



Highlights

- What is Benefit Liability Management?
- What the NCUA says
- Five key questions
- Is it right for you?
- Q & A

Benefit Liability Management

1. Reviewing existing employee benefit obligations
2. Identifying potential to offset and/or mitigate the expense

The logo for BFB Gallagher, consisting of the letters "BFB" in white on a dark blue rectangular background.

NCUA Regulation § 701.19

Governs investments held to fund employee benefit obligations

- Defined benefit plan contributions
- 401(k) match contributions
- Employee life insurance
- Employee health insurance
- Deductible long- and short-term disability
- Nonqualified plan expenses

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1. Which otherwise impermissible investment is right for my credit union?

Risk Tolerance

- Conservative
- Moderate
- Aggressive

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**2. What investment options
are available?**

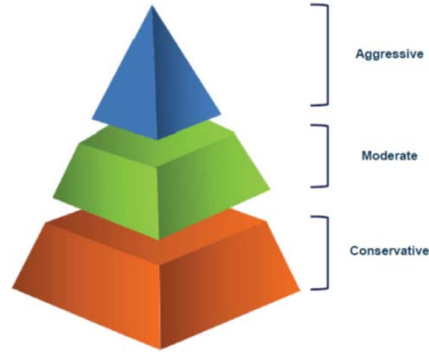


Types of Investments

Variable Investments

Structured Products

Fixed Investments



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Conservative



100% Fixed Institutional Insurance / Annuities

- Individual life insurance policies on the lives of executives but the credit union is the owner and beneficiary
- Guaranteed floor crediting rate, with current rate yielding around 2.50% APY
- Predictable income to offset predictable benefit expenses

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Moderate



25% Fixed Institutional Insurance, 50% IUL, and 25% Structured CD

- Safety and soundness of Institutional Insurance
- IUL provides an upside of market returns with a guaranteed investment floor of 0%, a cap rate declared annually by the carrier where the index credit is determined by the growth of a Market Index
- Structured CD – an investment in a group of indexes or stocks over a set amount of time, typically with a principal guarantee at the end of the term
- Partial predictable income with upside potential in strong equity markets, while downside protection in times of market correction

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Aggressive



25% IUL, 25% Structured CD, and 50% Asset Management

- Limited safety and soundness with the 0% floor in the Index Life and principal guarantee in the Structured CD
- Volatility with the Asset Management (mutual funds, ETFs)
- Purely market driven portfolio – upside in a strong equity market and guarantee of principal in the IUL and Structured CD with potential downside with the Asset Management

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3. What is the accounting treatment?

Varies by Investment Option

- Institutional Insurance and IUL
- Structured CDs
- Asset Management

Institutional Insurance and IUL

- Cash value policies where credit union is owner and primary beneficiary
- FASB Accounting Standards Codification Topic 325-30, *Investments in Insurance Contract*
- Other Asset and Other Non-Interest Income

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Structured CDs

- Debt securities classified as Available-for-Sale (AFS) or Held-to-Maturity (HTM) investments
- Valued daily, but can be marked-to-market monthly or quarterly
- Market value fluctuates
- Gain/loss recorded at different triggers

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Asset Management

- Debt securities classified as Available-for-Sale (AFS) or Held-to-Maturity (HTM) investments
- Valued daily, but can be marked-to-market monthly or quarterly
- Accounting Standards Update 2016-01 (Dec 2018)

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**4. What compliance review
is needed?**



NCUA: Risk Categories

- Credit
- Interest Rate
- Liquidity
- Transactional Risk
- Compliance Risk
- Strategic Risk
- Reputation Risk

