

An Introduction to Insurance Company Owned Life Insurance (“ICOLI”)



 VANBRIDGE_{LLC}


CLEARPOINT
ADVISORS_{LLC}

I. ICOLI EXECUTIVE SUMMARY

Insurance Company Owned Life Insurance (“ICOLI”) is a Product that Enhances the Tax and Risk Based And Rating Agency Capital Treatment for ANY Investment

1. Favorable Tax Treatment

- **Inside Buildup**: All gains (realized and unrealized) on all investments within an ICOLI product compound free of all tax.
- **Tax-Free Distributions**: Death Benefits are tax free to the Company (Accreted Cash Value plus mortality component equals total D.B.).
- **No DTLs**: ICOLI inside buildup is “miscellaneous non-operating income;” there is no deferred tax liability because this income is never taxed.

2. Favorable Risk-Based Capital Treatment

- **NAIC Risk Based Capital**: Capital charge of 5% for P&C Companies, 0.8% for Life & Health Companies.
- **AM Best BCAR***: Market Practice of purchasers is consistent with NAIC RBC model.

**AM BEST METHODOLOGY - Best’s Credit Rating Methodology: Global Life and Non-Life Insurance Edition; revised December 18, 2015 - “Corporate-Owned Life Insurance policies typically reported as write-in invested assets, are subject to risk charges of .8% reflecting the higher quality of insurance carriers that sell these products. Higher risk charges may be applied depending on the credit quality of the counter parties.”*

ICOLI is an Admitted Asset

• Accounting Treatment

- **Admitted Asset**: ICOLI is an admitted asset under SSAP 21(6) (aggregate write-in for “other than invested assets” (Line 25) vs “invested assets” (line 11))
- **Income Statement**: ICOLI inside buildup earnings treated as “miscellaneous non-operating income” (Line 14 “Other Income – Write-Ins for Miscellaneous Income”).

- **Note**: Investment income currently treated as operating income will move into non-operating income



II. RBC AND TAX COMPARISON

CAPITAL TREATMENT

		Life Insurers	P&C Insurers
NAIC 1	U.S. Government Direct and Guaranteed	0.0%	0.00%
NAIC 1	All Others	0.4%	0.30%
NAIC 2	Bonds	1.3%	1.00%
NAIC 3	Bonds	4.6%	2.00%
NAIC 4	Bonds	10.0%	4.50%
NAIC 5	Bonds	23.0%	10.00%
NAIC 6	Bonds	30.0%	30.00%
NAIC 1	Preferred Stock NAIC 1 - 6	0%- .4%	0.3%- 30%
NAIC 2	Preferred Stock	1.3%	1.00%
NAIC 3	Preferred Stock	4.6%	2.00%
NAIC 4	Preferred Stock	10.0%	4.50%
NAIC 5	Preferred Stock	23.0%	10.00%
NAIC 6	Preferred Stock	30.0%	30.00%
NAIC -	Common Stocks Unaffiliated	30% +/- beta (22.5%- 45%)	15.00%
NAIC 1	Hybrid Securities NAIC 1-6	0%- .4%	0%- .3%
NAIC 2	Hybrid Securities	1.3%	1.00%
NAIC 3	Hybrid Securities	4.6%	2.00%
NAIC 4	Hybrid Securities	10.0%	4.50%
NAIC 5	Hybrid Securities	23.0%	10.00%
NAIC 6	Hybrid Securities	30.0%	30.00%
ICOLI - NAIC Aggregate Write-Ins for other than invested assets		Not Applicable	5%

INSIDE BUILDUP AND TAX FREE DISTRIBUTIONS

IRR Comparison (After All Costs) -- Given Rates of Returns and Average Age at Mortality

		IRRs:	3.00%	6.00%	9.00%
With ICOLI Average Mortality	75	4.41%	6.89%	9.92%	
	85	3.04%	5.73%	8.72%	
	95	2.33%	5.02%	8.00%	
Without ICOLI		1.95%	3.90%	5.85%	

Sample Pool of 30 lives, Average Age 50 -- 6% Rate of Return; 35% Corporate Tax Rate

Yr	INVESTMENT	WITH ICOLI	WITHOUT ICOLI	ICOLI PICK-UP
1	\$ 20,000,000.00	\$ 21,099,855.45	\$ 20,780,000.00	\$ 319,855.45
2	\$ -	\$ 22,241,236.24	\$ 21,590,420.00	\$ 650,816.24
3	\$ -	\$ 23,426,523.07	\$ 22,432,446.38	\$ 994,076.69
4	\$ -	\$ 24,667,520.95	\$ 23,307,311.79	\$ 1,360,209.16
5	\$ -	\$ 25,966,761.24	\$ 24,216,296.95	\$ 1,750,464.29
6	\$ -	\$ 27,325,341.09	\$ 25,160,732.53	\$ 2,164,608.56
7	\$ -	\$ 28,744,906.08	\$ 26,142,001.10	\$ 2,602,904.98
8	\$ -	\$ 30,227,781.12	\$ 27,161,539.14	\$ 3,066,241.98
9	\$ -	\$ 31,777,468.53	\$ 28,220,839.17	\$ 3,556,629.36
10	\$ -	\$ 33,393,297.93	\$ 29,321,451.90	\$ 4,071,846.03
20	\$ -	\$ 54,435,017.85	\$ 42,987,377.06	\$ 11,447,640.79
30	\$ -	\$ 91,368,177.70	\$ 63,022,615.43	\$ 28,345,562.27
40	\$ -	\$ 171,076,325.14	\$ 92,395,729.33	\$ 78,680,595.81
		TOTAL ICOLI PICK-UP		\$78,680,595.81



