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How To Pass NCUA Exam Of Benefits Funding

October 29, 2018



By John Pesh

4 minutes

Four precautions can prevent common exam complications.

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(This is the final article in a four-part series about funding a credit union employee/executive benefits program, based on guidance from the [online NCUA Examiner's Guide](#). Read [part one here](#), [part two here](#), and [part three here](#).)

When it's time to open your books regarding your employee/executive benefits program funding to NCUA or state examiners, the [online NCUA Examiner's Guide](#) can be an outstanding resource. By using this guide, credit unions can better prepare and avoid certain common errors that complicate examinations.

To make sure you're ready for your next examination, avoid these errors by taking these four precautions:

1. Have basic documentation for investments readily available.

In addition to providing examiners a list of the employee and executive benefits your credit union provides, you should be ready to present additional documentation, detailed in the section, "[Investments That Fund Employee Benefit for Federal Credit Unions](#)," which can include:

- board minutes
- audit reports
- 5300 Call Reports
- investment schedules and reports, such as management contracts, executive compensation plan agreements, insurance policy contracts, etc.



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- employee benefits policies, such as your policy for investments that fund employee benefits, which should include controls and limitations regarding investments that are permissible only for offsetting employee/executive benefits costs
- employee manuals
- financial statements for liabilities and other obligations, such as post-retirement benefits

2. Carefully follow the pre-purchase analysis steps before acquiring investments for employee benefits that are otherwise impermissible for credit unions.

If you follow the 10 steps in the guide section, "[Pre-Purchase Analysis of Employee Benefits Investments](#)," it's very much like taking an open-book test. Examiners often want to see the level of a credit union's due diligence before purchasing these investments.

But here's the catch: You can't wait for the examination to open this book and document that you followed the correct steps.

The first two steps of this section, in fact, help you decide whether such an investment is necessary or appropriate.

Step 1: Identify the need for the investment. The guide states: "A credit union should determine if it actually warrants making an investment by first identifying the actual or potential benefit it seeks to fund (for example, deferred compensation agreement, post-retirement benefit, or others)." The guide also clarifies that these investments are to offset future expenses, not past expenses.

Step 2: Ensure the amount and direct relationship of investments are. The language in this section includes, "When using investment strategies to recover employee benefit costs, the projected future returns from investments should not exceed the estimated benefit costs."

As you can see from these first two steps, documenting this process from the outset is critical and necessary to make informed decisions.

3. Be ready to answer basic questions about executive benefit programs.

If you've been through multiple NCUA examinations, you've probably seen that they can be run many different ways. Executive benefit plans may get specific attention in some examinations but not in others.

Board members and executives may be questioned about the types of products used in senior executive benefit plans such as a 457(f) non-qualified deferred compensation plan or a collateral assignment split-dollar life insurance program.

If you're not able to answer basic questions about how these products work and why you chose them, that could be a red flag that would expand the examination's scope. This is probably more likely if your credit union is experiencing negative earnings—examiners will want to quantify the extent to which employee/executive benefits are contributing to the red ink.

But even if your credit union's financials are solid, be ready to show that you understand the products underlying executive benefits packages, especially when they include otherwise impermissible investments and/or life insurance.

4. Use providers to refresh your product knowledge—but do your own due diligence.

If you need a quick refresher on the products you've used to build your employee benefits funding program and executive compensation packages, work with the product providers for a quick overview before your next examination.

However, you should also have your CPA and attorney review the products and agreements involved in these programs. Vendors—even long-term, trusted providers—are not neutral parties.

You need to be able to show examiners that you've done your own due diligence. And you need to show that you've researched not only the products, but [the ratings and track records of the providers themselves](#).

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Following these four steps, and reviewing the online NCUA Examiner's Guide, would be a smart investment of your time even if you never had another examination. It would ensure that you're following a safe and effective process for providing excellent benefits that help attract and retain the best talent.

John Pesh is director of executive benefits at [CUESolutions](#) Platinum provider [CUNA Mutual Group](#). For more information about benefits pre-funding and executive deferred compensation plans, contact him at **800.356.2644, ext. 665.8223**. For more information about becoming a CUESolutions provider, please email kari@cues.org.

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