KEY EMPLOYEE LIFE INSURANCE/CORPORATE-OWNED LIFE INSURANCE (COLI) ARRANGEMENTS

SUMMARY OF KEY FEATURES

OVERVIEW	Key employee life insurance, sometimes included within the broader description of corporate-owned life insurance or COLI, is designed to protect an employer from financial loss upon the death of a key employee. Since 501(c)(3) tax-exempt and governmental employers are not subject to the same tax liabilities as for-profit corporations, this fact sheet will not focus on the broader issues associated with COLI arrangements. Institution purchases and pays premiums for life insurance policy on key employee. Institution is the beneficiary of the policy. Cash and loan values are available to the institution for other uses, or for payment of deferred compensation or retirement income for the key employee. Key employee life insurance policy proceeds may be used to cover the cost of replacing the employee. Since key employee insurance is designed to compensate the employer for the loss of a key employee, it is technically not considered an employee benefit. However, the assets can be used to finance the employer's obligation under one or more employee benefit plans.
FUNDING	Funded by the employer.
ELIGIBILITY	No eligibility requirements. Can be offered to all employees.
ELECTIONS, CONTRIBUTIONS AND LIMITS	No limits on the cost of the premium payments or amount payable under the policy.
VESTING	Not applicable.
TAXATION	Not tax deductible to the employer as a business expense. Death benefit is taxable to the employer for the amount that exceeds the premium payments unless certain requirements are met.

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