

# Making Executive Benefits More Affordable: Creating Value for Companies and their Employees

*COLI vs. Mutual Funds: Nonqualified  
Deferred Compensation Plan Informal  
Funding Alternatives*



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October 10, 2023 /EINPresswire.com/ -- With the majority of [nonqualified deferred compensation plans](#) being informally funded, the decision on which funding alternative to employ can have a large impact on the cash flow, P&L statement and overall cost to the company sponsoring the plan(s).

The two most popular funding alternatives are taxable mutual funds that can mirror the participant investments and corporate owned life insurance (COLI) that utilizes life insurance policies owned by the company that insure the lives of its executives.

Mutual funds may be bought or sold at any time, but with that flexibility comes the cost of taxation to the plan sponsor on dividend and capital gains distributions by the funds and realized capital gains resulting from reallocating the various investments to match assets and liabilities.

While there is a cost of insurance when utilizing COLI, any increase in cash surrender value above net premiums paid flows through to the P&L statement as income. The appreciation of cash value within the COLI policies is not taxed (unless the policies are surrendered) and the policies provide a tax-free life insurance death benefit to the company for additional cost recovery.

Plan Sponsor Considerations:

COLI - Cost of Insurance

vs.

Mutual Funds - Cost of Cost of Taxation on Dividend and Capital Gains Distributions and Cost of Taxation on Realized Gains from Reallocations

The cost of taxation associated with mutual funds is borne by the plan sponsor. When this taxation cost exceeds the COLI cost of insurance, COLI becomes a very attractive option to informally fund nonqualified plan liabilities.

Visit [NolanFinancial.com](https://nolanfinancial.com) for a [comparision of informal funding alternatives](#).

#### About Nolan Financial

For more than thirty years, Nolan Financial has specialized in the custom design, enrollment, funding, and administration of non-qualified retirement plans for the benefit of the senior executives of mid to large size public, private and tax-exempt organizations. For more information about Nolan Financial, visit [NolanFinancial.com](https://nolanfinancial.com).

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