.

STATUTORY REFERENCES (All references are to Delaware Insurance Code, Title 18)

- Premium Tax: Chapter 7, § 702
- Details of Delaware’s Insurance Interest laws and Definition of Employer/Trust Owned Life Insurance: Chapter 27, § 2704