



STATEMENT OF  
FRANK KEATING,  
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BEFORE THE  
COMMITTEE ON FINANCE  
UNITED STATES SENATE  
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Good morning, Mr. Chairman, thank you for the opportunity to participate in these important hearings. As President and CEO of the American Council of Life Insurers, I represent nearly 400 life insurance companies, which account for the majority of United States life insurance premiums. The products provided by the life insurance industry help both families and businesses manage risk as well as ensure a secure means of providing funds for employers to use for the benefit of their employees and their families.

On behalf of our member companies, I appreciate the opportunity to discuss company-owned or corporate-owned life insurance with you this morning. Corporate-owned life insurance, or COLI, has been in one form or another a fixture of American business operations since the early 1900s. American businesses insure their plants and office facilities; they insure patents, copyrights, and their sources of supply. It's not surprising then that businesses also insure their most valuable assets, their employees.

Although COLI has been a part of American business for decades and is thoroughly regulated by the states, we understand the interest of the Committee in looking at how COLI might be best used in the future.

Businesses currently use COLI for a variety of reasons: to insure against the loss of key employees, the exact number of which will vary from company to company; as a prudent and responsible way to plan for the payment of future employee benefits for a broad group of employees; to provide retirement plans as a way to attract and retain valuable employees at all levels of a company; and to provide employers a way to fund transition planning under buy-sell agreements. Now more than ever, we know that American businesses need the stability and certainty of life insurance to provide for their employees and the future of their businesses. Businesses face economic pressures that are

driving them to look for affordable and reliable sources of revenue to finance employee benefits rather than cutting them altogether.

COLI is an important asset of businesses to guard against the uncertainties of life as it affects employees, whether on the job or in retirement. It is appropriate that policyholders both facilitate and oversee how we approach these responsibilities, and we welcome the effort to work with the Committee in making sure that the COLI product remains available to businesses and their employees and that any limitations placed on the use of COLI fit within current “best businesses practices”.

Like all life insurance, COLI is heavily regulated in every state. State laws govern insurable interests, who can be insured, as well as employee notice and consent. Most states limit those who can be insured to either employees who would be eligible for employee benefits or to employees who are key to the business. With respect to employee notice and consent, almost all states have specific laws requiring that employees receive notice of a pending COLI policy. Most states also require that the employee be given the opportunity to object to the coverage or explicitly require that the employee affirmatively consent. As part of this notice and consent requirement, employees are provided with documentation of the reasons for the coverage, how the employees as a group will benefit, and are given ample opportunity to have their questions answered. The ACLI supports these state law limitations. We have provided the members of this Committee with a comprehensive chart showing the laws governing COLI in each of the states.

Not only is COLI currently regulated under state laws, the Internal Revenue Code also places substantial restrictions on COLI. Unlike premiums on other types of insurance purchased by a business, premiums on COLI are not deductible. In most cases, no

deduction is permitted for interest on policy loans, although a business can deduct interest on loans for other assets.

We understand that the focus of this Committee is on the future of COLI. To that end, we fully support the Conrad amendment. It provides appropriate limits on COLI and will help ensure that all employers and employees, regardless of their home state, are subject to uniform rules. The Conrad amendment will ensure that the proceeds of COLI programs are directed toward activities that enhance, and do not diminish, employees and their families.

Finally, I would like to urge the Committee to review the recommendations of a study currently being conducted by the General Accounting Office. Members of this Committee have had the commendable foresight to request this study, and the request could not be more timely. We have met with the GAO representatives on a number of occasions and have been fortunate in being able to have frank and open discussions with them concerning the COLI product. While our member companies' data systems did not have all of the quantitative data that the GAO was seeking, we did share with them a wide range of qualitative information, including how and why employers use COLI to meet their business needs and how insurers ensure that state insurable interest and notice and consent requirements are met. We would welcome an opportunity to meet with you to review the final GAO report in detail.

This is an important issue for the life insurance industry, the corporate clients that it serves, and the employees who rely upon life insurers for financial and retirement security.

Again, thank you for the opportunity to testify today. I look forward to answering any questions that you might have.