III. TYPES OF INVESTMENTS AVAILABLE

SAMPLE "OFF THE SHELF" ALTERNATIVES NOW PROVIDED UNDER ICOLI ISSUER MENUS

Asset Classes	Asset Managers	Alternative Asset Managers
Emerging Markets	Delaware	Alpine
Foreign Large Cap	Lazard	Berens
Small Growth	Janus	Chalkstream
Small Blend	American Funds	Cushing
Small Value	Dreyfus	Definitive Capital
Mid-cap	Oppenheimer	Deleware
Large Growth, Blend, Value	Franklin Templeton	Forester
Emerging Market Bond	Wells Fargo	Goldentree
World Bond	Royce Micro Cap	Golub
High Yield Bond	Nationwide	GR NEAM
Inflation Protected Bond	Delaware	Harvest
Bank Loan	Putnam	Heron
Intermediate Bond	Goldman Sachs	McCabe
Intermediate Govt	Neuberger Berman	Millennium
Short term Bond	Fidelity	Mountain Crest
Real Estate	Neuberger Berman	Providence (Benefit Street)
Natural Resources	Blackrock	RBC
Technology	Alliance Bernstein	Rockefeller Financial
Asset Allocation	Vanguard	Seven Bridges

ICOLI GENERAL ACCOUNT

- **General Account ICOLI Structures yields > 3.5%**
- **ICOLI general account yields are derived from highly rated life insurers general account pools that support the product. ICOLI general account structure is essentially a principal protected floating rate bond with a 3.5% tax-free yield. General Account ICOLI structures are fully liquid, institutionally priced, & have no surrender charges or CDSC's.**

IT IS ALSO POSSIBLE FOR COMPANY TO SELECT ITS OWN ASSET MANAGER FOR BESPOKE FUND OR MANAGED ACCOUNT

- **Vanbridge and UIS can work with the Company and its counsel in the creation of Bespoke Funds and/or Managed Accounts that meet the legal, tax and regulatory requirements for the ICOLI product**
- **Diversification and Investor Control Rules must be followed**
 - **Company may not knowingly discuss with fund manager the selection of specific investments**

SAMPLE ASSET MANAGER FEES FOR "OFF THE SHELF" FUNDS

Fund Family	Portfolio	Fund Expense
Fidelity® Variable Insurance Products	Index 500 Portfolio	0.10%
Vanguard Variable Insurance Fund	Equity Index Portfolio	0.16%
MFS® Variable Insurance Trust II	MFS® High Yield Portfolio	0.72%
PIMCO Variable Insurance Trust	PIMCO CommodityRealReturn® Strategy Portfolio	0.93%
American Funds Insurance Series®	American Funds Global Small Capitalization Fund	0.99%
Royce Capital Fund	Royce Small-Cap Portfolio	1.05%
Franklin Templeton Variable Insurance	Templeton Developing Markets VIP Fund	1.61%



IV. A.M. BEST AND S&P

A.M. Best's BCAR model applies the following charges for ICOLI holdings:

Life/Health: 0.8%

P&C insurers: 5% baseline factor which may be modified if the asset is greater than a certain threshold of materiality. Suggested thresholds are:

As a percent of surplus: greater than 5%

As an absolute dollar amount: greater than \$50 million

ICOLI may be purchased as Key-person insurance, insurance on borrowers, in connection with employee compensation and benefit plans, or as security for loans.

S&P's Capital Adequacy Model applies the asset default charges to ICOLI based on the capital requirements of the purchaser:

Life/Health: from 1.33% to 1.8% (BBB to AAA)

P&C: 5% to 8.1% (BBB to AAA)

An ICOLI holdings limit of 25% of Total Adjusted Capital (TAC) is established as a maximum credit to capital

Aggregate exposure to any single entity, including bonds and insurance, is limited to 10% of total adjusted surplus

ICOLI is considered an offset to employee benefit liabilities

Failure to comply with these limits could result in an adjustment to the reported capital and surplus



V. STEPS TO IMPLEMENT

1. Implementation Process (4-8 weeks)

- **Following the guidelines of §101(j): - COLI Best Practices and with help of UIS and Vanbridge - the purchasing company defines a group of management/highly compensated employees (top 35% of employees by compensation) to be the insured lives.**
- **The company provides electronic/email notification to the employees and obtains their electronic consent to be insured via the online application process –Guaranteed Issue**
- **Money is transferred (“premium payment”) to the ICOLI platform, assets are directed to appropriate investments per Insurance Company or Insurance Company Investment Advisor(s), the account balance is an admitted asset.**

