



## Solve Your Deposit Dilemma & Boost Your Employee Benefits at the Same Time

November 16, 2022

Presented by:

Fred Palmer, Executive Benefits Specialist

CUNA Mutual Group

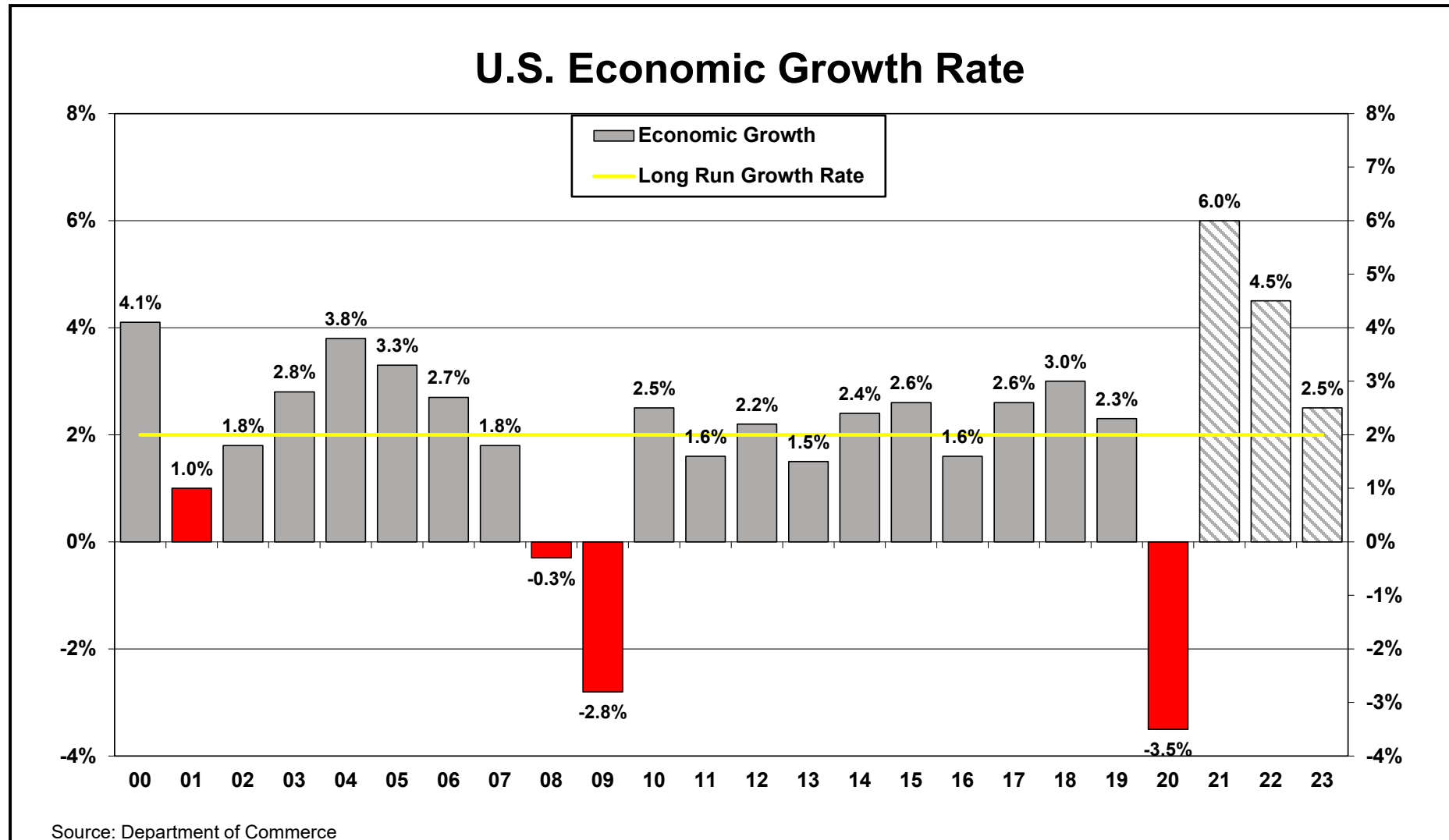
# Agenda

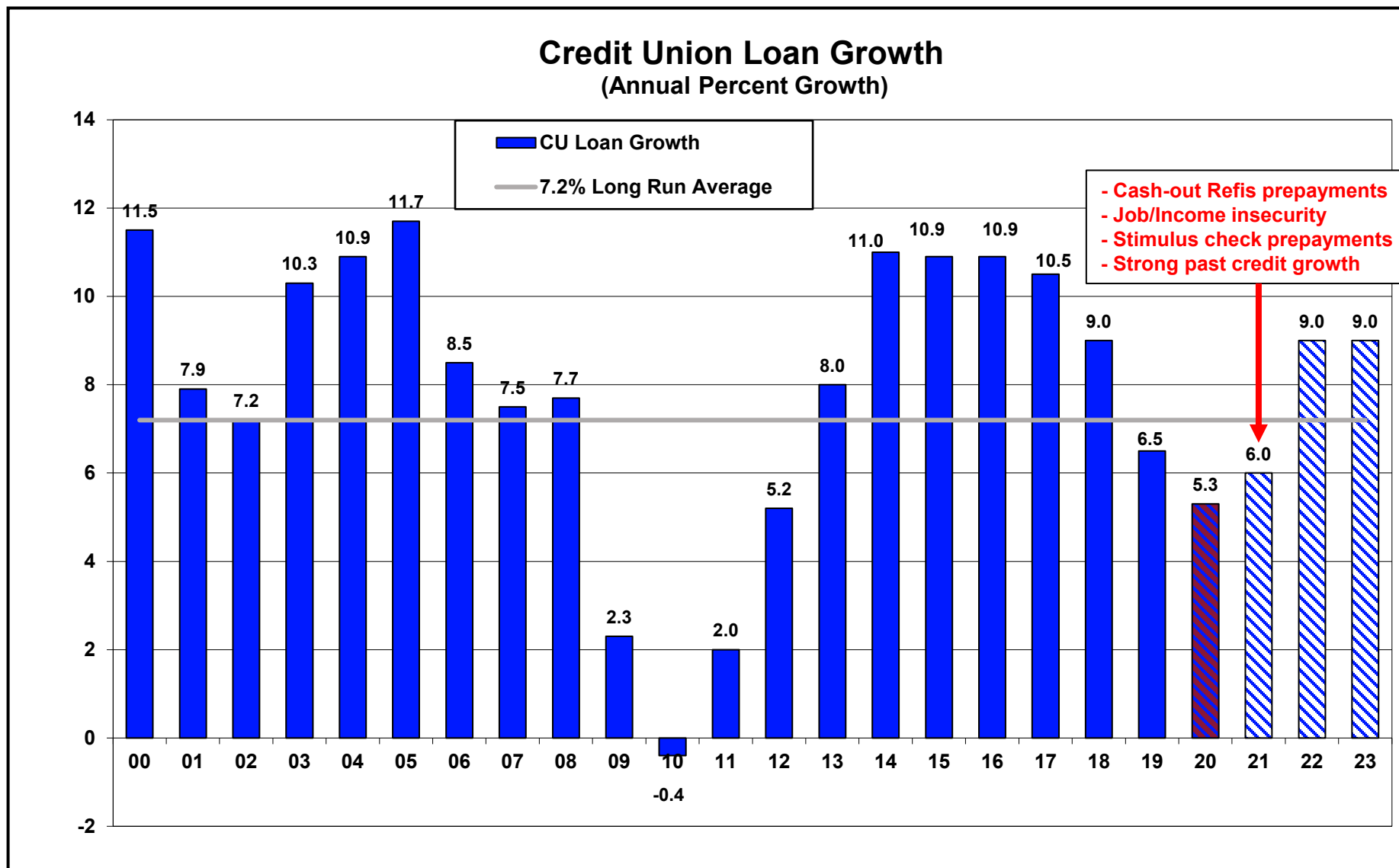
- Credit Union Economic Trends
- The deposit dilemma
- Benefits pre-funding
- Charitable donation accounts
- Funding options

