

The Deposit Dilemma: What Should Credit Unions do with all the Excess Deposits?

Michael Bremer, Executive Benefit Specialist.
CUNA Mutual Group, 9/10/2021

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

1. Credit unions looking to **interest income**
2. Options for **better returns** on investments
3. NCUA and states allow **alternative sources of income**
4. Investments with **consistent market-driven returns**
5. **Alternate accounting methods**

Benefits Pre-Funding

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

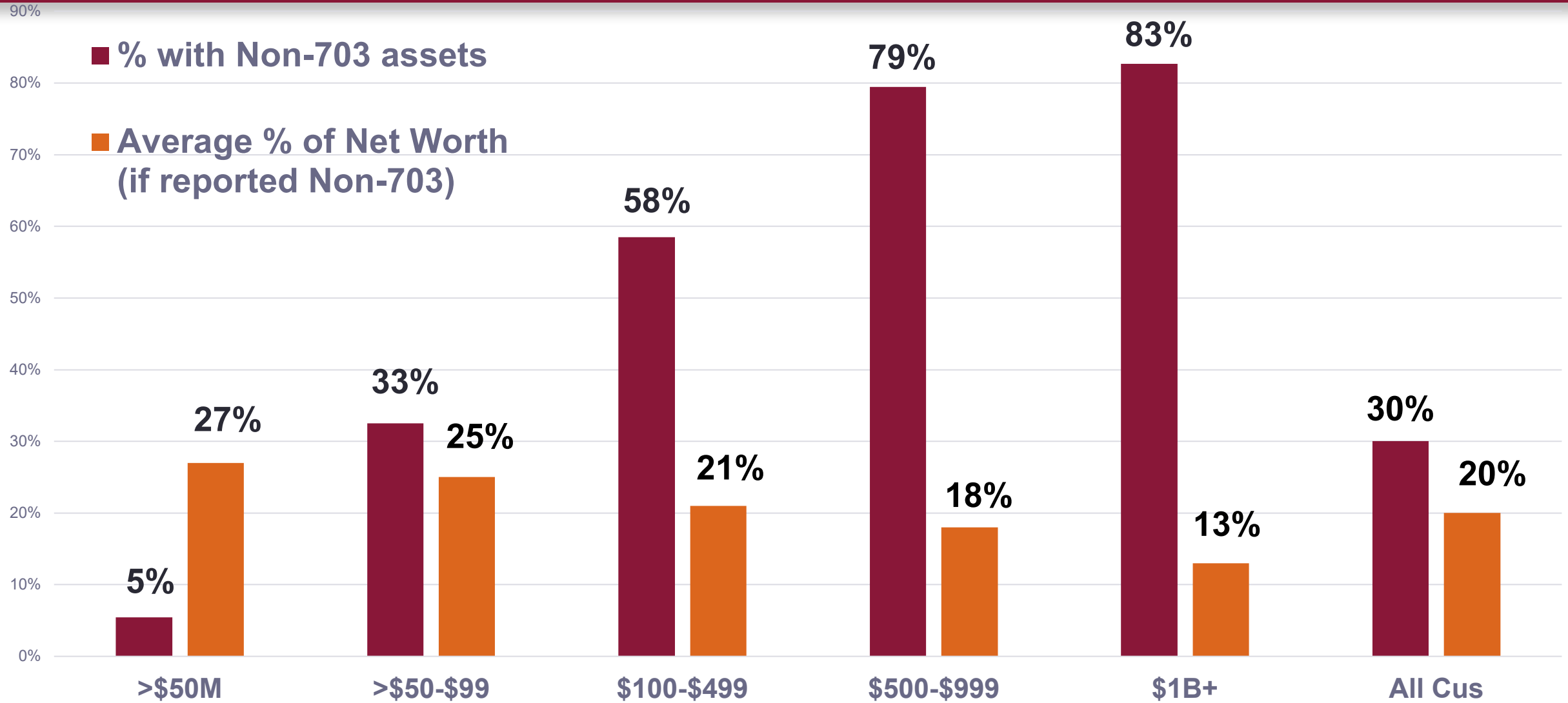
Charitable Donation Accounts

December 2013 – NCUA established §721.3(b)(2) for **federally chartered** credit unions

States have followed federal rules in most cases.

