Insurance Association of Connecticut

Insurance and Real Estate Committee

February 14th, 2013

SB 860, An Act Concerning Trust-Owned Or Employer-Owned Life Insurance Policies And Employee Termination

The Insurance Association of Connecticut, IAC, is opposed to SB 860, An Act Concerning Trust-Owned Or Employer-Owned Life Insurance Policies And Employee Termination, as it would severely impair the market for such products in Connecticut, and negatively impact the ability of businesses of all sizes in the state to plan for and manage employee benefit programs.

Trust-owned or employer-owned life insurance policies, better known as Corporate Owned Life Policies, COLI, have been a vital tool used by the business community to allow businesses to insure against the loss of key employees or fund important employee benefit programs such as health insurance and retirement plans.

It is a well-established principle that businesses have an insurable interest in the lives of their officers, managers and key employees due to the fact that the business expects to benefit from the employee's continued service to the business and would suffer a loss if these individuals die.

Since Congress passed the Pension Protection Act of 2006, Congress required that prior to obtaining such insurance on key employees, the employee must consent to the purchase. The employee must sign a disclosure that they are aware of the purchase, the amount of coverage that is being obtained, that the employer will receive the death proceeds, and that such coverage will continue beyond the employment. In 2004, when 38a-291 was last amended, the fact that the policy would continue after the employee's employment has terminated was specifically added to the statute.

A COLI policy is purchased on the employee during the course of their employment, for the life of the employee. Such coverage is not purchased on the duration of employment. A life can be actuarially underwritten, while the duration of an employee's tenure with a company can be uncertain. Requiring the policy to cease when an employee's employment terminates changes the very nature of the coverage, to track the employment, which may not be actuarially possible. This is not done anywhere else.

To change the nature of the policy to the duration of the employment negates it from being a life product to a product that does not exist on the market.

Finally, SB 860 would therefore render COLI useless and essentially eliminate this important product from the market in Connecticut only. Eliminating this product from the marketplace would only hurt the many businesses in the state who thoughtfully utilize this product to provide important employee benefit programs.

The IAC urges your rejection of SB 860.