Insurance Company Owned Life Insurance (ICOLI)

MetLife | Retirement & Income Solutions

Specialized Benefit Resources

Like most corporations, insurance companies are faced with the challenge of managing the growing liability and expense of their benefit plans. Tax-deferred growth, tax-free death benefits and a wide range of investment options all combine to make Insurance Company Owned Life Insurance (ICOLI) an attractive strategy to improve a carrier's financial position while allowing it to provide competitive benefits to employees.

Why MetLife ICOLI?

MetLife, Inc., through its subsidiaries and affiliates ("MetLife"), is uniquely positioned to provide customized solutions for financing benefit liabilities using life insurance. As both a manufacturer and buyer of ICOLI, MetLife understands the advantages for insurance companies, including:

1. Lower Risk Based Capital (RBC) & Asset Valuation Reserve (AVR)[1]

Greatly reduced reserve requirements for the ICOLI purchaser compared to non-life insurance investments for higher-risk asset classes, such as equities.

- Insurers carry ICOLI as an "aggregate write-in for other than invested assets."
- RBC C-I charges are 0% for Life/Health carriers and 5% for Property/Casualty carriers, regardless of asset classes in the underlying separate accounts.
  - In 2018 the NAIC added a disclosure requirement pursuant to SSAP21 paragraph 6 which requires the policy owner to indicate in a narrative the cash value of ICOLI and allocation to asset classes. In 2019 and beyond this disclosure is on a detailed form.
  - The NAIC also reiterated that these life insurance products shall be acquired with the primary consideration of the costs related to employee benefit obligations or the loss of a key person.
- For life insurance carriers, ICOLI has the potential to reduce AVR requirements.

2. Potential for higher yields

Potential for higher yields through:

- The availability of a wide range of diverse asset classes, that range from conservative to more aggressive.

3. Tax-advantaged earnings

Tax-advantaged earnings through the insurance contract. Generally:

- Any earnings gains are tax-deferred inside the insurance policy, and
- Death benefit proceeds are free from federal income tax (assuming that the policyholder has complied with the notice and consent provisions of IRC § 101(j) and applicable state insurance law).

4. Book value accounting

Book value accounting treatment through a stable value wrap may be an option for certain portfolios.

- Smooths separate account portfolio performance and earnings volatility.

5.Minimal credit exposure

Minimal credit exposure with assets held in a separate account.

- Separate account assets are protected from all of the insurer's other liabilities in the event of the insurer's insolvency.

6. Institutional pricing

Institutional pricing generally offers lower policy charges than retail pricing.

- Lower costs allow policy cash value to accumulate more efficiently.

The tax benefit of life insurance

MetLife ICOLI vs. taxable investment		
ICOLI[2]		**Taxable investment[5]**
8.00%	Hypothetical investment and return net of asset management fees and transaction costs	8.00%
0.85%	Less insurance charges[3]	0.00%
7.15%	Net pre-tax return	8.00%
0.00%	Less 21% assumed taxes (100% portfolio turnover)	1.68%
7.15%	**Net after-tax return[4]**	**6.32%**

Benefits of ICOLI

- Enhances value to the insurance company relative to ordinary taxable investments.
- Informally recovers cost of benefit plans and key person loss.
- Provides investment flexibility.
- Allows selection of otherwise tax-inefficient investment styles.
- Asset allocation can be altered tax-efficiently with changing plan allocations or corporate risk-return objectives.

Wider investment choices

Separate account investment offerings within a policy are critical to the ICOLI decision process. MetLife ICOLI offers a wide range of variable investment options managed by leading investment managers. These choices allow an insurance company to create an asset allocation strategy within ICOLI that reflects its overall investment policy.

MetLife's process for selecting and monitoring investment managers allows MetLife to offer products with a variety of managers and funds in multiple asset classes across the risk-return spectrum. Both active and passive fund management choices are available.

Stable value is an optional feature that may be offered for appropriate transactions to smooth out investment volatility. The stable value endorsement allows a significant percentage of the investment allocation in asset classes other than fixed income. Allocation requests are analyzed based on the parameters of each case. In addition, State premium and DAC taxes may be amortized over a specified period of time and included as part of the stable value guarantee.[6]

Proportionally lower policy charges

Any ICOLI purchase comes with associated costs:

- Premium expense charges cover federal deferred acquisition cost (DAC) tax and state premium tax and any applicable intermediary compensation.
- Monthly charges per administration, cost of insurance (COI) and mortality and expense risk (M&E).
- Separate account investment portfolio management fees and expenses.