NCUA Broadens
Investment Options
for Specific Purposes

Concentration in Non-703 Investments*

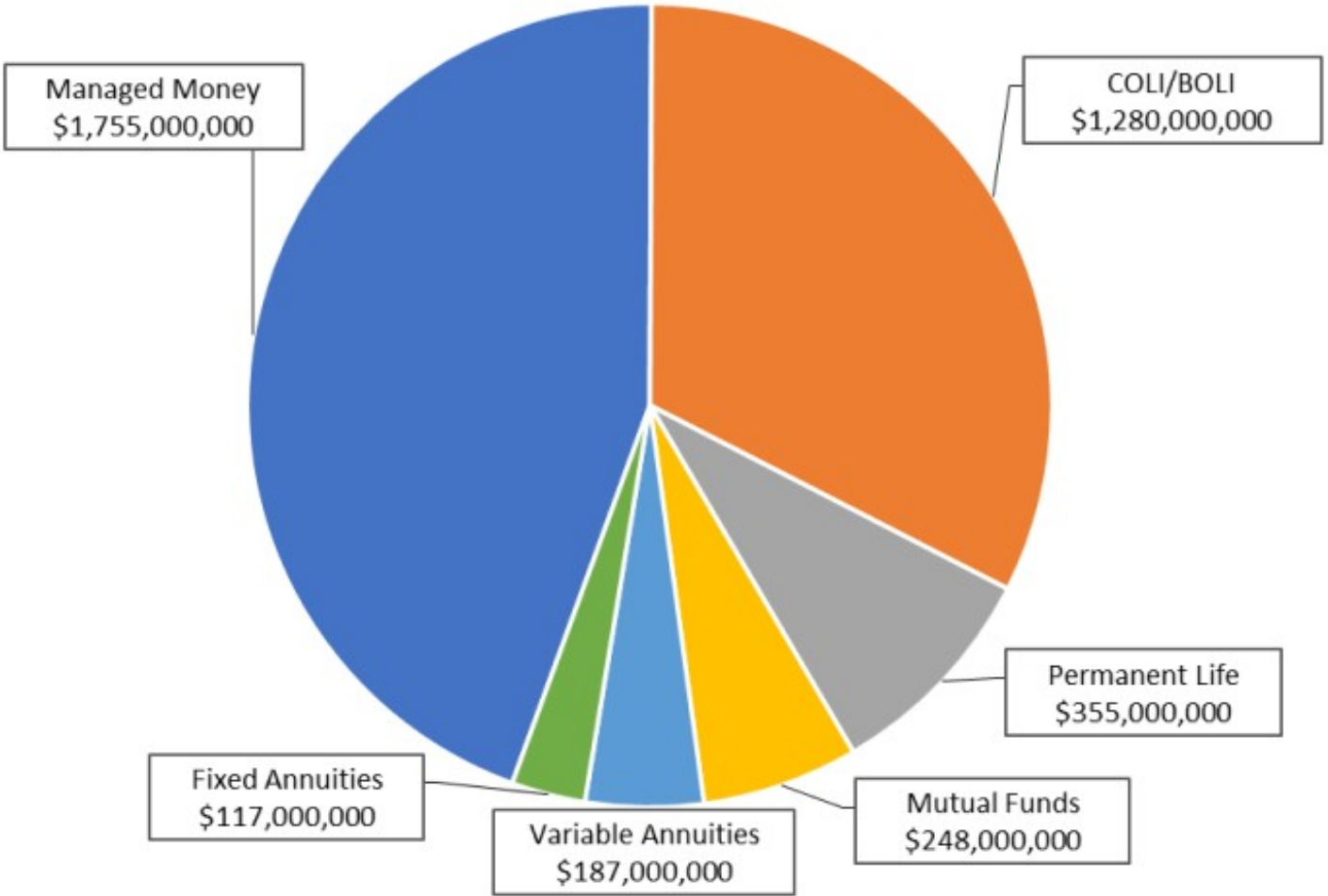


*NCUA Call Report data, 12/31/20

CUNA Mutual Group Executive Benefits: In-Market Since 1985

Currently More than 3,800 Credit Union Executives Served

Nearly \$4B Assets Under Administration



12/31/20 CUNA Mutual Group Internal Data

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

We're a Mutual
Company, so if You
Own One of Our
Products, You Own Us

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

Today's Conversation

- 1 The Deposit Dilemma 

- 2

- 3 Charitable Donation Accounts

- 4 Funding Options

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.

53%

Employee compensation and benefits expenses account for more than **53%** of credit union operating expenses.¹

55%

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

**Why Benefits
Pre-Funding?**

¹ Callahan's Credit Union Strategy and Performance, 1Q 2021

² 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
- Increases **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

- 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.***

- | | |
|-----------------------|---|
| E nvironmental | <ul style="list-style-type: none">• 80% of consumers• 84% of employees |
| S ocial | <ul style="list-style-type: none">• 76% of consumers• 83% of employees |
| G overnance | <ul style="list-style-type: none">• 80% of consumers• 86% of employees |

[*PwC Consumer Intelligence Series, June 2, 2021](#)

NATIONAL
NCUF, 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

**Three-Tiered
Approach to
Balanced Giving**

What is a Charitable Donation Account (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

What is a Charitable Donation Account (CDA)



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



Business-
Owned Life
Insurance

Investments

Annuities

Combination

Funding Options

Corporate- Owned (A.K.A. Business-Owned) Life Insurance (COLI/BOLI)

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**

Managed Investment Accounts

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

Benefits Pre-Funding Example

\$3,000,000 Funding

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

Current situation:

- No change to overnight or investments
- Earnings = 0.10%
= \$3,000/year

After Total Benefits Pre-Funding:

- TBPF earnings = ~2.80% net
= \$84,500/year
- \$81,500 potential incremental net positive impact (annualized)

This example uses estimated overnight funds rates and corporate-owned life insurance net returns.

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

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:
Establish Risk Tolerance**

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**.

**Best Practices:
Maximize TBPF/CDA Impact**

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

**First Steps to
TBPF/CDA Success**

Conclusion:

The solution to your deposit dilemma can also strengthen your employee benefits and/or your impact on communities in need.

Win + Win + Win

FOR MORE INFORMATION

Call: 800-356-2644, Ext. 665-1035

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](#)

PRESENTER

MICHAEL BREMER

Executive Benefit Specialist

CUNA Mutual Group

First.last@cunamutual.com

800.356.2644, Ext. 665-5959

Proprietary insurance is underwritten by CMFG Life Insurance Company. Proprietary and brokered insurance is sold by CUNA Mutual Insurance Agency, Inc., a wholly owned subsidiary. This insurance is not a deposit and is not federally insured or guaranteed by your credit union. For more information, contact your Executive Benefits Specialist at 800.356.2644.

Representatives are registered through, and securities are sold through, CUNA Brokerage Services, Inc. (CBSI), member FINRA/SIPC, 2000 Heritage Way, Waverly IA 50677, toll-free 866.512.6109. Insurance and annuity products are sold through CMFG Life Insurance Company. Non-deposit investment products are not federally insured, involve investment risk, may lose value and are not obligations of or guaranteed by the credit union.

TBPF-1856001.7-0321-0423