Executive Benefits

Pre-Purchase Analysis of Investments for Employee Benefits

Your credit union should evaluate the risks and rewards of investments for employee benefits through a variety of activities. These nine steps offer an approach that can result in a more comprehensive and effective pre-purchase analysis. Each step is outlined below.

Identify the need for the investment

A credit union should determine if it warrants making an investment by first identifying the actual or potential benefit it seeks to fund.

Ensure the amount and direct relationship of investments are appropriate

When using investment strategies to offset or recover employee benefit costs, the projected future returns from investments should not exceed the estimated benefits costs.

Determine the economic benefits and appropriate investment type

The scope of the analysis should include the measurement of the predictable return on the investments and an assessment of how the investment strategy will accomplish the credit union's benefit-funding objectives.

A credit union should consider using a range of interest-crediting rates and mortality-cost assumptions for insurance products.

If insurance is being purchased, assess the qualifications of insurance vendor(s)

Review should consider the vendor's service and its reputation, experience, financial soundness, and commitments to support the insurance product.

Conduct due diligence and make an internal judgment regarding the appropriateness and safety of insurance products it may purchase.

Review the characteristics of available insurance and non-insurance investment products

Understand and select insurance/investment products that have characteristics which best match the credit unions objectives, needs, and risk tolerance.

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Select a counterparty

Perform credit analysis on the selected counterparty in a manner consistent with safe and sound investment practices.

Management should review the insurance and investments product design, pricing, and administrative services of each proposed counterparty and compare them with the credit union's needs.

With insurance, management should review the carrier's commitment to the insurance product, general reputation, experience in the marketplace, and past performance.

Analyze the associated risks and the ability to monitor and respond to risks

Complete a thorough evaluation of all significant risks, as well as management's ability to identify, measure, monitor, and control those risks.

Evaluate alternatives

Analyze the risks and benefits, compared to alternative methods for recovering costs associated with providing pre- and post-retirement employee benefits, or providing additional employee compensation, as appropriate.

Make and document the investment decision

Maintain documentation of the comprehensive pre-purchase analysis.

Analysis should include the types and design of products purchased and the overall level of investments for employee benefits holdings.

Documentation should also include policies and procedures for ongoing monitoring of selected investments.

A thorough pre-purchase analysis should be conducted to help ensure your credit union and board of directors understands the risks, rewards, and unique characteristics of the investments that fund your employee benefits. The nature and extent of your evaluation should correspond with the size and complexity of the investments under consideration. You should also consider existing investments for employee benefits holdings. Finally, be sure to maintain adequate records concerning your pre-purchase analysis, including documentation of the purpose and amount of investments needed.

Contact CUNA Mutual Group's Executive Benefits Service Center at 800.356.2644, ext. 665.8576 to learn more.

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