However, the substantial premium amounts in the typical ICOLI case permit proportionally lower policy charges for institutional buyers compared to individual purchasers. Because of these relatively low costs, competitive ICOLI products accumulate cash value more efficiently.

The DAC and state premium tax are imposed by federal and state law. The monthly charges are based on MetLife's competitive pricing in administration, COI and M&E. The COI charges are either based on MetLife's executive-pooled mortality rates or experience rated for certain cases. Separate account investment portfolio charges are based on the funds chosen by the policyholder.

Carrier ratings considerations

When choosing any investment, an insurance company must be mindful of ratings agencies' opinions of the decision.

COLI assets are classified by the NAIC by examining various risks of the insurance carriers. This examination may include: default risk, credit risk, interest rate risk, market risk, business risk and underwriting insurance risk. The asset default charges applied to this asset class are the same as those applied to bond securities. It is our understanding that capital models such as Standard & Poor's (S&P) Capital Adequacy Model for life & health insurers currently treat COLI assets as a bond, but this is subject to change. ICOLI may be viewed as an offset to certain employee benefit obligations.

Historically, carriers have followed guidelines of limiting ICOLI to 25% of total adjusted capital (TAC) as a maximum credit to capital. Additionally, the historic guidelines limited 10% of the insurer's total adjusted surplus for aggregate exposure to any single entity (including all securities and COLI assets) because of concentration risk.

Lastly, COLI policies should adhere to the following regulatory criteria: (1) require positive written consent of all individuals covered under the insurance program; (2) only insure at most the top 35% of employees (based on total compensation); (3) limit coverage to officers and management level employees; and (4) not use borrowed funds for premiums. The source of funds for all policies should be cash provided by the insurance company's surplus.

Failure to comply with these criteria or limits could result in major rating agencies adjusting the capital and surplus within their Capital Adequacy Models for life & health insurers.

Familiar concept, new market

Corporate Owned Life Insurance (COLI) is a well-established concept used by corporations to informally finance executive benefit liabilities. With the corporate model's evolution to Bank Owned Life Insurance or BOLI, most of the banking industry has also taken advantage of the positive attributes of life insurance. Ironically, relatively few insurance companies have tapped into this valuable benefits financing tool, despite characteristics that make them excellent candidates for COLI:

- A generally strong financial position
- A high corporate tax rate
- Ample cash flow
- Fewer investment restrictions than those of banks

Specialized Benefit Resources (SBR), a full service unit within MetLife, delivers customized insurance solutions for financing benefit plan liabilities. SBR is committed to partnering with brokers and providing clients exceptional service with:

- Custom plan design and pricing
- Flexible underwriting
- Proactive case management
- State-of-the-art policy administration

Our team of highly trained experts offer dedicated support in many areas, including:

- Sales and illustrations
- Actuarial
- Underwriting
- Tax
- Investments

COLI is an attractive strategy to improve a carrier's financial position, increasing after tax returns, while allowing it to provide competitive benefits to employees.

Our advantage

MetLife, Inc. (NYSE: MET), through its subsidiaries and affiliates ("MetLife"), is one of the world's leading financial services companies, providing insurance, annuities, employee benefits and asset management to help its individual and institutional customers navigate their changing world. Founded in 1868, MetLife has operations in more than 40 countries and holds leading market positions in the United States, Japan, Latin America, Asia, Europe and the Middle East.

MetLife's Retirement & Income Solutions division (RIS), the company's institutional retirement business, issues products through Metropolitan Life Insurance Company and Metropolitan Tower Life Insurance Company, two wholly owned subsidiaries of MetLife, Inc.

The RIS team is here to help guide the far-reaching financial decisions that will impact hundreds, even thousands, of lives for years. We know what's at stake. By partnering with us, you'll work with skilled associates who develop innovative financial solutions designed to help reduce financial and regulatory risk, so both your company and your plan participants can have a more secure future. Explore our solutions to find the one that best suits your organization's needs.

The major rating agencies have repeatedly recognized MetLife for our financial strength and our strong capitalization.[7] Our financial strength has been built upon and is sustained through our diversity of businesses, conservative risk management and expertise in focusing on investment fundamentals. MetLife specializes in providing clients with the knowledge, tools and solutions to help manage the complex regulatory issues and potential tax implications that are unique to benefits and benefit liabilities.