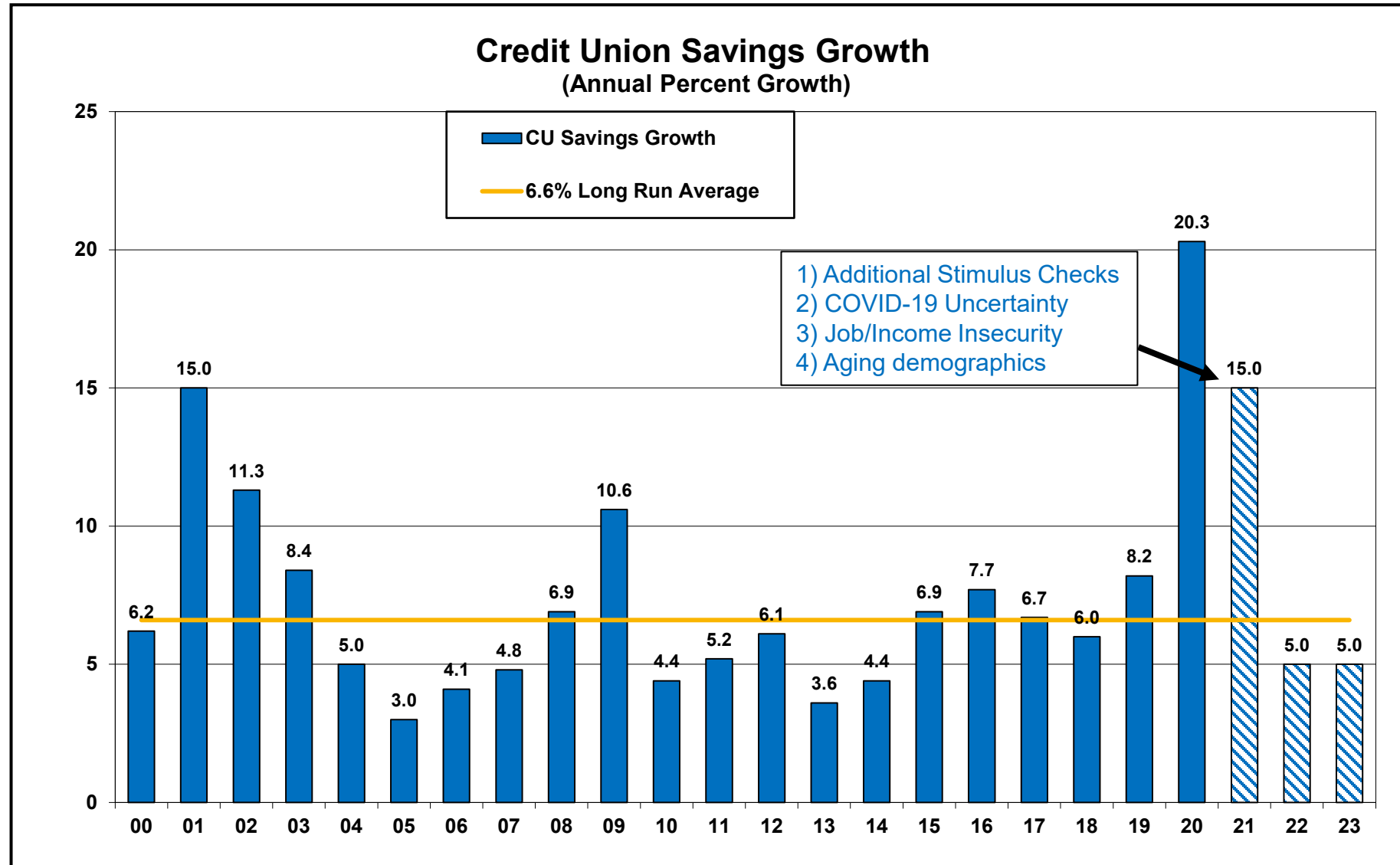
# Economic & Credit Union Update October 2021

Steven Rick, Chief Economist  
Cuna Mutual Group

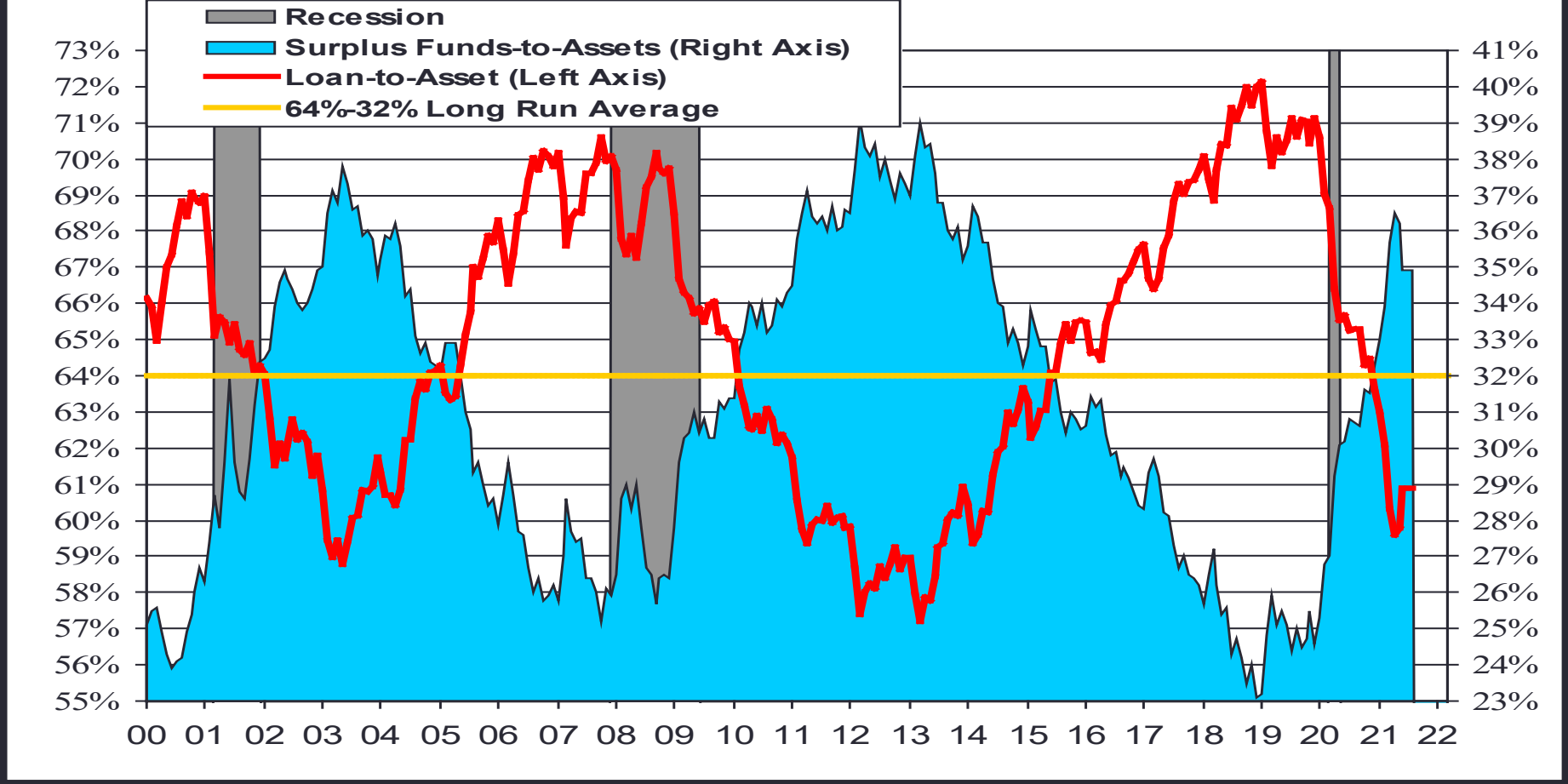
800.356.2644, Ext. 665.5454, [Steve.rick@cunamutual.com](mailto:Steve.rick@cunamutual.com)

