

**NYLEX**Benefits  
Customized Executive Solutions



## **BOLI Bank-Owned Life Insurance**

A Cost Effective Way to  
Manage Benefit Liabilities



*Affiliated Company*

## The Buzz about BOLI



Almost all banks are affected by the increasing cost of providing benefits to employees. At the same time, banks are continually seeking to deliver attractive benefit programs, while sustaining profitability and growth. To respond to these challenges, a



growing number of banks utilize Bank-Owned Life Insurance ("BOLI") to finance existing employee benefits as well as fund new benefit plans. BOLI



is an important tool banks use to help retain their finest employees, attract new talent and recover benefit costs.

## How BOLI Works



BOLI is a very stable, low-risk source of financing that can provide attractive tax-equivalent yields to help offset the rising costs of employee benefits. Typically, BOLI is an institutional life insurance arrangement designed for banks to generate greater cash value growth than typical retail permanent insurance policies.

In general, the bank purchases life insurance on a group of eligible key employees. The bank pays the premiums, and is the owner and beneficiary of the insurance policies. The policies become part of the bank's assets.



### **An Important Cost Recovery Tool**

Banks earn income from the growth of the BOLI's cash surrender value and from the insurance proceeds paid to the bank on the death of an insured employee. BOLI policies often cover the lives of executive officers and other employees who participate in the bank's benefit plans. BOLI generally is not directly tied to the promised benefits, but is designed to recover all or a part of the bank's associated aggregate benefit plan costs.



The annual yield on a BOLI investment generally compares favorably with other investment options available to banks. In addition, BOLI is income tax deferred and, if the BOLI contract is held until the death of an insured, the bank receives life insurance proceeds free from federal income tax. The deferred tax savings on the growth of the cash value increases the bank's net investment yield and is currently reflected on the bank's financial statements.

## Your Bank Should Consider BOLI



BOLI offers two strategic advantages. First, it helps a bank diversify its investment portfolio with an asset that helps to enhance earnings and balances liquidity and risk factors.

Second, BOLI can be utilized as an efficient asset/liability management tool. It is a low maintenance asset that involves:

- No collection efforts;
- No loan loss provision;
- No origination costs; and
- No servicing by bank personnel.



### **BOLI Is Widely Accepted**

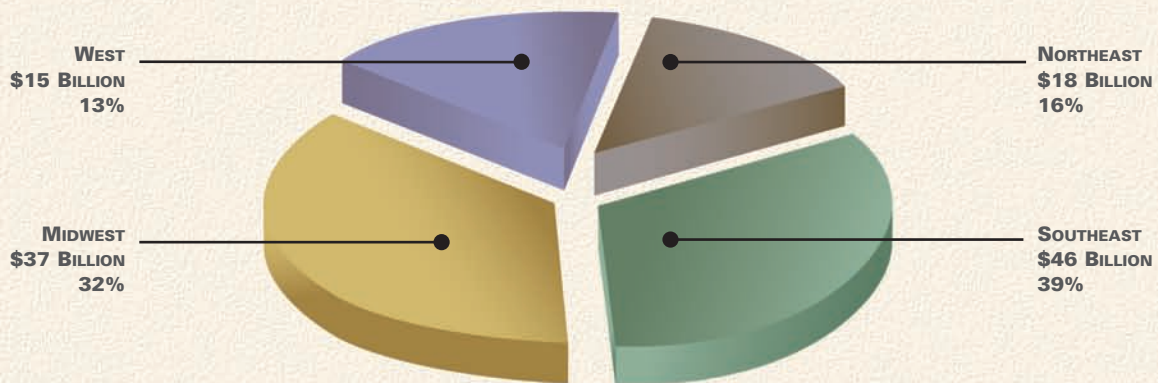
As of September 30, 2007, approximately 47% of all banks in the United States reported owning \$115.9 billion of BOLI. Excluding incidental purchases of life insurance at banks (defined as less than 3.5% of Tier 1 Capital), the average reported BOLI asset represented 17.6% of Tier 1 Capital.<sup>1</sup>

NYLEX Benefits developed BOLIStar<sup>®</sup>, a proprietary system which analyzes BOLI holdings throughout the United States, to provide banks with critical peer bank statistics.

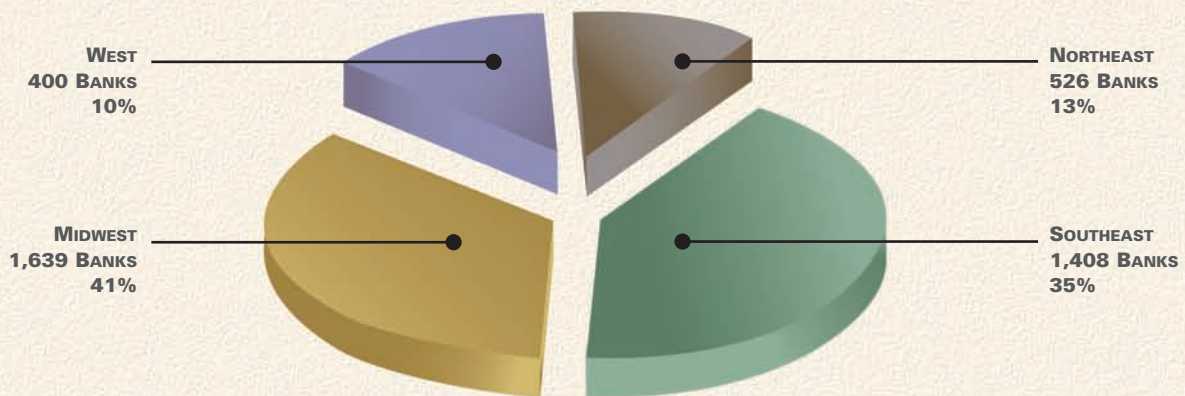
(1) Information based on BOLIStar<sup>®</sup> analysis as of September 30, 2007. This analysis is based on a proprietary data inquiry and review system developed exclusively by NYL Executive Benefits LLC and provided for the sole use of clients of NYLEX Benefits and agents and brokers with whom NYLEX Benefits does business.

