Executive Benefits: Getting Ready for an Exam

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A DIVISION OF Gallagher Benefit Services, Inc.

Agenda

- Nonqualified plans overview
- Effective due diligence
- Exam trends
- Q&A

About BFB Gallagher

- Focused on nonqualified plans for highly compensated individuals in nonprofit organizations
- 400+ nonprofit clients
- Coast-to-coast offices
- Plan audit, design, implementation, and ongoing service
- Regulatory compliance and due diligence requirements for nonprofits

Types of Executive Benefit Plans

- Nonqualified Deferred Compensation: 457(f) and 457(b)
- Welfare Benefit: Split Dollar
- Section 83 Bonus: Restrictive Bonus Plan

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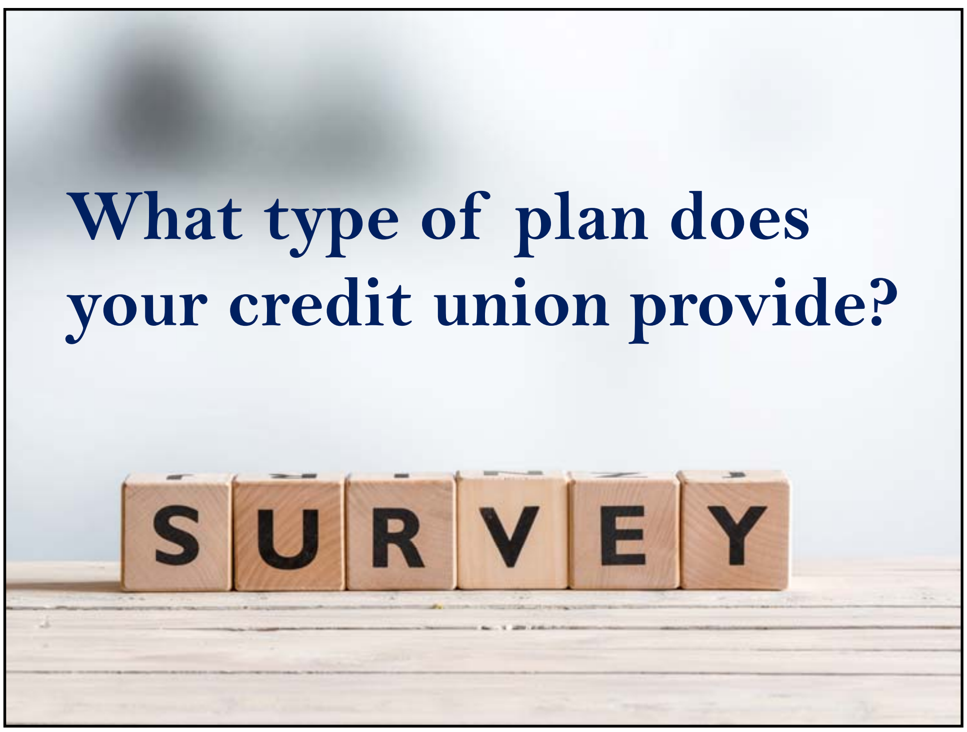

Typical Due Diligence

Compliance Manual

- Plan Design
- Accounting
- Asset Information
- Regulatory Compliance
- Legal Agreements
- Administration

Examiner's Guide

1. **Transactional** — How does the purchase of the investment affect the bottom line of the credit union?
2. **Interest Rate** — How do the changes in the market affect the credit union's earnings and capital?
3. **Credit Worthiness** — What is the credit rating of the carrier(s) the Board is considering?
4. **Liquidity** — What is the risk to earnings if the investment has to be liquidated?
5. **Strategic** — Does the structure of the investment align with the credit union's philosophy?
6. **Compliance** — Is the purchase of the investment compliant with all laws, rules, and regulations?
7. **Reputation** — Does the Board fully understand the investment?

