PGE's "Dead Peasant" Life Insurance Policies

4/28/2002 - San Francisco Chronicle: Executives benefit from works' demise

Excerpt: "When workers at Portland General Electric die, there's a little more money to spend on the top executives of the Enron subsidiary."

4/29/2002 - San Francisco Chronicle: Dead Peasant' Policies Pay Out To Bosses When Employees Die

Excerpt: "Many companies have bought corporate-owned life insurance, which is also known as 'dead peasant' or 'dead janitor' insurance. The nicknames reflect the fact that these policies are on low-ranking employees, rather than the top-ranking executives whose death could be a financial blow to the company. Oregon is one of many states that allow 'dead peasant' coverage."

On April 24, 2002, a Houston Chronicle article entitled "Enron utility's 'dead peasant' policies rankle," described Portland General Electric's business practice of buying life insurance policies on rank-and-file employees and designating the company as the beneficiary. Employees stated that they didn't know the policies were taken out on them.

For those unfamiliar with these policies, the phrases "dead peasant" and "dead janitor" are the slang terms to describe them because the policies are taken out on low-ranking employees. The policies make current and former workers worth a great deal dead to their bosses. In PGE's case, the policies benefit, to this day, the utility's top management.

The Houston Chronicle wrote:

"The Portland General fund has set aside nearly $80 million for two purposes:

- About three-quarters of the money goes for a long-term compensation plan for managers, directors and top officials.
- The rest helps pay for supplemental executive retirement payments.

This approach is used by Portland General to reward top executives with more than just their 401(k) and the traditional defined benefit pensions that are allowed by federal pension laws, which cap how much the company can contribute to the benefits."

PGE spokesman Kregg Arntson refused to reveal details of the compensation packages, saying they're "internal employee matters."

The article later says, "Scott Simms, another Portland General spokesman, said the money was put in a trust and cannot be moved to compensate employees who lost money in their 401(k) accounts. Besides, Simms said many senior executives also suffered big losses on Enron stock."

These policies provide six-figure tax-free death payoffs to companies. While employees are alive, the policies also provide tax breaks. Because several large companies buy the policies, it's been estimated that they've resulted in $6 billion a year in lost tax revenue to the U.S. Treasury. Insurance companies have marketed them as an "attractive, off-balance-sheet asset."

Ironically, these policies are illegal in Texas, where PGE's parent is located.

The Internal Revenue Service has sued several companies that bought company-owned life policies, challenging deductions for interest cost. In each case, when the companies have sued the IRS to recover the money they had to pay in back taxes, the courts have said the insurance policies were a tax dodge.