



Highlights of [GAO-04-191T](#), a testimony before the Committee on Finance, U.S. Senate

Why GAO Did This Study

Business-owned life insurance is held by employers on the lives of their employees, and the employer is the beneficiary of these policies. Unless prohibited by state law, businesses can retain ownership of these policies regardless of whether the employment relationship has ended. Generally, business-owned life insurance is permanent, lasting for the life of the employee and accumulating cash value as it provides coverage. Attractive features of business-owned life insurance, which are common to all permanent life insurance, generally include both tax-free accumulation of earnings on the policies' cash value and tax-free receipt of the death benefit.

To address concerns that businesses were abusing their ability to deduct interest expenses on loans taken against the value of their policies, Congress passed legislation to limit this practice, and the Internal Revenue Service (IRS) and Department of Justice pursued litigation against some businesses. But concerns have remained regarding employers' ability to benefit from insuring their employees' lives.

This testimony provides some preliminary information from ongoing GAO work on (1) the uses and prevalence of business-owned life insurance and (2) federal and state regulatory requirements for and oversight of business-owned life insurance.

www.gao.gov/cgi-bin/getrpt?GAO-04-191T.

To view the full product, click on the link above. For more information, contact Davi M. D'Agostino at (202) 512-8868 or d'agostinod@gao.gov.

BUSINESS-OWNED LIFE INSURANCE

Preliminary Observations on Uses, Prevalence, and Regulatory Oversight

What GAO Found

GAO's preliminary work indicated that no comprehensive data are available on the uses of business-owned life insurance policies; however, businesses can purchase these policies to fund current and future employee benefits and receive tax advantages in the process. Federal bank regulators have collected some financial information on banks' and thrifts' business-owned life insurance holdings, but the data are not comprehensive and do not address the uses of the policies. The Securities and Exchange Commission (SEC), the IRS, state insurance regulators, and insurance companies told GAO that they generally have not collected comprehensive data on the sales or purchases of these policies or on their intended uses, because they have not had a need for such data in fulfilling their regulatory missions. In an effort to collect comprehensive data, GAO considered surveying insurance companies about their sales of business-owned life insurance. However, based on a pretest with six insurance companies, GAO determined that it would not be able to obtain sufficiently reliable data to allow it to conduct a survey. GAO found, however, that some insurers have voluntarily disclosed information about sales of business-owned policies and that some noninsurance businesses have included examples of their uses in annual financial reports filed with SEC.

As part of their responsibility to oversee the safety and soundness of banks and thrifts, the federal bank regulators have issued guidelines for institutions that buy business-owned life insurance. Also, they told GAO that they have reviewed the holdings of many institutions with significant amounts of business-owned life insurance and concluded that major supervisory concerns do not exist. SEC officials said that the agency has not issued specific requirements for holders of business-owned life insurance, relying instead on its broadly applicable requirement that public companies disclose information material to investors in their financial statements; SEC did not have investor protection concerns about public firms holding business-owned life insurance. The IRS had some requirements related to the tax treatment of business-owned life insurance and expressed some concerns about compliance with these requirements. State laws governing business-owned life insurance differed; the four states' regulators that GAO interviewed described some limited oversight of the policies, and these regulators and NAIC reported no problems with them.