Trends in Recent Exams

- Pre-implementation due diligence
- Board oversight
- Focus on funding concentration
- Demonstrate understanding of plan details
- Ongoing due diligence / Plan reviews

From the Examiners: Common Feedback

Examiner Comment #1

Providing the vendor’s compliance manual to the examiner without any due diligence materials produced independently by the credit union

Examiner Comment #2

Working with vendors with very little exposure to the credit union industry, lack of experience, or lack of ability to help service the product after it is placed

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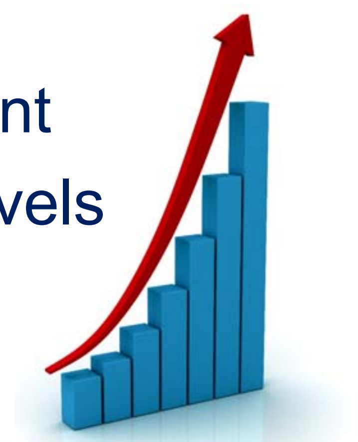
Examiner Comment #3

High investment concentration levels



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Does your credit union place a concentration limit on the 701.19 investments?

Examiner Comment #4

Lack of knowledge about the plan and the funding

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Examiner Comment #5

Not knowing about other alternatives

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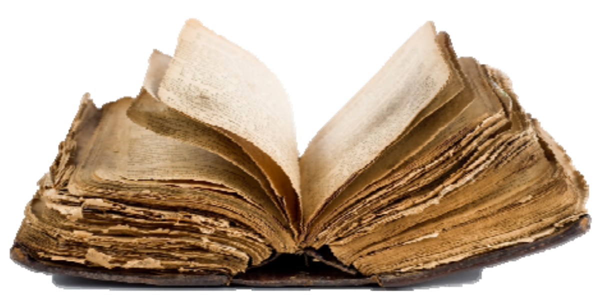
Examiner Comment #6

No updated investment policy



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Examiner Comment #7

Too much reliance on a particular senior executive's opinion (often the CEO) about the plan and its funding

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Examiner Comment #8

Benefit levels that are out of line with similar positions at similar credit unions

