



ENDSIGHT

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IRS ISSUES NEW COMPANY OWNED LIFE INSURANCE REPORTING FORM

As part of our ongoing service to our credit union clients, ECS has always provided an Annual Administrative Report which updates the credit union on its benefit programs, funding vehicles, and necessary entries for the proper accounting and reporting of the credit union's asset/liability matching position.

The Pension Protection Act (PPA), passed in 2006, included a new Internal Revenue Code Section 6039I. This provision provides that employers who have company (credit union) owned life insurance (COLI), which insures the lives of any of its employees, must file an annual report with the IRS for each year that the contracts are owned. According to the provisions of the PPA, this new reporting requirement applies to any insurance policies issued after August 17, 2006, or to any policy that is materially modified after that date.

The IRS did not, however, issue the necessary IRS form for reporting until January of this year. Upon issuance of the form, the IRS announced that COLI reporting is required for any tax year ending on or after November 14, 2007. This new reporting requirement will be in effect for the 2007 tax year for employers with a calendar year end, and will *require submission of the new Form 8925 with the employer's 2007 tax return.*

Form 8925 is straight-forward and simple to complete, with the instructions for completion appearing on the form itself. The report requires the following information:

- ✓ The employer's:
 - Name,
 - Taxpayer ID number, and
 - Type of business;
- ✓ The total number of employees at the end of the tax year;
- ✓ The total number of employees at year-end that were insured under COLI contracts issued after August 17, 2006;
- ✓ The total amount of insurance in force under the COLI contracts at year end; and
- ✓ Verification that the employer has a valid consent form for each insured employee.
 - If the employer does not have valid consents on file, the number of employees for whom a valid consent has not been obtained must be listed.

The information needed to complete this reporting requirement is easy to access in the ECS Annual Administrative Report, which provides a summary of the funding vehicle used to support the benefit program. For COLI contracts the report provides all the

required information to complete the form. Do not hesitate to contact your ECS relationship manager should you have any questions on the new IRS Form or how to access the information needed to complete it.

PPA ALSO REQUIRES CONSENT TO BE INSURED

The PPA also included a new provision that requires employers to obtain an advance written consent when the employer places insurance on the life of the employee, for which the employer will be the owner and beneficiary of the policy. The following Notice and Consent Requirements are required for any COLI policies issued after August 17, 2006:

- ✓ The proposed insured employee must provide written consent to be insured.
- ✓ The written consent must:
 - Be obtained prior to the placement of the insurance,
 - Notify the employee that the employer intends to insure the employee's life,
 - Include the maximum face amount for which the employee may be insured at the time the contract is issued;
 - Provide that the employer will be the beneficiary of the policy proceeds; and
 - Disclose that the insurance could continue to be held in force even after the employee terminates employment.
- ✓ The consent must be maintained as employer records so long as the insurance remains in force.

It has been a long-standing ECS practice to have its clients obtain consents to insure prior to placement of insurance as a funding vehicle for any benefit program. This new requirement will not change our practice, but it will be necessary for all employers to maintain supporting records to assure that consent and reporting requirements have been met.

The 2007 Employee and Executive Compensation and Benefits Survey for the Credit Union Movement is available. The Survey is a comprehensive guide to compensation and benefit trends in the Credit Union Movement. Please contact ECS to request your complimentary copy of The Survey. Call us at 626-914-2333, or e-mail us at creditunion@ecs-m.com.

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