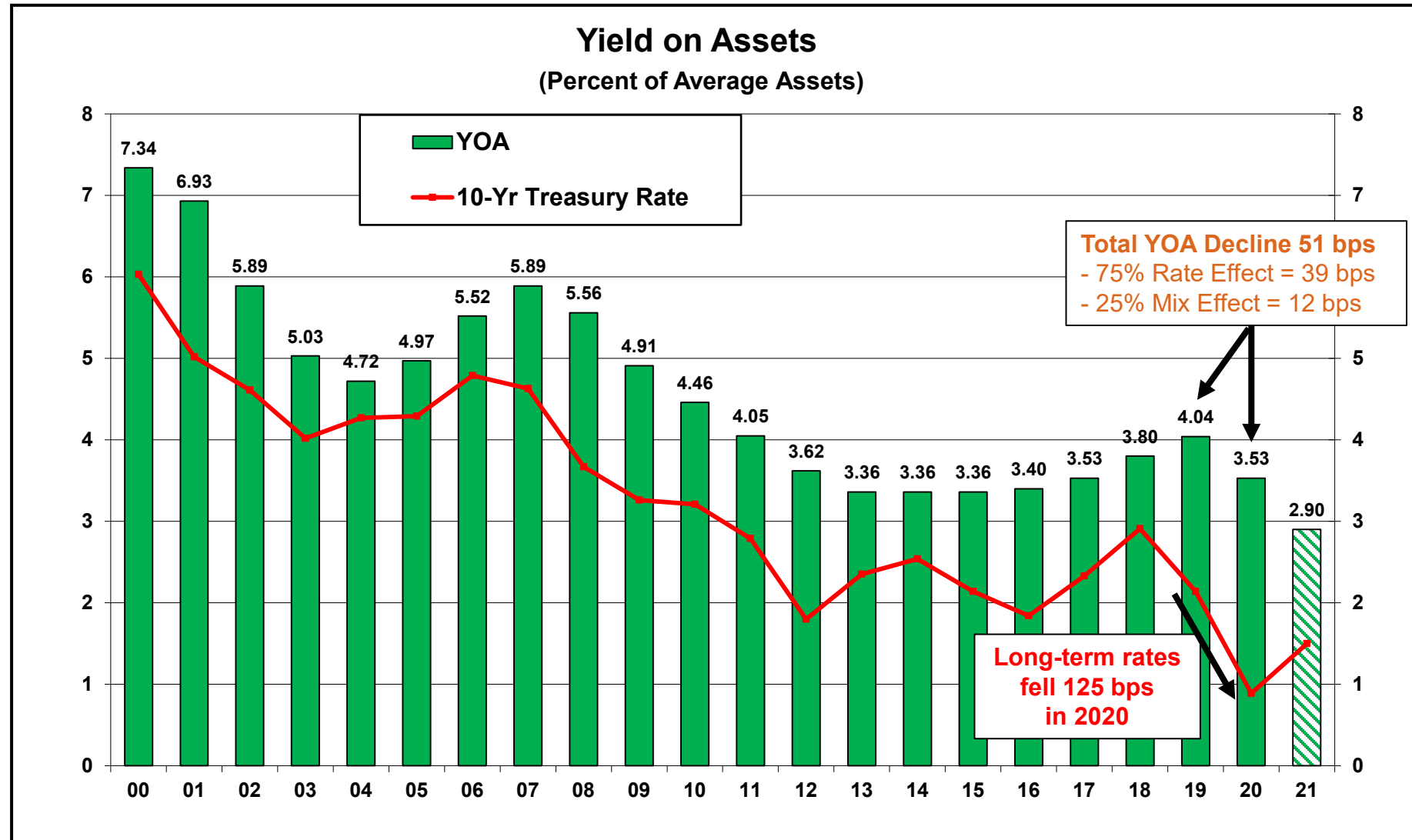




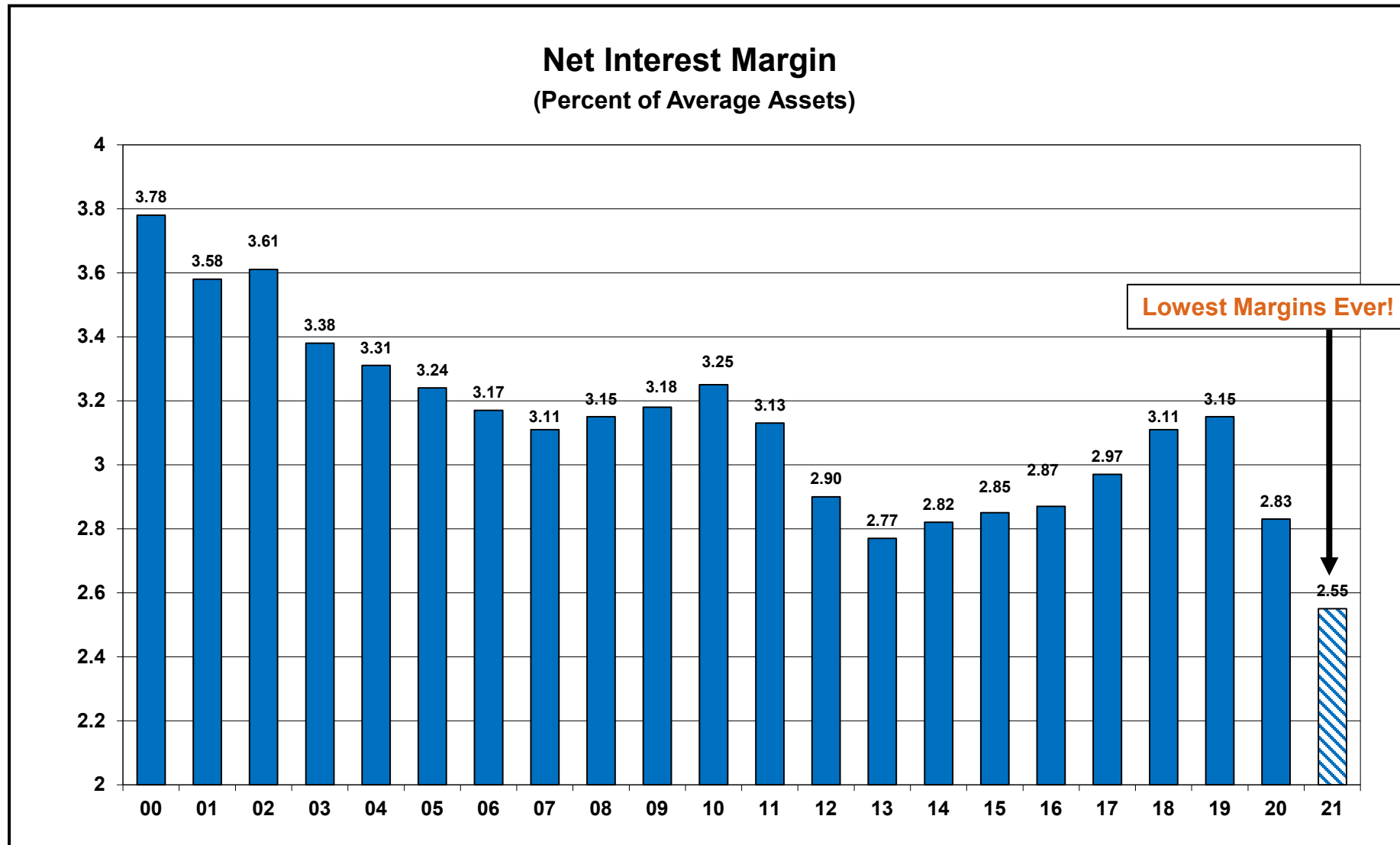


# CU Surplus Funds (Cash + Investments)









# The deposit dilemma: What to do



# Credit union market pains

- Declines in lending and fee income
- Interest rates at all-time low
- Permissible investment returns at all-time low



- Rising liquidity
- High deposits



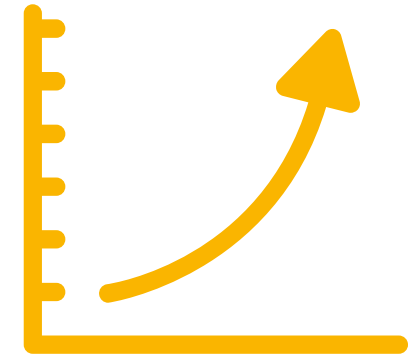
# What credit unions are doing now

Investment returns are at or near all-time lows.

- Overnight funds
- CDs are low and longer durations
- Agencies and treasuries

# Income alternatives for credit unions

- Credit unions looking to **interest income**
