



A PRIMER ON CREDIT UNION-OWNED LIFE INSURANCE

The single source for your total executive benefit needs

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Disclosure Information

This material is intended for informational purposes only and should not be construed as legal or tax advice and is not intended to replace the advice of a qualified attorney, tax advisor or plan provider.

A PRIMER ON CREDIT UNION-OWNED LIFE INSURANCE

OVERVIEW

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

REASONS TO BUY CUOLI

There are a large variety of reasons credit unions purchase CUOLI:

- Ability to efficiently generate gains to offset costs associated with current and future employee benefits programs
- Products are institutionally priced and designed specifically for financial buyers
- Products are generally immediately accretive to earnings
- Has the potential to offer less interest rate volatility when compared to investment that mark to market
- Risks are within the standard business risks of a credit union's investment portfolio
- No surrender charges
- Diversifies investment portfolio
- Ability to immediately increase ROE and ROA

Past performance is not indicative of future results, however CUOLI has historical returns with significant spreads versus other credit union permissible investments. CUOLI is very flexible and is not just limited to the creation of executive reward programs as it can also offset other employee benefit programs including healthcare and other group benefits. Every day that funds are kept in low-to-no yield assets is money lost compared to the benefits of putting those funds to work in a CUOLI purchase.

	HYPOTHETICAL INVESTMENT COMPARISONS (IN 000 \$)			
	1	2	3	4
	5-YEAR TREASURY \$5,000	15-YEAR MBS \$5,000	20-YEAR MBS \$5,000	CUOLI \$5,000
Yield	1.69%	1.91%	2.34%	3.33%
Net Income	\$84.5	\$95.5	\$117	\$166.5

Investment yield source: U.S. Department of the Treasury and Bloomberg Finance

Investment yield date: 12/31/2019

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PREVALENCE

As of December 31, 2019, an estimated 831 credit unions nationwide reported CUOLI cash surrender values on their regulatory filings. Approximately 36% of credit unions with assets between \$100 million and \$1 billion own CUOLI.

ASSET SIZE	TOTAL CREDIT UNIONS	CREDIT UNIONS WITH CUOLI		AVERAGES FOR CREDIT UNIONS WITH CUOLI*				
		1	2	3	4	5	6	7
		#	%	ASSETS \$	CAPITAL \$	CUOLI CSV \$**	% CUOLI TO CAPITAL	% CUOLI TO ASSETS
> \$10B	8	2	25%	\$37,019,103	\$4,139,110	\$461,766	11.0%	1.2%
\$5–\$10B	31	8	26%	\$6,601,231	\$895,999	\$40,460	4.5%	0.6%
\$1–\$5B	298	144	48%	\$1,938,391	\$232,221	\$16,658	7.2%	0.9%
\$500M–\$1B	254	110	43%	\$1,464,850	\$171,252	\$18,859	11.1%	1.3%
< \$500M	4,738	567	12%	\$580,069	\$70,095	\$11,023	17.5%	2.4%
	5,329	831	16%					

Source: SNL Financial LLC. Contains copyrighted and trade secret material distributed under license from SNL. For Recipient's internal use only.

**Numbers in thousands.*

***Estimated.*

HOW IT WORKS

A credit union purchases the life insurance with either a single premium, or a series of annual premiums, on a select group of key employees. The credit union is the owner and beneficiary, although some credit unions opt to share a portion of the insurance proceeds with the participants. The cash value growth within a CUOLI policy produces a return greater than the opportunity cost, or what the credit union would have made in an alternative investment and is used to offset the costs of employee benefit programs.

CUOLI is a long-term asset and, when properly implemented and administered, offers the credit union a highly rated investment option. It has specific accounting considerations which are covered below.

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ACCOUNTING CONSIDERATIONS

What Are the Accounting Premium and Cash Values Entries for CUOLI?

The credit union will account for the life insurance as specified by ASC 325-30, “Investments in Insurance Contracts.” The difference between the premiums paid in any year and the increase in cash surrender value for the policy during that year is a direct charge or credit to the corporate earnings, depending on the relative values.

Upon implementation of the life insurance, the Credit Union will pay the insurance premium and record a prepaid asset for the amount of gross premium paid, as follows:

	1	2
	DEBIT	CREDIT
Insurance Assets—Prepaid Premiums	XX	
Cash		XX

What Are the Quarterly Accounting Entries for CUOLI?

At the end of each quarter, the credit union will reverse a portion of the prepaid asset entry and record an insurance asset, reflecting the increase in cash value during the quarter. The first quarter after the premium payment will reflect the biggest cash value increase due to the premium being deposited. The difference between the premium paid and the cash value increase is a gain or loss (depending on fund performance) and will be reflected as a debit or credit to **Gain/Loss from Insurance**.

The entry for “gain” quarters is:

	1	2
	DEBIT	CREDIT
Insurance Assets—Prepaid Premiums	XX	
Cash		XX

The accounting entry for “loss” quarters will be:

	1	2
	DEBIT	CREDIT
Insurance Assets—Cash Values	XX	
Gain/Loss From Insurance	XX	
Insurance Asset—Prepaid Premiums		XX

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ACCOUNTING CONSIDERATIONS

What Are the Accounting Entries for Proceeds on Death with CUOLI?

When a death occurs, The Credit Union will write off all existing balances related to that specific insurance policy. The gross face amount of the insurance policy will be received as cash by The Credit Union. The difference between the cumulative insurance asset previously accrued and the gross face amount of the policy is reflected as an additional gain to The Credit Union. This entry would be recorded as follows:

	1	2
	DEBIT	CREDIT
Cash	XX	
Insurance Asset—Prepaid Premiums		XX
Insurance Assets—Cash Values		XX
Gain/Loss From Insurance		XX

REGULATIONS

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.

REPORTING

Since March 2013 CUOLI assets have been reported in a separate section of the credit union's call report as required by the NCUA's letter 12-CU-12. This reporting occurs in Section 20 of the call report. Section 20 outlines all §701.19(c) securities, investment, and insurance products used to offset the credit union's benefit plan expenses. To aid in differentiating the nature of the CUOLI and whether it is offsetting an expense or represents a direct benefit, the call report differentiates between collateral assignment split dollar, endorsement split dollar, and other insurance arrangements. All new purchases of CUOLI will appear on the next quarter's call report after the plan has gone into effect.

ABOUT BOLICOLI.COM

BoliColi.com is an independent firm offering Executive and Director benefit services. Our comprehensive work addresses all facets of nonqualified benefit plans including design, installation, financing, securitization, compliance, and administration.

We work closely with clients and their advisors to define objectives, identify the best products to fit their needs, and manage their portfolios over the long term.

With years of experience working with public and private companies and long-standing relationships with leading life insurance companies, BoliColi.com is uniquely positioned to deliver differentiated solutions consistent with the objectives of our clients.



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