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Million-Dollar Check, Widow Got None

By ELLEN E. SCHULTZ

For years, American companies have taken out life insurance on millions of their employees, harvesting tax advantages that fatten their coffers and collecting death benefits when they die. Now, some family members are crying foul.

In the latest case, the widow of a disabled former employee of a Texas bank is suing to recover \$1.6 million in life-insurance death benefits the bank received after her husband died last year. Houston-based Amegy Bank NA took out a policy on her husband in 2002, after he had operations and radiation for brain cancer; it fired him several months later.

Amegy Bank, a unit of [Zions Bancorp](#), a Salt Lake City bank-holding company, declined to comment, saying it hadn't had a chance to review the suit.

The case provides a window on a controversial practice in which companies buy life insurance on workers, coverage that is sometimes called "dead peasant" or "janitor's insurance," referring to low-level employees whose lives are covered.

Companies contribute money to the policies, where it rises tax-sheltered and can be used to pay for a variety of company expenses. In addition, when employees, retirees and former employees die, the company receives tax-free death benefits.

A Cancer Diagnosis

In 2006 Congress limited the practice, saying firms could insure only higher-paid employees. It also required companies to obtain written consent from employees to be covered. But the new rules aren't retroactive, so the practice continues despite recent restrictions, insurance experts say.

According to the complaint, filed Monday in a Houston state court, Daniel Johnson, a credit-risk manager for Southwest Bank of Texas, a predecessor to Amegy Bank, was diagnosed with two cancerous brain tumors in 1999. He underwent two surgeries that left his speech impaired. Mr. Johnson returned to work. In 2000 the bank criticized his communication skills and job performance and demoted him, according to the suit.

In May 2001, the bank told him the compensation committee of the board of directors had selected him to be eligible for supplemental life insurance of \$150,000. The bank asked that he sign an agreement to receive the supplemental coverage and a consent form authorizing the bank to purchase an insurance policy on his life, the complaint alleges.

Four months later, the bank fired him. Mr. Johnson died in the summer of 2008, at 41. His wife, Irma Johnson, and two young children received no life-insurance death benefits because her husband's coverage was terminated when he was fired.

In December, Mrs. Johnson received a letter from the U.S. Postal Service saying that the enclosed check had been found in mail damaged during processing. The check, for \$1,579,399.10, from Security Life of Denver

Insurance Co., was payable to Amegy Bank. A Security Life representative couldn't be reached for comment. The check referenced her husband's name, which is why the post office directed it to her. According to the complaint, the bank received a replacement check for the death benefits.

The suit alleges the bank knew Mr. Johnson was cognitively impaired when it asked him to sign the agreement and consent forms, and withheld from him that the bank would receive such a large payout upon his death. Under Texas law, material omissions can constitute a form of fraud, the suit maintains, so it seeks to have the consent agreement invalidated.

"Dan was not a key employee of the bank, and by invalidating the consent form, we would remove any insurable interest in his life, and the benefits would flow to his estate," says Michael Myers, of McClanahan Myers Espey.

Suit's Demands

If the consent agreement isn't invalidated, the suit seeks to have the bank provide Mrs. Johnson with the \$150,000 in supplemental death benefits, because of a provision in the agreement that disabled terminated employees remain eligible for the benefit.

Corporate-owned life insurance, as companies call it, has landed a number of employers in court in recent years. Employees have sued employers for buying insurance on workers' lives; most cases have settled and others are pending. Meanwhile, employers have sued insurance companies for not warning them of the risks of buying the coverage. And recently, a federal judge ruled that employees have legal grounds to sue an insurance company for selling insurance on their lives.

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