life annuity specialist

War for Talent Fuels High Demand for Life-Funded Executive Benefits

Interest is high, but underwriting time still frustrates buyers, producers.

By Warren S. Hersch|September 1, 2023

Much has been written about how employers have been lapping up group benefits to lure workers in a tight job market. But a smaller, less heralded market niche is proving especially lucrative for insurers and their distributors: benefits for top executives and other highly compensated employees.

Interest in these packages — including deferred compensation plans, bonus arrangements, and supplemental executive retirement plans funded with life insurance — is rising, and a key factor underpinning sales is the need to hold on to highly valued people in the C-suite and other leadership positions.

Losing these valued employees can be costly. Replacing them can cost up to 400% of a departing executive's annual salary, according to the business publication *Inc.* The benefits also compensate for smaller, basic benefits packages afforded all employees.

Shefali Desai, head of worksite at MassMutual

"When it comes to top executive talent, especially in a tight labor market with fierce competition, companies are finding that executive benefit carveout programs can not only help attract and retain talent, but they can also help fill any gaps in coverage resulting from hitting max limits from higher salaries and variable and incentive-based compensation," said **Shefali Desai**, head of worksite at **MassMutual**, in an email.

Aaron Seurkamp, a senior VP and president of the retirement division at **Protective**, said in an email that life insurance is a popular and effective planning tool, enabling companies to finance not only the cost of retirement plans, but also retiree medical benefits.

Aaron Seurkamp, a senior VP and president of the retirement division at Protective

“The strong match of the life insurance asset with the retiree benefit plan liabilities, combined with the tax treatment of the life insurance policies, provides companies an efficient alternative to address the cost of retiree benefits,” he said in an email.

The provisioning of benefits funded with life insurance has not, however, been without hiccups. Advisors complain about an often opaque underwriting process that can take months to complete. And for one product line, bank-owned life insurance, distributors are in some cases being told to take their business elsewhere — evidently because there’s too much trouble.

“This current economic environment occasionally creates some interesting pauses,” said **Tony Greene**, head of business development for executive benefits at insurance broker and consultant **NFP**. “Where we feel the ripple is when a carrier says, ‘hey, we've got all the money in this strategy we want. So you're going to have to find somebody else to buy from.’”

A new survey from **NFP** reveals that 93% of businesses believe that executive benefits help in keeping top talent. Two other factors that in earlier years surpassed retention in importance — retirement completion and benefits equalization — remain the top three drivers of plans for the corporate elite, according to Greene.

Retirement completion means providing enough income to executives — typically assets accrued over their working life to provide 85% of the final year’s paycheck — so they can successfully retire. Benefits equalization plans supplement standard retirement plans to compensate for salary and benefit limits on IRS qualified plans.

Pick Your Plan

Non-qualified deferred compensation plans are a staple of most executive benefit plans. These arrangements may be restricted to highly compensated employees, but they lack certain tax benefits of qualified retirement plans like 401(k)s, such as tax-deductible contributions for the employer.

More than half of NFP’s survey respondents — benefits decision-makers such as CEOs, CFOs, COOs, and chief human resources officers — said they offer these plans mainly to help participants plan for retirement, and 87% of them believe that participants are satisfied with the results.

Employers fund these plans with life insurance, using the cash value to pay the deferred compensation when the executive retires. The death benefit may be paid to the employee's beneficiaries.

Nate Schelhaas, senior VP and head of business owner segment for benefits and protection at Principal Financial

Executive deferred compensation plans have "gone from being a niche benefit offering to becoming more mainstream," said **Nate Schelhaas**, senior VP and head of business owner segment for benefits and protection at **Principal Financial**, in an email. "They allow participants the opportunity to save more for retirement, or other purposes, through pre-tax deferrals of compensation beyond qualified plan limits."

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Schelhaas said that the plans also afford employers great flexibility to structure the benefit to meet employees' needs. They may be crafted, for example, to reduce or eliminate debt, including post-graduate student loan debt such as medical or law school, fund children's education, or to supplement income.

These plans can, however, be expensive and complex to administer, given the tax and legal implications associated with IRS rules governing the arrangements. So many small businesses turn to a more manageable form of golden handcuffs to keep top people on the team: the executive bonus plan.

Permitted under IRS code section 162, the bonus arrangement lets employers provide life and disability income insurance to executives using tax-deductible dollars. The executive owns the policy, which is paid for through cash bonuses.

Tony Greene, head of business development for executive benefits at NFP

When funded with permanent life insurance, such as a whole or indexed life contract, the plan can be structured to restrict access to cash values according to a vesting schedule, such as over three or five years.

“I think we're going to see more of this on a go forward basis,” NFP’s Greene said of the bonus plans.

Securian Financial caters to this market (a product segment it dubs corporate sponsored individually owned life insurance) according to **Jennifer Ortale**, sales director for executive benefit at Securian. The firm also provides banks and credit unions (where the financial institutions own the policies) with indexed universal and variable universal life products, she said.

Jennifer Ortale, sales director for executive benefit at Securian Financial

She identifies as an area of potential growth so-called link-benefit life insurance policies that can cover long-term-care expenses.

“Executives are savvy, and they understand personal risk, including the possibility of needing long-term care,” she said in an email. “I think it’s smart to prepare for this risk through a separate, dedicated hybrid life/LTC policy rather than relying fully on cash accumulated in a life insurance-only policy during an executive career.”

Jim Crone, co-founder of **Acrue Insurance**, is seeing traction for another vehicle funded with life insurance: supplemental executive retirement plans, which are also non-qualified and provide a specified amount of retirement income based on eligibility criteria. The plans are typically reserved for the most senior executives.

Outstanding Issues

Crone estimates that interest in these and other executive benefit plans using life insurance has increased by about 25% relative to a year earlier in his practice.

John Gagnon, a principal of BoliColi.com

But he also sees the underwriting process as opaque. There is, he noted, wide variability in underwriting times, and a lack of clarity about the guidelines carriers use. Given a specified premium and coverage amount, the insurer should be able to indicate a time frame within which a policy will be issued, he said.

John Gagnon, a principal of BoliColi.com, a life insurance agency that's part of **M Financial Group**, also complains about the underwriting process, saying that the issuing of a policy can take months.

"Getting underwriting through a carrier is still a big challenge," he said in an interview. "It's just a long process to get a plan up and running."

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