MULLIN | BARENS | SANFORD FINANCIAL

BENEFITS TRENDS *insights*

Bank-Owned Life Insurance

How do sophisticated financial institutions finance the cost of their employee benefits while boosting the earnings on their investment portfolio and creating an immediate rise in earnings per share? Increasingly, they have turned to the tax-advantaged yield of bank-owned life insurance (BOLI) programs.

Why BOLI?

- BOLI can reduce taxes on invested assets and achieve after-tax yields that can be significantly higher than Treasuries, enhancing shareholder value.
- BOLI offers unique advantages over alternatives.
- BOLI receives favorable accounting and P&L treatment relative to taxable investments.
  - Tax-deferred growth of cash value[1, 3]
  - Tax-free receipt of death proceeds[2, 3]
  - Tax-free loans/withdrawal to basis[1, 4, 5]
  - Capital guarantees
  - Minimal credit risk

How Does BOLI Work?

TREASURIES		BOLI	
Assets Invested	$5,000,000	Assets Invested	$5,000,000
Pretax Earnings Rate	4.85%	Pretax Earnings Rate	4.85%
Pretax Earnings	$242,500	Pretax Earnings	$242,500
Taxes Due (40%)	$(97,000)	Insurance Charges (0.52%)	$(26,000)
Net Impact	$145,500	Net Impact	$216,500

Increase in net impact due to BOLI acquisition	**$71,000**
Increase in rate spread due to BOLI acquisition	**142 bps**

Structuring Your Plan

Properly structuring a BOLI plan can be complex. Mullin Barens Sanford can help assess whether this attractive financial strategy is right for you and, if so, customize a program that meets your needs.

Mullin Barens Sanford is a premier national firm specializing in institutional insurance products and the design, implementation, funding and administration of nonqualified benefits. We work closely with our insurance company partners, which are chosen for their financial strength, product diversification and superior service, to give our clients access to over 50 BOLI and COLI products.

1. Subject to qualification under Tax Code §72
2. Subject to qualification under §101
3. Subject to qualification under §7702
4. Subject to qualification under §7702A
5. Subject to qualification under §7702(f)(7)

Notes

Variable life insurance products are long-term programs and may not be suitable for all investors. The acquisition of variable life insurance entails fees and charges and is subject to fluctuating values of the underlying investment options. Variable life insurance entails risks, including the possible loss of principal. Early withdrawals may trigger tax penalties. The death benefit coverage of variable life insurance is based on the claims-paying ability of the insurance company.

The preceding chart illustrates the effect of the income tax characteristics of life insurance on after-tax results by assuming, hypothetically, that each alternative generates the same pretax rate of return. This chart incorporates hypothetical values that, while believed to be accurate, are not guaranteed nor are they a representation of past or future results. Actual results will vary. The hypothetical taxable security values have been prepared to assist in analyzing informal funding alternatives.

12242 Purdue Avenue, Los Angeles, California 90064, Tel: 310-473-0060

Website: www.mbsfin.com