

Why Credit Union-Owned Life Insurance (CUOLI)?

Credit Union-Owned Life Insurance (“CUOLI”) is a popular financing or cost-offset tool for employee benefits.

QUESTION

Why do Credit Unions purchase CUOLI?

ANSWER

- Returns that can exceed traditional credit union investments.
- Finance employee benefit expenses such as executive benefit plans and healthcare.
- Diversify investment portfolio.
- Potential to mitigate interest rate risk and volatility.
- Access to investments that might otherwise be considered impermissible to own.

“A federal credit union investing to fund an employee benefit plan obligation is not subject to the investment limitations of the Act... and may purchase an investment that would otherwise be impermissible if the investment is directly related to the federal credit union’s obligation or potential obligation under the employee benefit plan and the federal credit union holds the investment only for as long as it has an actual or potential obligation under the employee benefit plan..”
 § 701.19 (c)—NCUA Regulations

WHY NOW?

Although past performance is not indicative of future results, currently CUOLI returns have a significant spread versus other credit union permissible investments. The cost of waiting to invest increases every day a credit union keeps funds in a low-to-no yielding asset versus using those funds for a CUOLI purchase.

HYPOTHETICAL INVESTMENT COMPARISONS (IN 000s)

	5-YEAR TREASURY \$5,000	15-YEAR MBS \$5,000	20-YEAR MBS \$5,000	CUOLI* \$5,000
Yield	1.30%	1.88%	2.30%	2.50%
Net Income	\$65	\$94	\$115	\$125

*The product associated with the CUOLI is a fixed policy.

IS CUOLI RIGHT FOR YOUR CREDIT UNION?

While all credit unions can own CUOLI, not all credit unions should. CUOLI must be suitable to the needs and situation of each individual credit union. To find out if your credit union should consider a CUOLI purchase, answer the following:

- Do you have excess cash or low-yielding permissible investments?
- Do you have benefit programs that aren’t currently directly related to a financing vehicle?
- Would your credit union benefit from an asset returning a current net yield of approximately 2.50%?
- Would your credit union benefit from a possible immediate 2–10 basis point increase in ROA; 20–80 basis point improvement in ROE?

If you answered yes to these questions, an investment in CUOLI should be explored.

For further information, please contact: John Gagnon (781.942.5700; jgagnon@bolicoli.com) or John Waters (781.942.5721; jwaters@bolicoli.com) of BoliColi.com.