



Wachovia looks to life insurance on workers to defray costs.

The Charlotte Observer (Charlotte, N.C.) (via Knight-Ridder/Tribune News Service) Jan 27 , 2005

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CHARLOTTE, N.C. _ Wachovia Corp. this week told some employees that it wants to carry additional life insurance on them as a way to defray the rising cost of employee benefits, according to an e-mail obtained by the Observer.

The insurance, known as business-owned or bank-owned life insurance, can provide companies with hundreds of thousands of dollars when covered employees die, even if they have left the firm. The insurance also provides lucrative federal tax breaks that can fatten profits.

BOLI, as the insurance is known, gained attention in 2002 because employees at some companies were unaware of the coverage and because it was boosting bank earnings in a down economy. Employees typically don't benefit from the coverage.

Charlotte-based Wachovia this week sent an e-mail to officer-level employees asking them to consent to the increased coverage by Feb. 15. Individual employees receive no income from the insurance, but it would help offset the cost of benefits for all company employees, the e-mail says.

Wachovia spokeswoman Christy Phillips said the company decided to purchase the additional insurance because of its "commitment to provide comprehensive, competitive benefits" to employees.

The nation's No. 4 bank by assets carries an undisclosed amount of insurance on about 15 percent of its employees, she said. It reaps the death benefit even if the employee has left the company.

The move comes as Wachovia works to reduce expense growth by \$1 billion by 2007, an initiative that includes eliminating 4,000 of its 96,000 jobs. The e-mail cites "our focus on efficiency" as another reason for the extra insurance coverage.

For years, companies have taken out life insurance policies on top executives _ sometimes called Key Man insurance _ to protect against the impact of their deaths. But starting in the 1980s, some employers extended the coverage to lower-level employees, spurring the name Janitor's insurance.

The big draw of BOLI, which also is an investment vehicle, is federal tax breaks that go to a company's bottom line. Earnings from the money invested in the insurance policies is tax-free for the company. The cash death benefits are also tax-free.

Many companies say they earmark the money for employee benefits programs, but they are not required to use the income that way.

A General Accounting Office report issued in May found that at least one-third of banks and thrifts held business-owned life insurance at the end of 2002, earning them \$2 billion that year. Data on other employers was spotty, the congressional watchdog agency said.

Sen. Daniel Akaka, D-Hawaii, one of the lawmakers who requested the report, said he had concerns about the ethics of BOLI as well as the impact on government coffers. Federal officials estimate that \$7.3 billion to \$13 billion in tax revenue will be lost between 2004-08 from the death payments, the GAO said.

"I think it is fundamental of ethical behavior that businesses should not be able to obtain life insurance on the lives of their employees without the employees providing consent or being made aware of their employers' action," Akaka testified at a Senate hearing in 2003.

Most companies inform employees about the coverage, and the industry has supported legislation in Congress to require worker consent, said Laurie Lewis, senior vice president with the American Council of Life Insurers, an industry trade group.

Last month, federal bank regulators issued a statement that said BOLI can be a useful product to help with benefits costs but expressed concern that some institutions did not have "an adequate understanding of the full array of risks it poses."

The statement advises banks to analyze their insurance purchases, especially the concentration of capital invested. Banks also should limit problems with compliance and publicity by obtaining employee consent and keeping death benefits to a "reasonable multiple of an employee's salary," the regulators said.

The use of BOLI by banks increased in recent years, especially as banks looked for a place to invest capital during a time of slow loan growth, said an official with the Office of the Comptroller of the Currency, which regulates national banks.

Most banks use the insurance to help recoup the cost of benefits, but there was concern that some were using BOLI to improve their bottom lines, the official said. The statement last month was an update of guidance issued to banks in 2000, he said.

In a "regulatory alert" issued last month, Clark Consulting, an Illinois-based firm that advises banks on BOLI, said the "new guidance preserves a favorable environment for purchasing and holding BOLI, while at the same time requiring greater due diligence from banks that utilize this effective cost-recovery tool."

Wachovia uses BOLI to help pay for about 10 percent of its employee benefits costs, said Phillips, the spokeswoman. She would not disclose how much the insurance contributes to profits.

According to the company's 2003 annual report, however, life insurance saved the company \$143 million on its federal tax bill of \$1.8 billion. That was up from \$122 million in 2002. The company had pretax profits of \$6 billion in 2003.

(EDITORS: STORY CAN END HERE)

Charlotte's other big bank, Bank of America Corp., also uses BOLI to "defray the cost of employee benefits," said spokeswoman Eloise Hale. Employees are told about the policies and allowed to opt out, she said, declining to comment further. Its 2003 annual report did not disclose the impact of life insurance on its taxes.

Winston-Salem, N.C.-based BB&T Corp. also uses the insurance, which the company said accounts for less than 1 percent of earnings.

Wachovia officers are allowed to decline the coverage, but the company anticipates "virtually everyone will recognize the value of this program for both Wachovia and its shareholders," the e-mail states.

So far, about 90 percent have agreed to the additional coverage, Phillips said.

"Wachovia's officer-level employees, for the most part, have been pleased that we are doing this," she said. "We are seeing a good response rate."

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Bank-owned Life Insurance:

3,171: Commercial banks that reported using some bank-owned life insurance (out of 7,660).

\$62.1 billion: The cash surrender value of reported policies, a measure of the cash value accrued through the policies.

\$10.2 billion: Cash surrender value reported by Bank of America.

\$7.4 billion: Cash surrender value reported by Wachovia.

_Source: Federal Deposit Insurance Corp., as of Sept. 30. (Banks are required to report bank-owned insurance only above a certain threshold.)

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