- Options for **better returns** on investments
- National Credit Union Administration (NCUA) and states allow **alternative sources of income**
- Investments with **consistent market-driven returns**
- **Alternate accounting** methods



# NCUA broadens investment options for specific purposes

## Benefits Pre-Funding

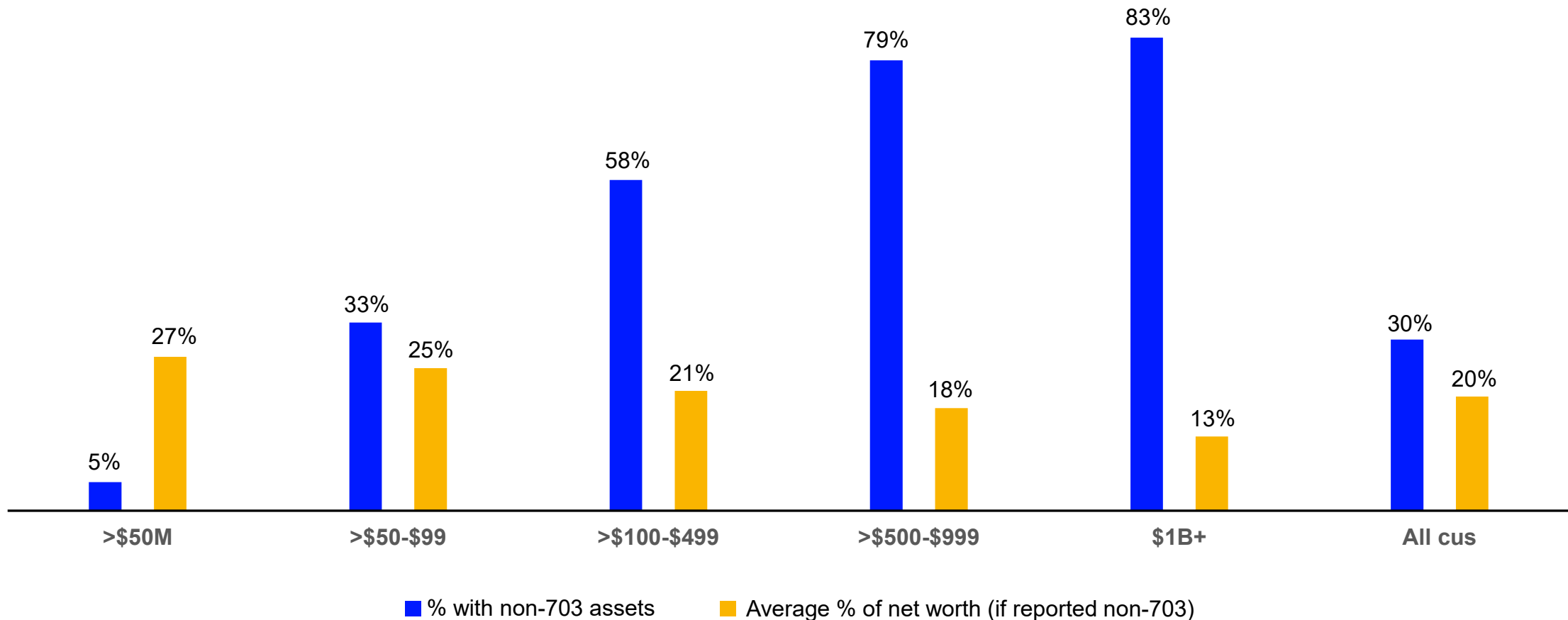
- **April 2003** – NCUA established §701.19 for **federally chartered** credit unions

## Charitable Donation Accounts

- **December 2013** – NCUA established §721.3(b)(2) for **federally chartered** credit unions
- States have followed federal rules in most cases.



