

# Split-Dollar Plans: Tools for Retention

July 2017 – Vol: 40 No. 7

by Andy Roquet

Considerations for selecting CASD plans and products

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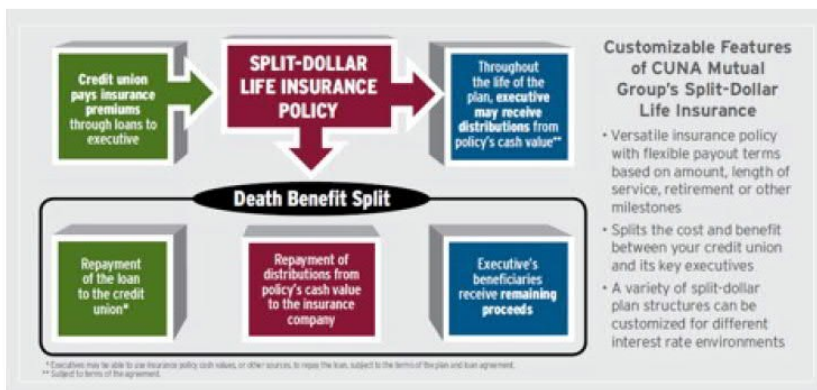
Retaining top-performing executives is critical to the success of your credit union. There are many ways to offer incentives to encourage them to stay, and using split-dollar plans to help fund these executive benefits can be a valuable strategy.



Collateral assignment split-dollar life insurance plans for credit unions provide an alternative to the 457(f) plan and may offer additional tax planning options for participants. These plans can be used to supplement retirement income and may also provide diversification from traditional investments commonly found in 401(k) and other qualified retirement plans.

## How CASD Plans Work

In a CASD plan, the credit union makes loans to the executive, which are used to pay the premiums for a permanent life insurance policy. The policy is held as collateral by the credit union until repayment. The policy cash values can be accessed for supplemental retirement income or other cash needs.



## Types of CASD Loans

There are three different types of CASD loans: term, demand and hybrid. With a term loan, the credit union can earn an IRS-determined interest rate (or higher) on the premium loans to the executive, which is based on the stated duration (term) of the loan. The demand loan can use below-market interest rates. A hybrid loan structure has components of both the term and demand.

The rate environment and risk tolerances of both the credit union and executive factor into the decision about which loan type to utilize; the credit union and executive can also agree to switch between these options over time.

There are advantages and disadvantages to any long-term investment or insurance strategy, and split-dollar plans are no exception. For example, the term loan charges a market interest rate and the credit union can earn loan income with fewer variables compared to a demand or hybrid loan. Conversely, the demand loan allows a CASD plan to work in a high interest rate environment, but the credit union may not recognize as much, if any, loan income, and it relies upon more variables than the term or hybrid loans.

It is always a best practice to engage with qualified legal counsel to discuss the pros and cons of each plan type in order to make an informed decision.

### **Considerations for CASD Plans and Products**

There are two components to any CASD: the plan and the product. The plan is the formal document or contract between the credit union and the executive. The product is the life insurance policy supporting the plan that requires executive insurability and underwriting.

Life insurance products can range from whole life and universal life, which perform based on stated rates provided by the insurance companies, to variable and indexed products, which rely on market (or underlying investment) performance. Generally, the more reliant a product is on market performance, the more risk it poses to the participant and the credit union. Credit unions should evaluate the available alternatives to select the product that best suits their program while still satisfying regulatory concerns over safety and soundness.

Also consider the long-term nature of split-dollar plans. Quite often, plans are designed so that the premium loan to the executive is paid back upon the executive's death (through the insurance policy death benefits), so plans might last 30-plus years. This may be offset by the credit union receiving interest income on the loan, and a credit union's growth over time can diminish the impact the plan has on the credit union financials.

Lastly, your plan provider should be able to help align the plan with the objective. For example, the credit union may be helping the executive fill a retirement gap or may have a need for a strong retention plan. The provider should be able to

guide the credit union through the many considerations when shopping insurance products—the financial strength of the insurance carrier, type of insurance product, etc. Additionally, it is important to account for the split-dollar plan appropriately; the partner you select should be able to provide support there as well.

As with any executive benefit plan, there are a number of factors to consider when implementing a CASD. It is critical to have an expert partner to help educate, work through the plan design, implement and support the plan going forward.

**ANDY ROQUET** *is executive  
benefits specialist for CUES  
Solutions Platinum provider  
CUNA Mutual Group. Contact <sup>®</sup>  
him at*



**CUNA  
MUTUAL  
GROUP**

[andy.roquet@cunamutual.com](mailto:andy.roquet@cunamutual.com)