



# CREDIT UNION OWNED LIFE INSURANCE

## BENEFITS OF CUOLI

- Protects a company from financial costs related to the loss of a key employee
- Informally funds the cost of employee benefits
- Can earn a competitive after-tax yield compared to other investments
- Can be retained after an insured employee leaves the company in order to cover the liabilities the company has to other employees
- Can favorably impact a company's financial performance when it increases net after-tax income
- No cost to the employee

## PRE-PURCHASE ANALYSIS REQUIREMENTS

- Identify the need for CUOLI and determine economic benefits and appropriate insurance types
- Quantify the amount of insurance needed
- Assess vendor qualifications
- Review the characteristics of the available insurance products
- Perform financial due diligence on recommended carriers
- Determine the reasonableness of compensation provided to the insured employee if the insurance results in additional compensation
- Analyze associated risks and the ability to monitor and respond to those risks
- Evaluate alternatives
- Document decision

## WHY CUOLI?

Credit unions have authority to purchase life insurance under 12 CFR part 701.19 as an informal funding vehicle for certain Employee Benefits. CUOLI also may provide financial assistance to a credit union when it faces the costs associated with recruiting and training new employees in the event of the premature death of current key employees. The performance of CUOLI typically exceeds the return offered by other permissible investments, while the employee benefits can be used to attract, retain and reward key executives.

## POST-PURCHASE COMPLIANCE REQUIREMENTS

To maintain an effective CUOLI program, any purchase of CUOLI should incorporate an ongoing risk management process to assist credit union management with a detailed annual (or more frequently if desired) assessment of their CUOLI holdings.

## IRC SECTION 101(j)

IRS Code Section 101(j) provides that death benefits paid on an "employer-owned life insurance contract" will remain tax-free only if proper notice is given to the covered employee and the employee gives written consent to be insured before the coverage is issued. Insurance carriers will include this documentation with your applications. The Pangburn Group will provide an annual report reminding you to file the 8925 form.