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Case Study Example: Investment Strategies for Pre-funding a Credit Union's Employee Benefits Program

From 20 million in reserve funds, and investment losses in the 25% range ...
to 20 million in reserve funds safely maintained, and an APR of 6.87% earning over 100K per month

Investment Strategies and Case Study details prepared by Dan Reisinger, MS (Financial Services), CLU, ChFC | Contact Info

I was referred to the President of a credit union, who had an interest in establishing a pre-funding program (a supply of available funds for a designated purpose) to offset the costs of the credit union's employee benefit program. He shared with me that the annual cost of the employee benefit program was $1,235,000. In addition, he stated that approximately 10 years ago, the credit union had established a pre-funding program, which consisted of various stocks, bonds and mutual funds. But, when the market suffered losses in 2008, the Board withdrew their support, and the positions were sold. The losses to the credit union on its investments were in the 25% range.

The main concerns of the credit union's President and Board were the increasing costs of providing a quality benefit program to attract and retain employees, and the safety of the principal invested. The benefit program consisted of health, life, disability and dental insurance, along with a retirement plan, which provided a 100% match of the first 3% of salary deferrals made by the employees. The President and the Board were interested in

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a pre-funding program that would better utilize their cash reserves.

Generally, credit unions are not permitted to invest in the products we offer. However, a credit union can invest in otherwise impermissible investments (under Part 701.19 of the NCUA rules and regulations), if the income from the investments is used to fund the credit union's employee benefit obligations. Furthermore, NCUA regulations provide that, "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." [12 C.F.R. Section 701.19(c)]

Based on a Weighted Average Life (WAL) of 5.2 years and a total portfolio investment of approximately $20 million, we were able to create approximately $103,000 per month in interest income, which equates to an annualized return of 6.17%. These results were achieved through the use of a combination of First Position Land Lease Notes and Structured Settlement Annuities.

In the fall of 2015, the first Land Lease Notes matured, and the Board made the decision to re-invest those proceeds into longer term Land Notes. This decision increased the portfolio returns to 6.87% and the portfolio's Weighted Average Life (WAL) to 6.35 years. The increased interest income was used to offset increases in their health insurance premiums.