Credit Union-Owned Life Insurance

Frequently Asked Questions

M Benefit Solutions®

What is Credit Union-Owned Life Insurance (CUOLI)?

Credit Union-Owned Life Insurance (CUOLI) is an efficient method for credit unions to offset the costs of employee benefit programs while potentially generating higher yields than more traditional credit union permissible investments. The policies insure the lives of key employees.

Why do Credit Unions invest in life insurance?

CUOLI is popular with credit unions as a financing or cost-recovery tool for employee benefits. CUOLI can also provide the credit union with the ability to offset expenses from existing benefit programs.

Many credit unions utilize CUOLI as an investment strategy to fund, or cost-offset, benefit programs designed to reward and retain key employees. However, CUOLI is very flexible and is not just limited to executive reward programs as it can also offset other employee benefit programs including healthcare and other group benefits.

CUOLI also offers returns that can compete favorably with the more traditional credit union investments and may potentially offer less interest rate volatility versus investments with mark-to-market concerns.

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)			
	1 10-Year Treasury $5,000	2 15-Year MBS $5,000	3 30-Year MBS $5,000	4 CUOLI $5,000
Yield	1.80%	1.80%	2.30%	3.00%
Net Income	$90	$90	$115	$150

What specific types of benefit plans do Credit Unions utilize CUOLI to fund?

Credit unions employ CUOLI for many different strategic reasons. Offsetting current, ongoing, benefit costs such as group health and welfare plans is very typical.

However, credit unions are finding it more difficult to compete for top talent. CUOLI is increasingly being employed to offset the costs of retention, reward and retirement strategies for key executives of credit unions. These programs include Split Dollar, §457(f) and §457(b) retirement plans and shorter-term incentive and bonus plans.

What are the regulations regarding CUOLI?

The National Credit Union Administration (NCUA) allows for the purchase and holding to maturity of CUOLI products if it complies with §701.19 of NCUA's rules regarding benefits for Federal Credit Union employees. CUOLI may recover the cost of the employee benefit and the cost of the funding for that benefit.

Specifically, section (c) of §701.19 states:

> *(c) Investment authority. A federal credit union investing to fund an employee benefit plan obligation is not subject to the investment limitations of the Act and part 703 or, as applicable, part 704, of this chapter 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.*

How are the insurance policies underwritten?

There are different ways that CUOLI policies are underwritten and how they are offered depends on several factors. CUOLI policies may be underwritten as Guaranteed Issue (GI), Simplified Issue (SI) or Medically/Fully Underwritten.

Guarantee Issue underwriting offers insurance without an applicant providing detailed medical history or requiring any physical medical test or exam with some general guidelines including minimum number of lives in the census, a maximum age of insured and the amount of insurance allowed on each insured.

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How are the insurance policies underwritten? *(Cont.)*

Simplified Issue underwriting is offered if a credit union can't qualify for GI. Simplified Issue may allow for lower minimum lives and can have higher maximum ages but usually employees will need to provide a more detailed medical history and, in some cases, may need their physician to submit a form.

Medically, or Fully, Underwritten policies require medical and personal history information as well as some sort of medical screening. Normally, this involves a paramedical exam to determine height, weight and blood pressure. Further tests may be done, such as an EKG, urine or blood analysis.

What product types are available?

Within CUOLI there are generally two product options available, General Account and Separate Account. General Account assets are held in the "general account" of the carrier. With Separate Account products, the policyholder determines the investment strategy and assets are held in a "separate account."

	1 General Account	2 Separate Account
Portfolio Comparisons	Typically, high-quality corporate bonds and collateralized mortgages.	Same as General Account, however, depends on portfolio selected.
Returns	Crediting rate declared periodically. Depends on underlying general account yield.	Based on yields of underlying assets in portfolio.
Guaranteed Rates	Typically range from 1–3%	No guaranteed minimum crediting rates.
Investments and Investment Risk	Investments contained in carrier's general account. Carrier makes all investment decisions. Typically, inherit less earnings volatility.	Policyholder chooses asset managers and investment strategy subject to stable value restrictions. Allows greater investment strategy flexibility. Typically, experience more earnings volatility depending upon asset class.
Accounting	Cash surrender values pursuant to ASC 325 (FAS 85-4).	Mark-to-market cash surrender values pursuant to ASC 325 (FAS 85-4).
Credit Risk	Full exposure to general account. Credit risk of underlying asset default borne by carrier.	Market value of assets protected from general creditors of insurance company. Credit risk of underlying asset borne by policyholder.

NOTE

*Within separate account products funds can typically still be invested in a carrier's general account.

What is the typical makeup of a carrier's general account?

Note that every carrier's investment strategy is different but, typically, the general account portfolio predominantly consists of investment-grade bonds and mortgages. According to SNL Financial as of year-end 2011, life insurance carriers investment portfolio consisted of 77.5% bonds and 9.9% mortgage loans. 36% of the bond portfolio had maturities less than 5 years; 44% had maturities between 5 and 20 years; and 20% had maturities greater than 20 years.

Note that due to volatility, common stock and other equity investments are limited in the general account and last year comprised less than 5% of the overall investment portfolio for carriers.

How do you report CUOLI for Call Report or Regulatory Financials Purposes?

The CUOLI net cash surrender value as of the balance sheet date should be reported as an Other Asset.

The net earnings (losses) on, or the net increases (decreases) in, the life insurance assets should be reported on the income statement as "Other noninterest income."