Legatus Memoria®

Increase Earnings. Maximize Philanthropy.
Left Pocket to Right Pocket

From Left Pocket to Right Pocket.

There are two major considerations when utilizing COLI for increased earnings and maximized philanthropy. What assets do you swap for COLI and how much do you want to give away to charity from the excess death benefit. This discussion deals with the asset consideration. Moving assets from your left pocket to your right pocket still makes it your asset but the new pocket has tax advantages and earning enhancements.

Many corporations currently ladder with bonds of varying durations to lessen interest rate risk. Looking at what is maturing, the options are to reinvest into bonds at current rates or utilize a top credit quality COLI asset that is priced at portfolio rates, that will not have an inverse relationship with interest rates. Replacing maturing bonds with higher yielding bonds, the corporation could pay a premium or they could transfer the credit risk, interest rate risk, and market risk to a mutual life insurance company's portfolio with COLI. Cash is transferred to COLI allowing the corporation's maturing bonds to replenish its cash accounts.

Tax Treatment.

COLI cash value accumulations and death benefits are tax-free if policies are held to maturity. Excess can be given to charity

Asset Quality.

Higher rated insurance carriers tend to have higher long-term value. Manage credit risk by purchasing COLI from insurance carriers with high third-party ratings. Mutual insurance companies offer company ownership in addition to policy values.

Interest Rate Sensitivity.

General account COLI crediting rates tend to have low volatility. They reprice annually to keep up with changes in interest rates. COLI can withstand rapid interest rate swings because of its longer duration investments and its untaxed nature.

Effects on Liquidity.

COLI is designed to be held until maturity to fully recognize the tax benefits at which time all principle and interest is received tax free and any excess death benefits can be given to charity or added to your earnings. Underperforming COLI may be exchanged tax-free to another carrier.

In summary, a COLI acquisition is shifting money from a left pocket into a right pocket. It is still on the balance sheet and part of the assets of the corporation, but now it is more efficient as the cost of life insurance is always less than the cost of taxes. Yields with large mutual life insurance carriers are often higher than current taxable equivalent assets in retained earnings.