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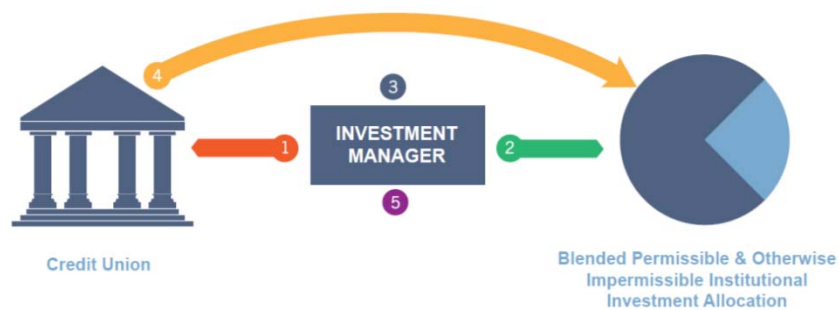
5. Is it necessary to use a firm to implement benefit liability management?

DIY vs. Consultant

- Securities licensed
- Portfolio management experience
- Access
- Dedicated resource
- Ongoing regulatory compliance

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Implementation Process



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Thank you!



Kraig Klinkhammer
Chief Operating Officer
Kraig_Klinkhammer@ajg.com
Ph: 704-332-2070



Jennifer Jackson
Area Vice President
Jennifer_Jackson@ajg.com
Ph: 704-685-1162

Save the date! Wednesday, August 30, 2:00 pm–3:00 pm ET
Proper Accounting for BOLI and SERPs
Register at www.nafcu.org/BFB



BFB Gallagher is the NAFCU Services Preferred Partner for Executive Benefits and Compensation Consulting. More educational resources are available at www.nafcu.org/BFB.

Disclosures

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Please note that all investments are subject to market and other risk factors, which could result in loss of principal. Fixed income securities carry interest rate risk. As interest rates rise, bond prices usually fall, and vice versa.

Mutual funds and ETFs are sold by prospectus only. Before investing, investors should carefully consider the investment objectives, risks, charges and expenses of a mutual fund or ETF. The fund prospectus provides this and other important information. Please contact your representative or the Company to obtain a prospectus. Please read the prospectus carefully before investing or sending money.

OFFSET YOUR RISING EMPLOYEE BENEFIT COSTS USING BENEFIT LIABILITY MANAGEMENT

Make your Credit Union more profitable by using conservative investment tools to increase your portfolio yield.

§ 701.19 Benefits for employees of Federal credit unions.

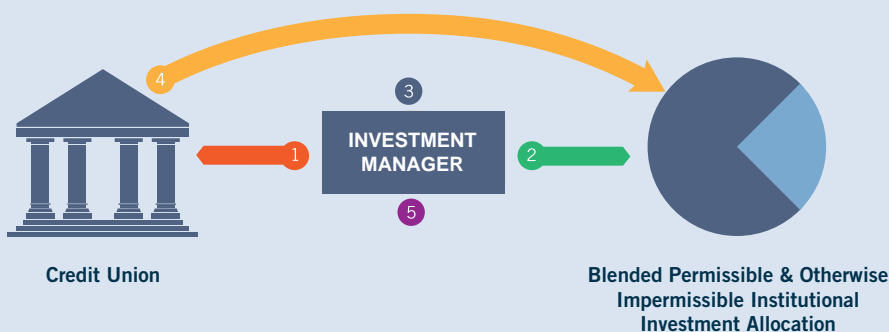
- c) Investment authority. A federal Credit Union investing to fund an employee benefit plan obligation is not subject to the investment limitations of the Act and part 703 or, as applicable, part 704, of this chapter and **may purchase an investment that would otherwise be impermissible if the investment 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. Most states allow for parity under 701.19 for state chartered Credit Unions. Prior to implementation, BFB Gallagher would consult with each state to complete a parity request for approval.

What is Benefit Liability Management?

- Benefit Liability Management is the process of reviewing existing employee benefit obligations and the potential to offset and or mitigate the expense associated with such obligations.

Why are Credit Unions using Benefit Liability Management from BFB Gallagher?

