# COLI Best Practices

## The Pension Protection Act of 2006 addressed so called "Best Practices for Corporate Owned Life Insurance (COLI)"

The new law recognizes that COLI can and should have an important role to play in financing executive retirement plans. In essence, it codifies what have been the best practices concerning the use of employer owned life insurance. It maintains the decades-old practice of allowing COLI assets to grow tax-deferred and other important tax features.

The key changes, which generally only apply to new COLI contracts (those issued after August 17, 2006), pertain to defining who can be covered through this type of insurance, stipulating that executives must provide consent to be insured, and providing recordkeeping requirements.

Please see the following page for more details on the Executives Who Can Be Covered, Notice and Consent Requirements, and Recordkeeping.

### Executives Who Can Be Covered

The highest-paid 35% of employees can be covered by employer owned life insurance. Directors and individuals with at least a 5% ownership stake in the company may also be insured.

### Notice and Consent Requirements

Employers are required to provide notice to insured employees and obtain employees' written consent to being insured.

The notice and consent requirements of the provision are met if, before the issuance of the contract:

- The employee is notified in writing that the applicable policyholder intends to insure the employee's life, and is notified of the maximum face amount at issue of the life insurance contract that the employer might take out on the life of the employee.
- The employee provides written consent to being insured under the contract and that such coverage may continue after the insured terminates employment.
- The employee is informed in writing that the policyholder (the company) will be a beneficiary of any proceeds payable on the death of the employee.

### Recordkeeping

The Act requires annual reporting and recordkeeping by applicable policyholders (i.e., companies) that own one or more employer owned life insurance contracts. This pertains to contracts issued after the Pension Protection Act is enacted.

The information to be reported is:

- The number of company employees at the end of the year.
- The number of employees insured under employer owned life insurance contracts at the end of the year.
- The total amount of insurance in force at the end of the year under such contracts.
- The name, address, and taxpayer identification number of the applicable policyholder (i.e., company) and the type of business in which it is engaged.
- A statement that the applicable policyholder has a valid consent (in accordance with the above requirements) for each insured employee and, if all such consents were not obtained, the total number of insured employees for whom such consent was not obtained.



**For Further Information**
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