



Knowledge Center

Benefit Funding

perspectives

Q&A

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Client Question

What is the value of the death benefit paid to the company? Is it equal to the \$50,000 death benefit paid to the employee's beneficiary?

Answer

The death benefit to the Company will generally be more than any additional \$50,000 employee death benefit provided through the program (see exception below*).

A typical death benefit, or face amount, is \$250,000 or more. The exact face amount is the same for all policies in the group, and is not determined until the final census information (age, gender, etc) is analyzed and the total deferred amounts of the deferred compensation plan are known. At that time, the aggregate deferred amount is spread equally among the policies covering all of the insured employees (insureds); and, by using the formulas prescribed in the federal Tax Code, the face amount is determined. To make the funding as efficient as possible, the death benefit on each policy is the minimum amount allowed by law. That said, if the face amount is \$250,000, the Company would receive the \$250,000 death benefit, and subsequently pay the beneficiary designated by the insured the \$50,000 of additional benefit.

*Note: For certain employees, the policy will be written with the minimum \$50,000 death benefit because although that employee is eligible for the life insurance benefit, he/she carries higher risk to the insurance company due to his/her older age, and is not considered as well-suited for the corporate benefit funding as the other employees in the group. Since the Company is interested in offering the death benefit to every participant in the program no matter the employee's insurability, the insurance company simply authorizes a policy for an older employee for the minimum \$50,000 face amount, instead of the face amount determined for the plan. That said, if the face amount is \$50,000 for a certain employee, the Company would receive the \$50,000 death benefit, and subsequently pay the beneficiary designated by that employee the \$50,000 of additional benefit.

Executive
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