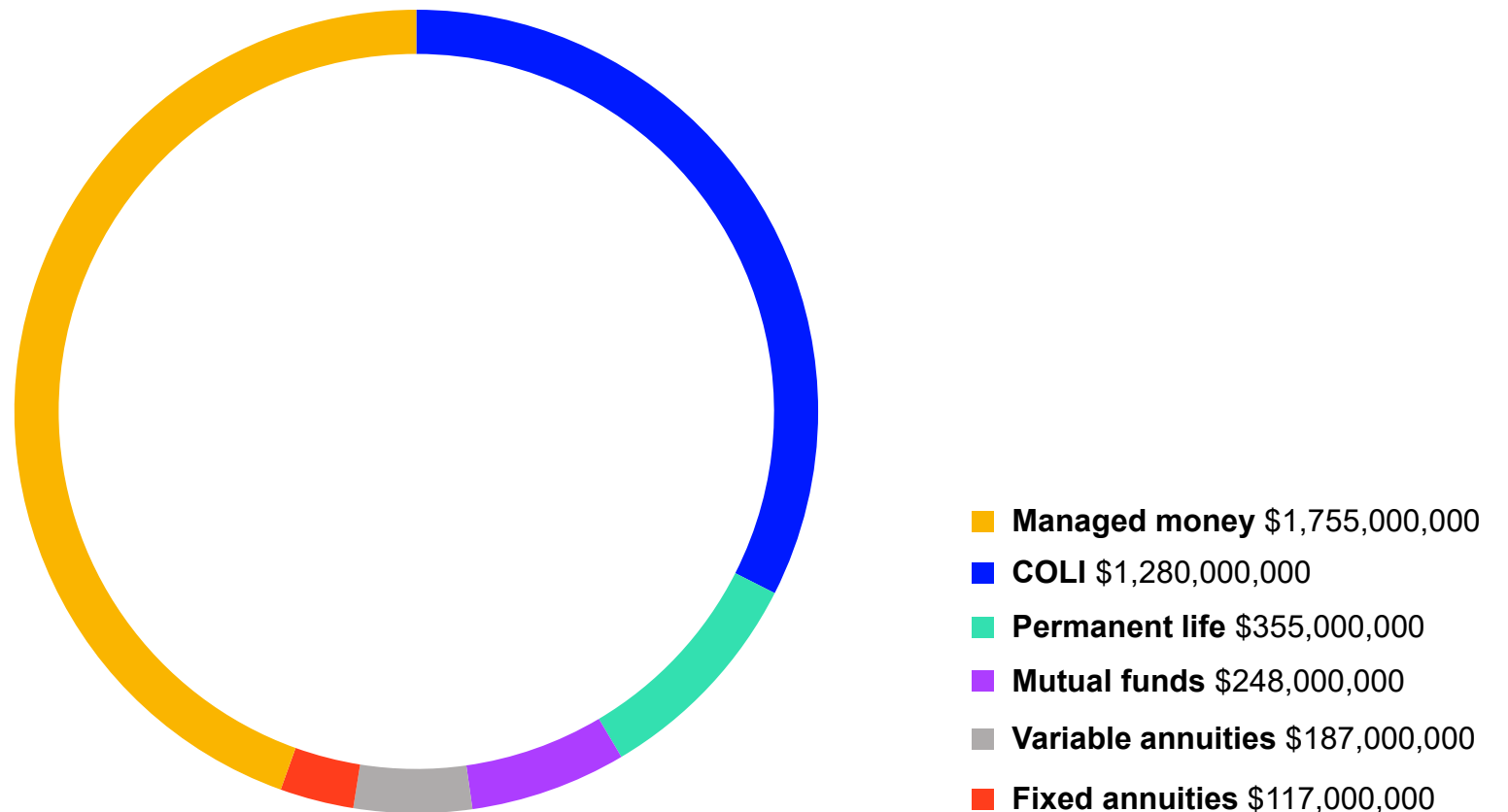
## Concentration in non-703 investments\*



# Cuna Mutual Group Executive Benefits: in-market since 1985

Currently more than  
3,800 credit union  
executives serviced

Nearly \$4B assets  
under management  
(AUM)





# About Cuna Mutual Group

We're a mutual company, so if you own one of our products, you own us.

- Mutual insurance company created by credit unions in 1935
- Offering solutions for credit union protection, executive benefits, retirement plans, TruStage Insurance, lending, AdvantEdge Digital
- Providing supplemental executive benefits solutions since products allowed in 1987
- Full spectrum of split-dollar life insurance, 457(f) and 457(b) plans for retention, reward, retirement and recruiting

# About Cuna Mutual Group

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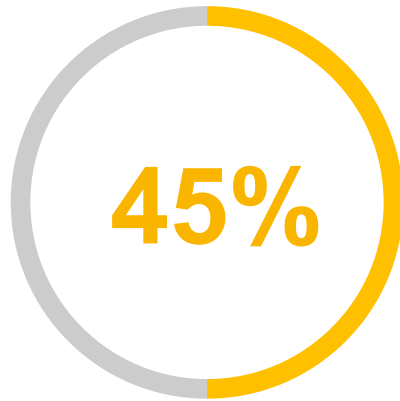
- Broadest funding options available to suit your investment philosophy and executive benefits needs
- Commenced Total Benefits Pre-Funding programs in 2003 and Charitable Donation Accounts in 2013 upon NCUA approval
- Product-agnostic solutions with education for boards and executives
- Compliance experience; continually monitoring and participating in legislative/regulatory changes



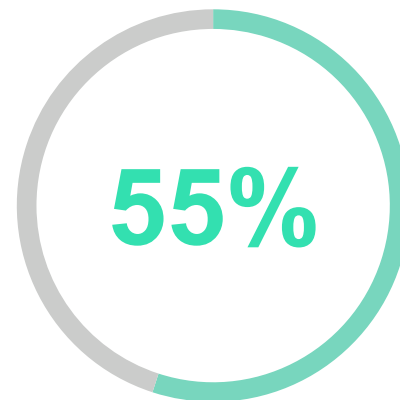
## Benefits pre-funding

- Funding must be tied to employee benefits expenses.
- Cost of employee benefits continues to rise every year.
- Desire to retain and recruit great talent.
- Desire to retain leaders.

## Why benefits pre-funding?



Employee compensation and benefits expenses account for more than **45%** of credit union operating expenses.<sup>1</sup>



Health insurance premiums for employer-sponsored plans have risen **55%** in the last 10 years, including **4%** in the past year.<sup>2</sup>

<sup>1</sup> NCUA 5300 Call Report Data, 12/31/2020

<sup>2</sup> Kaiser Family Foundation Employee Health Benefits Survey, 2020

# Total Benefits Pre-Funding (TBPF)

- The NCUA expanded investment options
- Help **offsetting costs** for employee benefits obligations, including:
  - Employee health
  - Life and disability insurance
  - 401(k) and pension plans
  - Executive benefits plans
- Increase **permissible investment options**:
  - Corporate-owned life insurance
  - Managed investment accounts
  - Annuities and other options

# TBPF advantages

Ability to:

- **Mitigate costs** for employee benefit obligations
- Help close the “**benefits gap**”
- Invest in **formerly impermissible assets**

Cuna Mutual Group focuses on:

- **Regulatory compliance**, safety and soundness
- Well-defined investment allocation to provide **broad diversification** while **reducing risk**



