



Highlights of [GAO-04-303](#), a report to congressional requesters

Why GAO Did This Study

Business-owned life insurance is permanent insurance held by employers on the lives of their employees, and the employer is the beneficiary of these policies. Its attractive features, common to all permanent life insurance, generally include both tax-deferred accumulation of earnings on the policies' cash value and tax-free receipt of the death benefit. Legislators have expressed concerns about the ability of employers to receive tax-favored treatment from insuring their employees' lives.

GAO was asked to discuss (1) the prevalence and use of business-owned life insurance, (2) federal and state regulation and oversight of these policies, and (3) the potential usefulness of and costs associated with obtaining more comprehensive data on business-owned life insurance.

What GAO Recommends

If Congress decides that it needs more data on business-owned life insurance, it may wish to consider having SEC, Treasury, or NAIC collect the data from businesses or insurance companies. SEC and Treasury expressed reservations about collecting the data, noting that the data is not needed to fulfill their regulatory missions. GAO recognized that these agencies do not need the data to fulfill their regulatory missions. That is, the data would be used in making tax policy decisions rather than doing regulatory oversight.

www.gao.gov/cgi-bin/getrpt?GAO-04-303.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Davi M. D'Agostino at (202) 512-8678 or dagostinod@gao.gov.

BUSINESS-OWNED LIFE INSURANCE

More Data Could Be Useful in Making Tax Policy Decisions

What GAO Found

Limited data are available on the prevalence and use of business-owned life insurance. Federal bank regulators have financial reporting requirements, but not all institutions holding policies meet reporting thresholds. The Securities and Exchange Commission (SEC), the Internal Revenue Service (IRS), and state insurance regulators told GAO that they generally have not collected comprehensive policy data because they have not had a need for such data in fulfilling their regulatory missions. GAO found, however, that some insurers have disclosed information about policy sales. Also, the Joint Committee on Taxation and the Office of Management and Budget have reported estimates of forgone tax revenues from these policies as \$7.3 billion to \$13 billion for the period 2004–2008, excluding forgone tax revenues on additional income from death benefit payments. Regulators said that they do not generally collect data on the intended use of policies, but that businesses can, for example, use business continuation policies to insure against the loss of a key employee or broad-based policies to fund employee benefits.

The federal bank regulators told GAO that they have reviewed the holdings of institutions with significant amounts of business-owned life insurance against their guidelines and concluded that no major supervisory concerns exist. SEC officials said that the agency has relied on its broadly applicable requirement that public companies disclose information material to investors in their financial statements, which would include any material information related to business-owned life insurance; SEC did not have investor protection concerns about public firms' ownership of the insurance. IRS had some requirements related to the tax treatment of the insurance and is reviewing compliance with these requirements. State laws governing the insurance differed; the four states' regulators that GAO contacted described limited oversight of the policies, and these regulators and the National Association of Insurance Commissioners (NAIC) generally reported no problems with the policies.

More comprehensive data could be useful to Congress in assessing the potential effects of legislative proposals that address the tax-favored treatment of business-owned life insurance. Costs would be incurred in obtaining the data. Such data would be most useful if reported separately for business continuation and broad-based policies because legislative proposals have generally treated these policies differently. Data on the amount of tax-free income that businesses received from death benefits could help explain the potential effect of changes to the tax treatment of policies on tax revenues. Businesses holding the policies or insurance companies that sold them could provide this and other data. SEC, Department of the Treasury (Treasury), and NAIC already collect financial information from businesses and insurers and could be required or asked to collect the data. Should Congress decide that the data would be useful, decisions would be required on, among other things, whether the benefits of collecting the data outweigh the costs of doing so.