



a bank consulting company

Bank Owned Life Insurance Program

BOLI Overview

- Bank Owned Life Insurance (BOLI) consists of policies insuring the bank's officers and key employees, typically purchased with a one-time payment.
- BOLI is an alternative asset that may enable the bank to record attractive after tax yields through cash value accumulation and tax-free death proceeds.
- A typical BOLI purchase is immediately accretive to earnings per share with earnings increasing in future years due to the effect of compounding.
- BOLI should be considered as a part of the bank's overall Asset/Liability Management (ALM) strategy.
- The financing of employee benefits is the business purpose for BOLI. These benefits being financed can include the following:
 - Employer-paid health insurance
 - ◇ 401(k) matching contributions
 - ◇ Executive benefit programs
 - ◇ Employee disability and group life plans
 - ◇ Profit Sharing Contributions
- Regulatory guidance provides methodology to justify the amount of the BOLI purchased. Under the cost recovery method, the purchase is not excessive if the present value of the employee benefits is in excess of the present value of the gain from the life insurance death benefits.
- The maximum amount of BOLI to be purchased is generally equal to 25% of the Bank's Tier I Capital amount. Purchase amounts from any one insurance company should generally be less than 15% of the Tier I Capital amount.
- It is not necessary to create new executive benefits to justify a BOLI purchase although BOLI is often implemented in conjunction with non-qualified benefit plans.
- BOLI income is recorded as Other Income on the Bank's income statement. This income and the policy death benefits are not subject to income tax if the policy is held until maturity.
- BOLI policies that are surrendered for cash prior to the death of the insured create taxable income. This taxable gain is equal to the final policy cash value less the original premium amount. The gain on surrender may also be subject to a 10% MEC tax penalty.
- BOLI has no legal impact on benefits provided by the bank to its employees, nor does it impact their personal insurance programs.
- The bank is the beneficiary and sole owner of the policies; however, sometimes the insured individuals receive a portion of the excess death benefit.