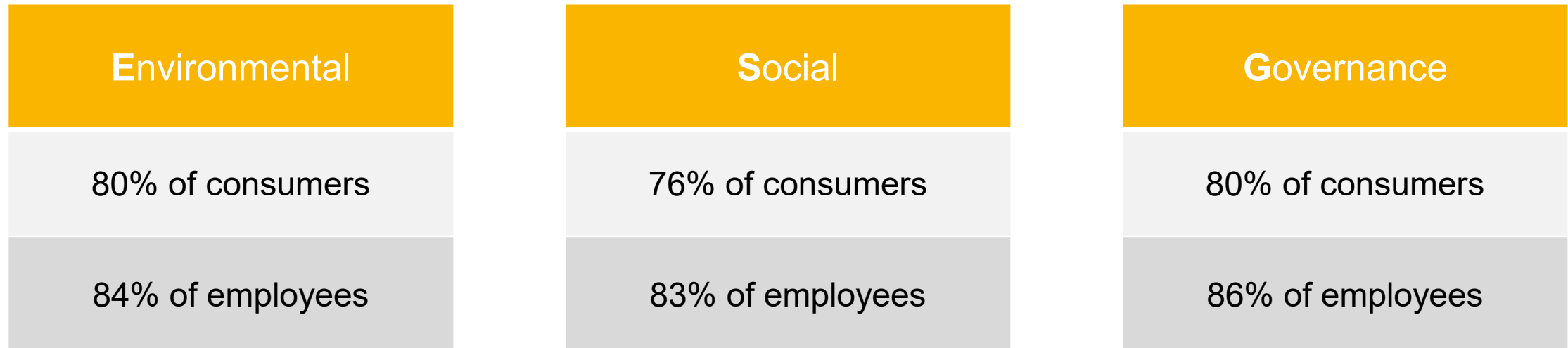


# Charitable Donation Account (CDA)

- Reflects **credit union values**
- How does your credit union demonstrate **commitment to community**?
- How can your credit union be **more strategic** about giving?

# Members and employees value ethical businesses

Percentage of survey respondents who are **more likely to buy from and/or work for** an organization that stands up for **ESG issues they believe in**.\*





# Three-tiered approach to balanced giving

## National

National Credit  
Union Foundation,  
CUs4Kids

Build the credit union  
brand

## State

League  
foundations

Extend your influence  
and name recognition

## Local

Community groups,  
schools, events,  
volunteer efforts

Engage employees in  
setting donation priorities  
for their communities



Southeastern  
Credit Union Foundation  
Charity. Community. Cooperation.



## What is a CDA?

- Allows credit unions to invest in non-703/704 investments for donations to **501(c)(3) charities**
- Invest **up to 5%** of a credit union's net worth
- Earnings to be **given away**
  - Federally chartered 51%
  - Most states adopted
- CDA must **remain at or below 5%** of net worth



## More about CDAs

- Document distribution frequency: at least every **five years** but recommended annually
- Name charity(ies)
- Document **program** or **plan policy statement**
- Separate account

# Funding options



1. Corporate-owned  
life insurance



2. Investments



3. Annuities



4. Combination

## Corporate-owned life insurance (COLI)

1. Cash value life insurance with a **generally stable return**
2. Owned by the **credit union**, so policies can insure multiple executives
3. Life insurance **not directly tied to stock market** growth or declines
4. Returns = **positive impact on income** statement



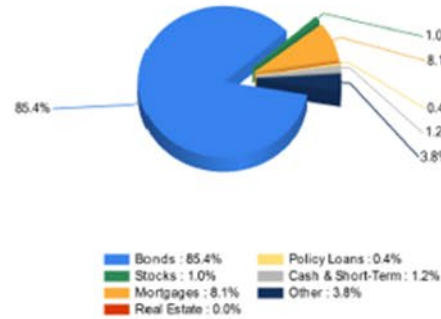
## North American and Midland National





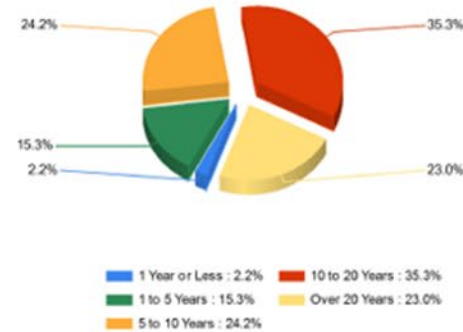
# North American Co for L&H Ins

Invested Asset Distribution



Distribution of the invested assets

Bond Maturity



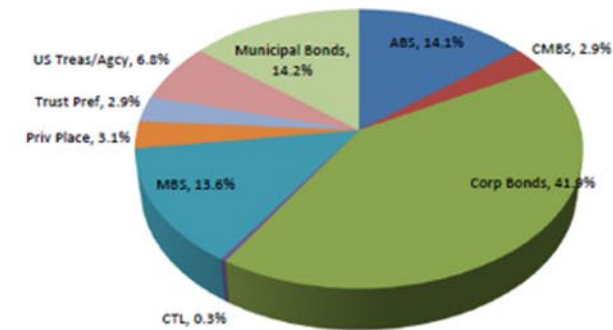
Distribution of bond maturity

## North American General Account December 31, 2020

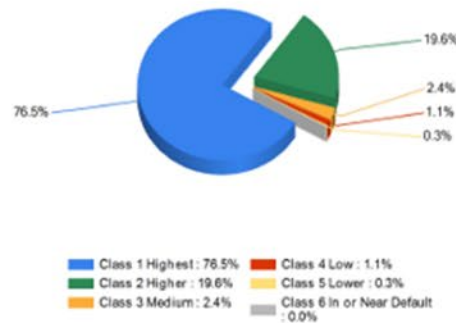
Book Value of Assets = \$1,497,822,826  
Duration = 7.16