- Our process is collaborative, with your credit union's safety and soundness primary in all the work we do.
- Most credit unions are experiencing a rapid rise in employee benefit obligation expenses. Coupled with ever shrinking investment margins the impact to credit unions becomes a material concern.
- By utilizing a conservative approach to impermissible investments for a small portion of your investment portfolio, we can significantly reduce/offset those Benefit Expenses.
- Our post-implementation administration is second to none.



- 1 BFB Gallagher reviews Credit Union's current employee benefit liabilities.
- 2 BFB Gallagher reviews Credit Union's current investment portfolio holdings, concentration, duration and yield.
- 3 BFB Gallagher makes recommendation of otherwise impermissible investment portfolio to offset employee benefit liabilities.
- 4 Reallocation of Credit Union's permissible investments to otherwise impermissible investment portfolio.
- 5 BFB Gallagher to administer and manage ongoing otherwise impermissible investment portfolio.



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Gallagher Benefit Services, Inc.



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Biography



Kraig Klinkhammer

Chief Operating Officer

Nonqualified executive benefit plans

4600 Park Road, Suite 200
Charlotte, NC 28209

360-601-1034
Kraig_Klinkhammer@ajg.com
www.BFBbenefit.com
www.ajg.com

Favorite Vacation: In 2016 I successfully traversed the Inca Trail, a 26 mile hike to Machu Picchu with my wife.

Favorite Pastime: Enjoying a day working in the yard and finishing it off with a lovely dinner with my family.

KRAIG KLINKHAMMER has 20 years of experience in executive benefits, asset management, and various applications of life insurance and financial planning. As BFB Gallagher's chief operating officer, Kraig ensures our clients' benefit and investment programs run smoothly, from design to ongoing service. He sets the pace for staff goals, developmental training, and forward-looking corporate initiatives. Kraig also manages our investment and portfolio strategy, working closely with asset management firms, life insurance companies, and other financial service organizations to ensure clients have access to a wide variety of compliant solutions.

Prior to joining BFB Gallagher, Kraig served as manager of the bank-owned insurance portfolio for a large regional bank where he was responsible for the oversight of insurance investments exceeding \$5 billion. In this role, he was also responsible for budgets, forecasted revenue/expenses, cash flow management, P&L impact, Sarbanes-Oxley/GAAP compliance and financial account procedures.

Kraig earned his Master of Science in Financial Analysis and Bachelor of Science in Finance-Law from Portland State University in Oregon. He holds an insurance license as well as FINRA series 7, 63, and 65 licenses. Kraig lives outside of Portland, Oregon, where he and his family enjoy exploring the coastline and new local restaurants.



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biography



Jennifer Jackson

Area Vice President, Relationship Management
Nonqualified executive benefit plans

4600 Park Road, Suite 200
Charlotte, NC 28209

704-685-1162
Jennifer_Jackson@ajg.com
www.BFBbenefit.com
www.ajg.com

Favorite Vacation: Iceland

Favorite Pastime: I have traveled the country to see the best country duo around ... Wynonna and Naomi, The Judds!

JENNIFER JACKSON has more than 15 years of experience in the financial services industry, specializing in the design and implementation of executive benefit plans. Throughout her career, she has held several roles related to executive benefit plans for banks and credit unions which gives her a unique perspective in overseeing her client plans. Her expertise includes regulatory compliance, financial analysis, and retention strategies. In her current role, Jennifer is responsible for the design and servicing of nonqualified retirement programs for BFB Gallagher clients throughout the Northeast and Mid-Atlantic states.

Jennifer's commitment to the credit union mission of people helping people is reflected in her work as a board member of the BFB Foundation, an organization that provides educational opportunities to women in developing countries. She frequently travels to Guatemala to implement community learning programs.

Jennifer earned her Bachelor of Arts in Mathematics from Converse College in Spartanburg, South Carolina. She also holds a life insurance license. Jennifer is based in Charlotte, North Carolina with her furry pack – Mitzi, Max, and Stevie.