2. Product and Carriers

- **The product structuring process includes evaluation of, but is not limited to; asset management, chassis costs and expenses, insurable/risk population, pricing flexibility and stress testing, carrier strength/ratings, carrier commitment to service as well as open architecture related to alternatives.**
- **ICOLI Issuers include: AIG, AXA, CROWN GLOBAL, GREAT WEST FINANCIAL, JOHN HANCOCK, LINCOLN, MASS MUTUAL, MET LIFE, NATIONWIDE, NEW YORK LIFE, NORTHWESTERN MUTUAL, PHILADELPHIA FINANCIAL, PACIFIC LIFE, PRINCIPAL, PRUDENTIAL, SYMETRA**



APPENDIX

A person in a dark suit is shown from the waist down, holding a silver pen in their right hand. They are standing at a desk. On the desk, there is a laptop, a calculator, a pair of glasses, and some papers. The background is a blurred office setting with a window.

ICOLI EXECUTIVE SUMMARY | ICOLI PREVALENCE

Name of Institution	ICOLI Cash Surrender Value
New York Life Insurance Group	3,890,701,356
MetLife Inc.	2,776,965,462
Nationwide Mutual Group	1,412,243,563
Manulife Financial Corp.	1,079,963,464
Lincoln National Corp.	934,769,310
AXA	860,325,359
Liberty Mutual	805,556,093
AEGON	492,191,179
Farmers Insurance Group of Cos	466,844,207
Hartford Financial Services	431,256,917
Mutual of Omaha Insurance Co.	377,895,748
Unum Group	373,034,986
Allianz Group	312,419,225
Athene Holding Ltd.	291,560,318
Guggenheim Capital LLC	277,948,616
American Financial Group Inc.	267,987,057
National Life Group	259,144,614
Great-West Insurance Group	239,700,180
GuideWell Mutual Holding Corp.	225,536,901
American Equity Investment	220,738,839

Name of Institution	ICOLI Cash Surrender Value
Protective Life Insurance Co.	164,509,490
CNO Financial Group Inc.	157,545,676
Americo Life	157,331,565
Travelers Companies Inc.	152,640,114
Reinsurance Group America Inc.	151,414,013
Alfa Mutual Group	149,105,234
Westfield Group	119,396,903
Ameriprise Financial Inc.	108,087,942
Pacific MHC	105,759,124
FM Global	97,130,841
Delaware Life Partners LLC	89,946,453
Highmark Insurance Group	86,768,268
Allstate Corp.	84,458,073
Ameritas MHC	61,533,227
Farm Bureau Life Ins Co. of MI	59,613,968
OneAmerica Financial Partners	57,222,167
ProAssurance Corp.	56,380,768
Tennessee Farmers Life Ins Co.	50,648,734
BlueCross BlueShield of TN Inc	48,734,018
West Bend Mutual Insurance Co.	46,573,560

- Over 240 insurance companies report ICOLI holdings on their statutory financials
- The average purchase is typically between 5% and 10% of surplus
- 2015 anticipates \$2B to \$3B in new ICOLI placements

As of 12/31/2014



ICOLI PREVALENCE | A CLOSER LOOK

LARGE FIRMS

Liberty Mutual

2014 Annual Stat Filing

Line 28 Total Assets \$70B

Line 25 "Other-than-Invested Assets" \$1.38B

Details of write-in's - 2501 – Cash Surrender Value Life Insurance - \$805M

INCOME - "other income" Line 14 "write-ins for misc. income" = change in COLI cash values

Farmers

2014 Annual Stat Filing

Farmers Insurance Exchange, Farmers Group

Line 28 Total Assets \$16B

Line 25 "Other-than-Invested Assets" \$638M

Details of write-in's - 2501 – Cash Surrender Value Life Insurance - \$408M

*Farmers also owns ~\$60M of ICOLI in various other subs across various state domiciles

INCOME - "other income" Line 14 "write-ins for misc. income" = change in COLI cash values

Travelers Companies

2014 Annual Stat Filing

Line 28 Total Assets \$100B

Line 25 "Other-than-Invested Assets" \$1.49B

Details of write-in's - 2501 – Cash Surrender Value Life Insurance - \$152M

INCOME - "other income" Line 14 "write-ins for misc. income" = change in COLI cash values



ICOLI PREVALENCE - A CLOSER LOOK

MID-MARKET FIRMS

ProAssurance

2014 Annual Stat Filing

Line 28 Total Assets \$3.5B

Line 25 "Other-than-Invested Assets" \$69M

Details of write-in's - 2501 – Cash Surrender Value Life Insurance - \$56M

INCOME - "other income" Line 14 "write-ins for misc. income" = change in COLI cash values

***Motorists**

2014 Annual Stat Filing

Line 28 Total Assets \$1.42B

Line 25 "Other-than-Invested Assets" \$78M

Details of write-in's - 2501 – Cash Surrender Value Life Insurance - \$35M

INCOME - "other income" Line 14 "write-ins for misc. income"

***Details – 1401 ICOLI Death Benefit Proceeds = \$4,424,510**

***Details – 1407 change in COLI cash values (overflow page)**



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