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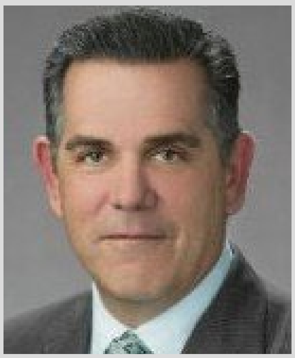

Letter from the President

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101(j) Requirements for Employer-Owned Life Insurance

The Pension Protection Act of 2006 (PPA) became law on August 17, 2006. It included new rules on employer-owned life insurance (EOLI) policies issued or materially changed after that date.

If the employer-owned rules are not complied with, a portion of the death benefit received on an EOLI policy will be subject to income taxes.

An employer-owned life insurance contract is defined as a life insurance contract which:
1) Is owned by a person (or entity) engaged in a trade or business, and under which such person or a related person is directly or indirectly a beneficiary under the contract, and
2) Covers the life of an insured who is an employee with respect to the trade or business of the applicable policy owner on the date the contract was issued

Under IRC code 101(j), the general rule is that death benefits received on employer-owned life insurance contracts are taxable to the employer, to the extent the death benefit exceeds an amount equal to the sum of the premiums and other amounts paid by the policyholder for the contract.

To receive death benefits without triggering the additional income tax imposed by IRC 101 (j), two requirements must be satisfied:
1) Notice and Consent must be obtained before the policy is issued
2) The insured must fall into one of the statutorily defined coverage conditions or exceptions.

If these two requirements are not satisfied, the death benefit on the EOLI policy will be included in the employer's income.

Exceptions:
1) The insured is an employee at any time during the 12 months preceding the insured's death (for example, a recent employee)
2) At the time the policy is issued the insured, the employee is:
   a) a director
   b) a highly compensated employee
   c) among the highest paid 35% of all employees
   3) The death benefit is paid to a member of the insured's immediate family, to the insured's designated beneficiary or to a trust for the benefit of a family member.
4) The death benefit is used to purchase an equity interest in the policyholder (employer) from a family member, estate, trust or beneficiary.

If your business-owner clients have concerns, offer them a simple peer-to-peer review of their EOLI policies at absolutely no cost. If you want more information, please call our office.