

NCUA Examiner Guidance: Employee Benefit Plans and Plan Investments

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A DIVISION OF
Gallagher Benefit Services, Inc.

Examiner Guidance



Reasonable Retirement Benefits



Reasonable Retirement Benefits

- Compensation surveys



Reasonable Retirement Benefits

- Compensation surveys
- Size and financial condition



Reasonable Retirement Benefits

- Compensation surveys
- Size and financial condition
- Duties



Direct Relationship Test



Direct Relationship Test

Determine benefit costs
(typically annually)



Direct Relationship Test

Predictable return over
time horizon of benefit



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Direct Relationship Test

Return < Projected costs



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Direct Relationship Test

Split dollar predictability from
interest rate, not policy



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Direct Relationship Test

Exception: assets fully matching
corresponding liability



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Direct Relationship Test

Primarily equity/commodity
investments generally not suitable



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7 Risks











Accounting

SP BFB

The slide features the word "Accounting" in a large, dark blue font centered on a white background. At the bottom, there is a blue horizontal bar containing the "SP" logo on the left and the "BFB" logo on the right. The entire slide content is enclosed in a thin black border.

Accounting

- GAAP



Accounting

- GAAP
- Loan regime split dollar reporting:
report receivable



Accounting

- GAAP
- Loan regime split dollar reporting:
report receivable
if recourse, origination value



Educational Materials



Educational Materials

- Senior executive benefit plans



Educational Materials

- Senior executive benefit plans
- Common insurance products



10-Step Example of Pre-Purchase Due Diligence



10-Step Pre-Purchase Due Diligence

Identify the need



10-Step Pre-Purchase Due Diligence

Ensure appropriate amount and direct relationship test (FCUs)



10-Step Pre-Purchase Due Diligence

Determine economic benefits and appropriate investment type



10-Step Pre-Purchase Due Diligence

Analyze according to “multiple scenarios”
(i.e., stress testing)



10-Step Pre-Purchase Due Diligence

Assess vendor qualifications



10-Step Pre-Purchase Due Diligence

Vendors may provide extensive and critical service – look at vendor infrastructure



10-Step Pre-Purchase Due Diligence

But CU internal judgment, review, and understanding required or risk of divestiture



10-Step Pre-Purchase Due Diligence

Review the characteristics of insurance products



10-Step Pre-Purchase Due Diligence

Review the characteristics of **non-**insurance products



10-Step Pre-Purchase Due Diligence

Select a counterparty, with independent credit analysis



10-Step Pre-Purchase Due Diligence

Analyze risks and ability to monitor



10-Step Pre-Purchase Due Diligence

Evaluate alternatives



10-Step Pre-Purchase Due Diligence

Make and **document** the investment decision



Post-Purchase Due Diligence



Exam Procedures



Safety and Soundness



Compliance with Federal Law (for FCUs)



Employee Benefits



Employee Benefits

Field staff will review list of benefits, participants, minutes, employee manuals, etc.



Employee Benefits

Details of changes of benefits
since last exam



Employee Benefits

Did the board quantify
employee benefit costs?



Employee Benefits

Can the CU afford the new benefits?



Employee Benefits

Are the kind and amount of benefits reasonable?



Investments Funding Benefits



Investments Funding Benefits

Field staff will review minutes, call reports, financial statements



Investments Funding Benefits

Type and risks of investments



Investments Funding Benefits

Ensure pre-purchase analysis
was adequate



Investments Funding Benefits

Ensure post-purchase analysis is performed at least annually



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Investments Funding Benefits

Single non-gov. obligor $\leq 15\%$
36-month transition period



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Investments funding benefits

Sufficient mitigating factors if over 15%?



Investments Funding Benefits

Review non-investment-grade investments – $\leq 25\%$



Investments Funding Benefits

Verify insurable interest



Investments Funding Benefits

Confirm §701.19 standards

- Employee benefit plan
- Direct relationship



Expanded Scope If Investment-Grade Investments > 25%



More Weight on Internal Analysis



More Weight on Board Responsibility



“Zero-Cost Proposals”
Evaluate **All** Costs



Determine If Board Due Diligence Was Adequate



Adequate Due Diligence re:

Third-party providers



Adequate Due Diligence re:

Investment options and risks



Adequate Due Diligence re:

Compliance and legal risks



Adequate Due Diligence re:

Exit strategies



Adequate Due Diligence re:

Proper documentation

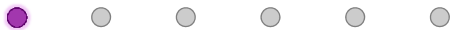


Review Ongoing Oversight



Review Ongoing Oversight re:

Recently purchased products



Review Ongoing Oversight re:

Significant changes in performance or credit quality



Review Ongoing Oversight re:

Investments that do not comply with policy



Review Ongoing Oversight re:

Concentration limit status



Review Ongoing Oversight re:

Benefits for retirees



Review Ongoing Oversight re:

Exit strategies for policies tied to terminated employees



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Additional board reviews (e.g., for material changes in strategy, performance or carrier)

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Thank you!



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Save the date! Thursday, November 30, 2:00 pm–3:00 pm ET
Executive Benefits: Split Dollar Plan Design
Register at www.nafcu.org/BFB



BFB Gallagher is the NAFCU Services Preferred Partner for Executive Benefits and Compensation Consulting. More educational resources are available at www.nafcu.org/BFB.



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