For additional information on our products and services, please call 1-877-MET-EXEC or visit our website at: www.metlife.com/sbr

1. The RBC and AVR treatments are based on current generally accepted interpretation of the NAIC Annual Statement Instructions. Specifically, per the NAIC 2018 Annual Statement Instructions, COLI is to be reported on line 25 of the Asset Page in the Annual Statement. Line 25 is Aggregate write-ins for other than invested assets and is not included in the AVR (Asset Valuation Reserve).
   - Details of Write-ins Aggregated at Line 25 for Other Than Invested Assets.
   - List separately each category of assets (other than invested assets) for which there is no pre-printed line on page 2.
   - Include: equities and deposits in pools and associations.
   - Selections from this section also include COLI; report the cash value of corporate owned life insurance including amounts under split dollar plans.
   - With regard to RBC specifically, for a P&C carrier the COLI assets are on Other Invested Assets on Line 11 of the P&C RBC schedule. For a Life carrier, the assets on Line 25 for Aggregate write-in do not have any RBC or AVR charge.

   NAIC instructions are subject to change, and each carrier should seek and rely on their own interpretation for their own regulatory reporting.
2. The values shown assume that the policy does not become a Modified Endowment Contract (MEC) and is held until death with no withdrawals. A MEC is the tax code's term for a life insurance policy whose premium payments have exceeded certain specified limits. If a policy becomes a MEC, it becomes subject to "earnings first" taxation of withdrawals and loans and an additional 10% penalty for withdrawals and loans generally applies to COLI owners.
3. COLI insurance charges are expressed as a percentage of assets for illustrative purposes; actual insurance charges are based on premium, face amount and assets. The actual charges are set forth in the policy.
4. COLI death benefits are generally tax-free. Policy loans and withdrawals up to basis are generally tax-free for a non-MEC. Consult your tax advisor. All withdrawals are available without surrender charges. Loans and withdrawals will reduce the policy's cash value and death benefit.
5. Hypothetical taxable investment is assumed to consist of mutual funds or similar investments that impose investment management fees and other expenses.
6. Stable Value is an optional feature that may be available within the product for selected investment options. Stable Value feature and Load financing requires financial underwriting of company financial status.
7. For current ratings information and a more complete analysis of the financial strength of MetLife, please go to www.MetLife.com and click on "About Us" and then click on "Company Ratings."

Variable life insurance (other than private placement variable life insurance) is offered by prospectus only. Prospectuses for variable life insurance and underlying portfolios are available from MetLife. You should carefully read and consider the information in the prospectuses regarding the contract's features, risks, charges and expenses, as well as, the investment objectives, risks, policies and other information regarding the underlying portfolios prior to making any purchase or investment decisions. Product availability and features may vary by state. All product guarantees are subject to the financial strength and claims-paying ability of the issuing insurance company.

Variable life insurance has limitations. There is no guarantee that any of the variable options in the product will meet their stated goals or objectives. Allocations to variable investment options are subject to market fluctuations so that, when withdrawn or surrendered, values may be higher or lower than the original value.

The information contained herein is intended solely for corporate customers MetLife has determined to be "accredited investors" under federal securities laws. Private placement variable life insurance policies are offered in reliance on an exemption from the registration requirements of The Securities Act of 1933 and The Investment Company Act of 1940, are not required to comply with specific disclosure requirements under The Securities Act, and are not subject to the protections of The Investment Company Act. The Securities and Exchange Commission has not passed upon the merits of or given its approval for the private placement variable life insurance policies, the terms of the offering, or the accuracy or completeness of any offering materials. Private placement variable life insurance policies are subject to legal restrictions on transfer and resale. Investing in private placement variable life insurance involves risk and investors should be able to bear the loss of their investment. Private placement variable life insurance is not offered pursuant to prospectus, but rather pursuant to a private placement offering memorandum.

MetLife, its agents, and representatives may not give legal or tax advice upon which any other party may rely. Any discussion of taxes herein or related to any attached document is for general information purposes only and does not purport to be complete or cover every situation. Tax law is subject to interpretation and legislative change. Tax results and the appropriateness of any product for any specific taxpayer may vary depending on facts and circumstances. Companies should seek advice based on their particular circumstances from an independent tax advisor.

Policies issued by one of the following MetLife companies: Metropolitan Life Insurance Company, New York, NY 10166; and Metropolitan Tower Life Insurance Company, Lincoln, NE 68516. Products are distributed by MetLife Investors Distribution Company (member FINRA). All are MetLife companies.

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