## Asset Classes

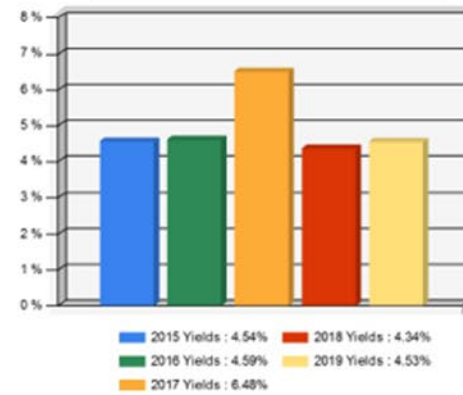


Bond Quality



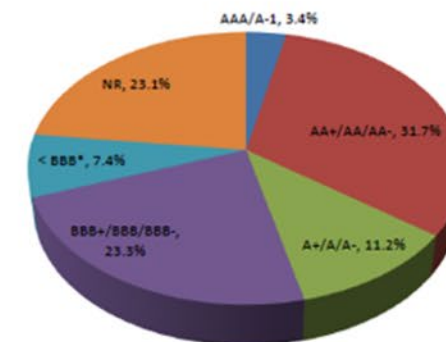
Distribution of bond classes

5 Year Investment Yields

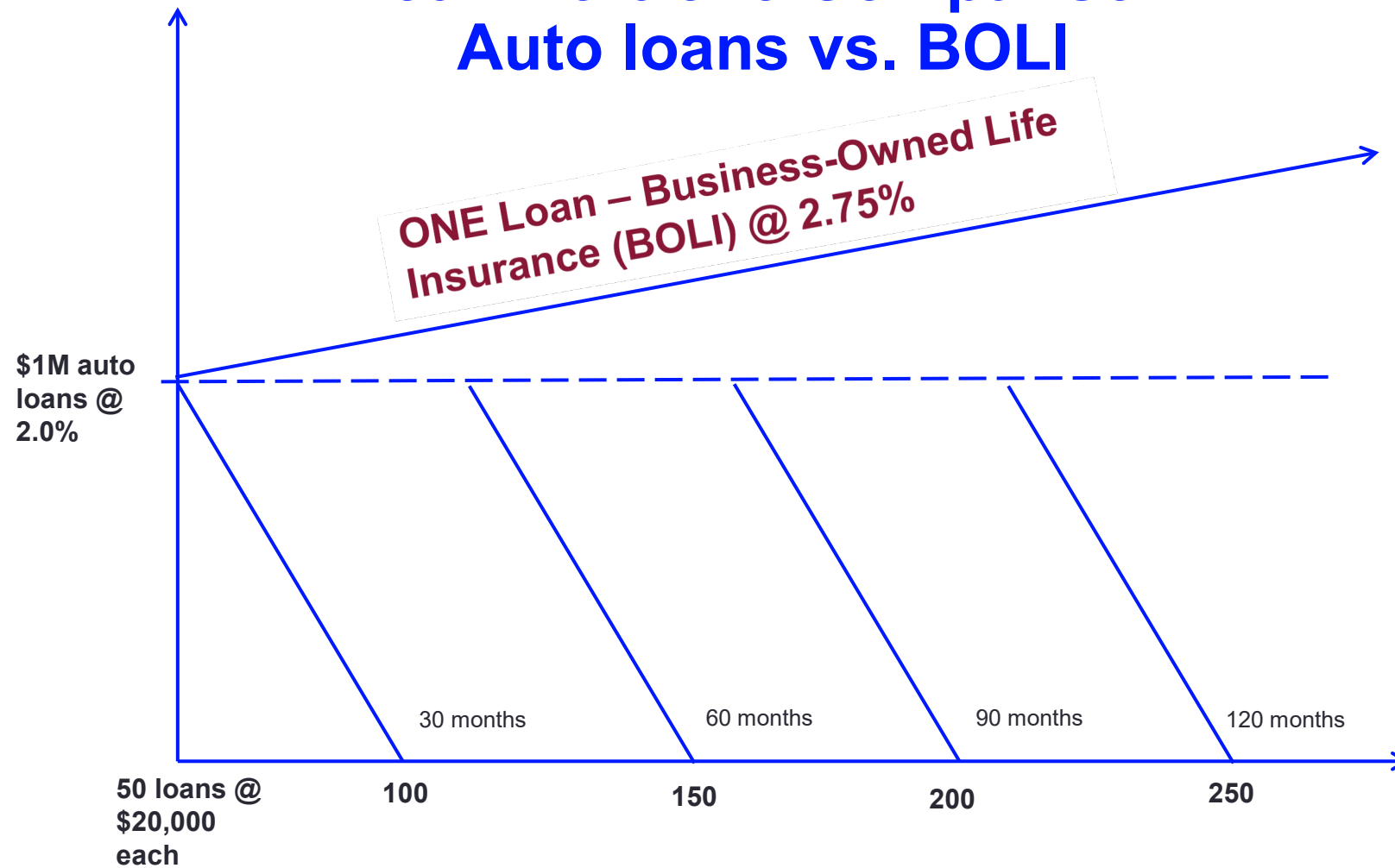


Net yield on mean invested assets

## S&P Ratings



## Loan Portfolio Comparison Auto loans vs. BOLI





# Managed investment accounts

- Professionally managed **investment portfolio**
- Can include **mutual funds, stocks, bonds and other investments**
- **Variable** Investments
- Potential to **customize** portfolio
- Understand **accounting impacts**; can be designed for more stability and income



# Benefits Pre-funding & Charitable Donation Account Examples

## Selected Financials

## Balance Sheet

	Dec 2018	Dec 2019	Dec 2020	Jun 2021
Cash On Hand	\$11,923,375	\$13,280,321	\$15,559,947	\$17,728,010
Cash on Deposit	\$29,209,521	\$23,017,269	\$91,372,439	\$117,964,131
Cash Equivalents	\$81,000,000	\$105,000,000	\$111,000,000	\$111,000,000
Total Cash and Equivalents	\$122,132,896	\$141,297,590	\$217,932,386	\$246,692,141
Investments	\$89,195,502	\$102,789,917	\$145,080,619	\$193,011,157
Loans	\$406,452,986	\$408,260,971	\$421,635,550	\$421,607,756
Other Assets	\$36,842,869	\$34,392,436	\$34,259,405	\$37,753,249
<b>Total Assets</b>	<b>\$654,624,253</b>	<b>\$686,740,914</b>	<b>\$818,907,960</b>	<b>\$899,064,303</b>
Borrowings	\$0	\$0	\$0	\$0
Other Liabilities	(\$129,584)	\$230,449	\$421,879	(\$2,664,966)
Shares and Deposits	\$554,001,841	\$576,823,099	\$699,917,703	\$777,368,065
Net Worth	\$100,751,996	\$109,687,366	\$118,568,378	\$124,361,204
<b>Total Liabilities, Shares and Equity</b>	<b>\$654,624,253</b>	<b>\$686,740,914</b>	<b>\$818,907,960</b>	<b>\$899,064,303</b>

**Key Ratios**

Yield on Investments	1.93%	2.22%	1.00%	0.60%
Loan Growth	1.47%	0.44%	3.28%	-0.01%
Yield on Average Loans	4.10%	4.33%	4.33%	4.05%
Loan / Share	73.37%	70.78%	60.24%	54.24%
Cost of Funds / Total Funds	0.74%	0.87%	0.54%	0.35%
Efficiency Ratio	62.40%	68.34%	69.31%	87.58%
Return on Assets	1.53%	1.33%	1.18%	1.35%
Net Worth / Assets	15.39%	15.97%	14.48%	13.83%
Net Worth Growth	10.73%	8.87%	8.10%	9.77%
Capital / Assets	15.78%	16.30%	14.79%	14.08%
ROE	10.18%	8.49%	7.78%	9.54%
Delinquent Loans / Net Worth	2.11%	1.74%	1.04%	0.63%

**Maximum Investment Allowed**

Loan / Share	54.24%
<u>Cash and Investments &lt; 1 Year</u>	
Cash on Deposit	\$117,964,131
Cash Equivalents	\$111,000,000
Investments < 1 Year	\$3,303,590
Total	<u>\$232,267,721</u>
Net Worth	\$124,361,204
Threshold (Total Investment)	25%
Guideline Amount	<u>\$31,090,301</u>
Assets Not Authorized under Part 703	<u>\$0</u>
<b>Remaining Threshold Amount</b>	<b><u>\$31,090,301</u></b>
<b>Maximum Investment Allowed Per Issuer: 15% of Net Worth</b>	<b>\$18,654,180</b>
% of Non 703 Assets	0.00%
NCUA Financials as of June 2021	

