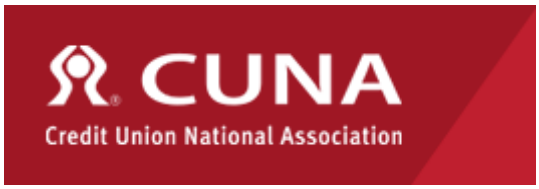

Fight rising benefits costs through prefunded plans

Managed plans allow CUs to better maintain their traditional coverage levels.

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"One thing almost everyone is sure of," says Scott Albraccio, a CUNA Mutual Group executive benefits sales manager, "is that health-care costs aren't going down."

Annual health-care premiums for employer-sponsored family health coverage reached $18,142 in 2016, up 3% from 2015, according to the Kaiser/HRET Health Benefits Survey.

And with credit unions facing very thin operating margins in the foreseeable future, many are hard-pressed to maintain their historical level of benefits using traditional approaches. That can compromise your retention efforts.

To address this challenge, all federal credit unions and most state-chartered credit unions can prefund a wide range of future employment benefit costs by placing excess liquidity into otherwise impermissible investments that provide three or four times the yield of their average investments.

Credit unions can apply gains toward prefunding group health insurance, group life and disability insurance, executive benefits, and 401(k) matching contributions.

Many credit unions have used corporate-owned life insurance (COLI) to prefund individual retirement benefits because of its tax advantages and consistent returns. Credit unions can now employ that tool more broadly to address company-wide benefit costs.

COLI and bank-owned life insurance (BOLI) constitute 44%of investments in CUNA Mutual Group's Total Benefits Pre-Funding (TBPF) program.

But managed plans, which represent 53% of TBPF holdings, show greater potential, Albraccio says, because margins on traditional COLI plans are shrinking. Investment options for managed plans include mutual funds, commercial bonds, exchange traded funds, and individual securities.

Cognizant that credit unions' risk tolerance is generally low and managed plans include the possibility of loss of principal, CUNA Mutual Group emphasizes safety and soundness principles in its TBPF program and relies on balanced portfolios.

On the compliance front, credit unions must be able to show examiners that investment amounts and projected returns are directly linked to projected future benefit costs, Albraccio says.

Also, the Office of the Comptroller of the Currency, an independent bureau within the Treasury Department that oversees national banks, advises that investments or insurance of this nature shouldn't exceed 25% of capital.

For questions about the Total Benefits Prefunding Program, contact CUNA Mutual Group's Executive Benefits Service Center at 800-356-2644, ext. 6658576.