# NYLEX Benefits' BOLIS<sup>®</sup>star

## Statistical Analysis and Review



**\$ Amount of BOLI in Banks in U.S. by Region**



**Number of Banks with BOLI in U.S. by Region**

Example: In the Northeast region, 526 banks report having BOLI, 13% of all banks in the U.S. reporting BOLI; this represents \$18 billion in BOLI, or 16% of the total amount of BOLI reported in the U.S.

Notes: Total Banks Reporting BOLI = 4,025; total BOLI reported = \$115.9 billion.

Source: FDIC Call Reports as of September 30, 2007.

Some amounts of life insurance may not be reported as BOLI on the FDIC Thrift and Call Reports, but may be reflected in Other Assets or in Securities. This is particularly true for the largest 250 U.S. Banks and Thrifts.

## NYLEX Benefits Can Help You Make the Right Decision



OCC Bulletin 2004-56<sup>2</sup> (the "Bulletin") asserts that "BOLI can be an effective way for institutions to manage exposures arising from commitments to provide employee compensation and pre- and post-retirement benefits." However, navigating BOLI's complex product options can be challenging. It is essential that before purchasing, a bank have a thorough understanding of BOLI.

The bank's board and senior management are responsible for ensuring that the purchase and holding of BOLI are consistent with safe and sound banking practices. Thus, it is critical that management understands BOLI products, the BOLI compliance process and ongoing administration requirements.

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(2) OCC Bulletin 2004-56 was issued by the Office of the Comptroller of the Currency (OCC), Federal Deposit Insurance Corporation (FDIC), the Board of Governors of the Federal Reserve System (FRB) and the Office of Thrift Supervision (OTS).

## Pre- and Post-Purchase Analysis

The Bulletin states that the safe and sound use of BOLI depends on effective senior management and board oversight. The objective of pre-purchase analysis is to help ensure that the bank understands the risks, rewards and unique characteristics of BOLI. At a minimum, the Bulletin requires that the following nine actions be taken:

1. Determine the need for insurance.
2. Quantify the amount of insurance needed.
3. Vendor selection.
4. Review the characteristics of available insurance products.
5. Carrier selection.
6. Determine the reasonableness of compensation provided to the insured employee if the insurance results in additional compensation.
7. Analyze the associated risks and the bank's ability to monitor and respond to those risks.



8. Evaluate alternatives.
9. Document decision.

### **NYLEX Benefits Can Simplify the Process**

The Bulletin recognizes that most banks need the assistance of a qualified vendor to help with the BOLI purchase. NYLEX Benefits, a nationally recognized vendor by the major insurance carriers, has years of experience helping banks analyze proposed BOLI transactions and making sure that the

transaction is consistent with the bank's objectives — due diligence, carrier and product selection, implementation and compliance conformance, all receive equal attention.

The Bulletin also requires that each year the bank conduct a post-purchase analysis of its insurance holdings. This review allows the bank to assess whether it is effectively managing its risks and whether the program is achieving its intended objectives. NYLEX Benefits provides the bank with the supporting information to make this an easy yet beneficial process.

## About NYLEX Benefits



NYL Executive Benefits LLC (“NYLEX Benefits”) is an independently managed subsidiary and the executive benefits consulting arm of the New York Life Insurance Company, a Fortune 100 company. New York Life is the largest mutual life insurance company in the United States, with an enviable 160+-year history, and as of 12/31/06 had \$13.9 billion in surplus and asset valuation reserves and more than \$264 billion in assets under management.



NYLEX Benefits provides supplemental executive benefit programs to a wide range of commercial clients. We focus on developing cost-effective executive benefit solutions that are designed to attract, reward and retain key employees.

Our services are designed to assist clients at all stages in the adoption and operation of executive benefit programs and include:

- Initial assessment
- Plan design
- Funding
- Plan implementation
- Ongoing administration

NYLEX Benefits’ professional staff includes the following professional disciplines, all dedicated to supporting our clients’ programs, processes, systems and services:

- Accountants
- Actuaries
- Attorneys
- Benefit specialists
- Insurance specialists

We take great care to assure that client programs are practical and cost effective and that they are designed to achieve our clients’ strategic and operational goals.



### Find Out More

To find out how NYLEX Benefits can help your company with customized executive solutions, call us at 203-353-5800, e-mail us at [nylex@nylexbenefits.com](mailto:nylex@nylexbenefits.com), or visit us online at [\*\*\*www.nylexbenefits.com\*\*\*](http://www.nylexbenefits.com).

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