# Benefits pre-funding example

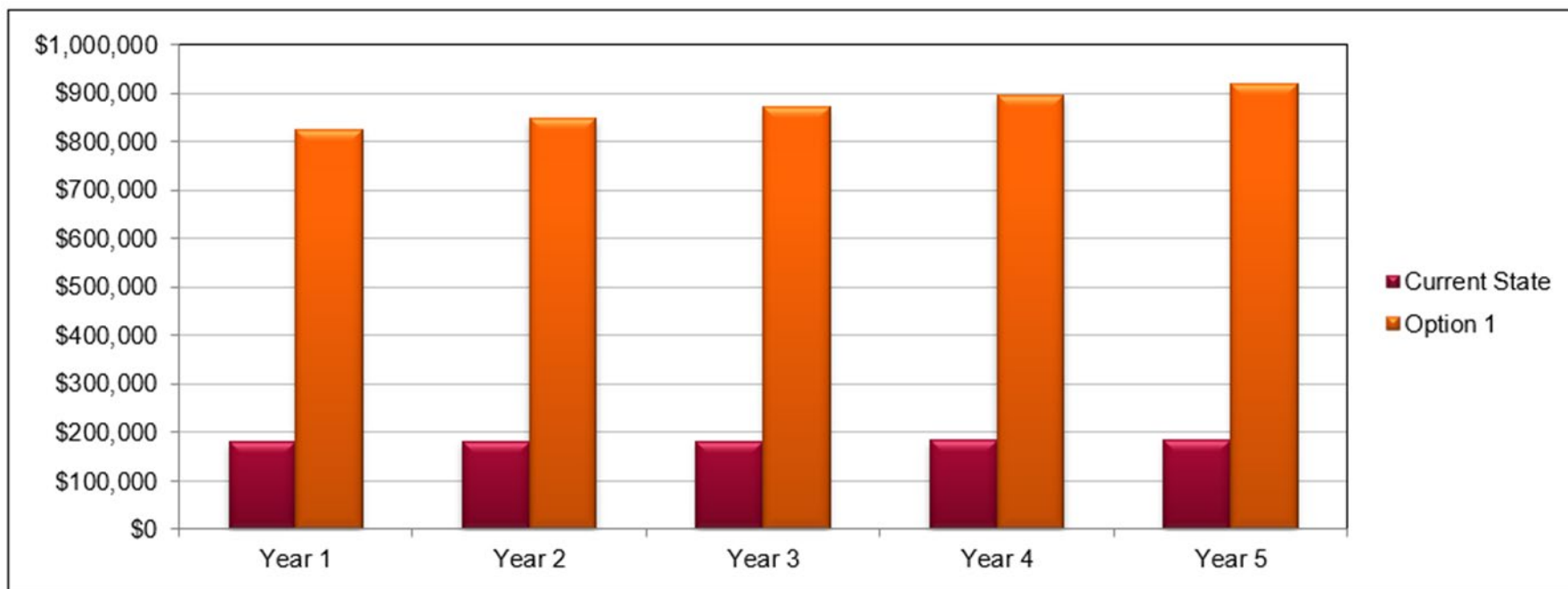
\$30,000,000 funding:

Need to use lower of 25% capital or direct related offset calculation

Current situation	After Total Benefits Pre-Funding
No change to overnight or investments	TBPF earnings = ~2.75% net = \$825,000/year
Earnings = 0.60% = \$180,000/year	\$645,000 potential incremental net positive impact (annualized)

This example uses current yield on investments and corporate-owned life insurance net returns.

	Amount	Rate *	Year 1	Year 2	Year 3	Year 4	Year 5	Total
<u>Estimated Annualized Earnings</u>								
Current State	\$30,000,000	0.60%	\$180,351	\$181,435	\$182,525	\$183,623	\$184,727	\$912,660
Option 1								
TBPf	\$30,000,000	2.75%	\$825,000	\$847,688	\$870,999	\$894,951	\$919,563	\$4,358,200
Remainder	\$0	0.60%	\$0	\$0	\$0	\$0	\$0	\$0
Investment Portfolio	\$30,000,000	2.75%	\$825,000	\$847,688	\$870,999	\$894,951	\$919,563	\$4,358,200
<u>Change from Current State</u>								
Option 1			\$644,649	\$666,253	\$688,473	\$711,329	\$734,836	\$3,445,540
<u>Impact to ROA (bp)</u>								
Option 1			8	8	8	8	9	





**Maximum Investment Allowed**

Net Worth	\$124,361,204
Maximum Concentration Limit	5%
Maximum Aggregate Investable Amount	\$6,218,060
Current Balance Reported to NCUA	\$0
Remaining Amount to Invest	\$6,218,060
Average Yield on Investments	0.60%

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 NCUA Financials as of June 2021
**Charitable Donation Account Analysis**

Maximum Investment Allowed      \$6,218,060

	Investable Amount	Average Rate of Return	Total Annual Return	Charitable Distribution Percent	Charitable Distribution Amount	Net Return After Charitable Distribution
Current State	\$6,000,000	0.60%	\$36,070	51%	\$18,396	\$17,674
Option 1	\$6,000,000	2.75%	\$165,000	51%	\$84,150	\$80,850





## Due diligence

- Document legal authority, accounting considerations and risk management
- Document evaluation of alternatives to the program and/or investments
- Regulatory reporting items
- Ongoing plan review and adjustments

## Best practices: Establish risk tolerance

1. Understand the **board's perspective** on stable returns vs. some market exposure
2. Control market exposure via **indexed products** with **downside protections**
3. Consider a **blend** of investments and corporate-owned life insurance
4. Set up a “**risk budget**” for likely and/or maximum downside investment exposure
5. Manage these assets (up to 25% of net worth) as **part of your whole portfolio of assets** (loans, investments, etc.)

## Best practices: Maximize TBPF/CDA impact

1. Manage TBPF/CDA as a long-term income source, as with lending (BONUS: TBPF/CDA also **invests in your employees and communities**)
2. TBPF: Use non-703/704 options to **add liquidity** to overall portfolio
3. CDA: Earnings over five years can help fund large, **game-changing donations**
4. CDA: Work with recipients on **sustained PR** for charitable/volunteer campaigns: both sides win
5. Establish programs, then increase funding **over time**

# First steps to TBPF/CDA success

1. **Educate key players:**  
This is a start! Now bring in other execs, board, exec/comp committee, etc.
2. **Review financials:**  
Assess your opportunity for additional gains.
3. **Vet potential providers:**  
CU experience, ratings, stable history
4. Board resolution
5. Update investment **policy statement**
6. Establish and fund accounts

# Conclusion

The solution to your deposit dilemma can also strengthen your employee benefits as well as your impact on communities in need.

Win + Win + Win



For more information

Read:

[Total Benefits Pre-Funding](#)

[Charitable Donation Accounts](#)

[A Long-Term Plan for Excess Liquidity](#)

[Reasons to Reassess Supplemental  
Executive Benefits](#)

Download eBook:

[How to Use NCUA Examiner's Guide  
for Your Benefits Funding Program](#)

# Questions?



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