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Examiner Comment #9

Poor board involvement and/or communication

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Examiner Comment #10

No thorough annual review

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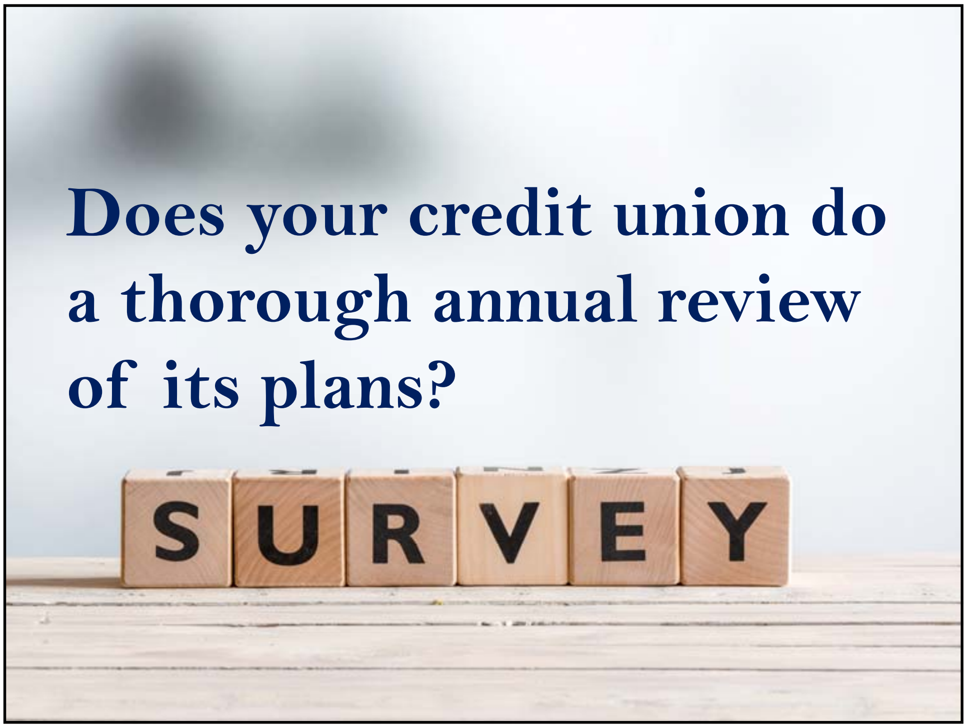
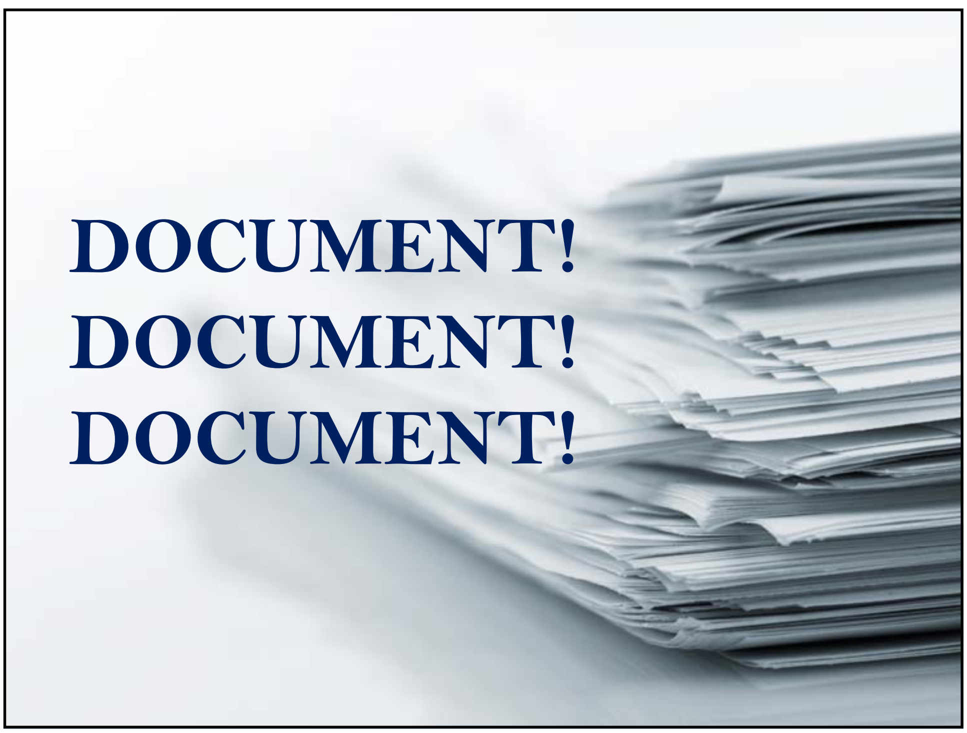

Does your credit union do a thorough annual review of its plans?
SURVEY


DOCUMENT!
DOCUMENT!
DOCUMENT!

One Step Further

Pre-Implementation Manual

- Board Minutes
- Various investment options
- Various benefit options
- Various risks from each of the above

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Thank you!

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

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- Withdrawals made from investment products during the first 15 years could result in unfavorable LIFO taxation under IRC Section 7702(f)(7) "force-out" rules. Withdrawals in excess of cost basis may be taxable. Lapsing a policy with an outstanding loan results in the loan, and any accrued interest, being treated as a distribution, which may be taxable. Modified endowment contracts ("MECs") are taxed differently and are not suitable for this program if surrenders or loans are anticipated. Please check policy illustrations to see if the policies being considered are MECs. Certain changes to a non-MEC policy could result in the policy becoming a MEC. Professional tax advisors should be consulted. Any loans, withdrawals or partial surrenders will reduce cash values and death benefits.
- Mutual Funds & Variable Universal Life Insurance Policies: Before investing, investors should carefully consider the investment objectives, risks, charges and expenses of the variable product and its underlying investment options. The current contract prospectus and underlying fund prospectuses provide this and other important information. Please contact your representative or the Company to obtain the prospectuses. Please read the prospectus carefully before investing or sending money.
- Past performance cannot predict future results. The purpose of this discussion outline is to present the issues and plan mechanics associated with a taxable investment and corporate owned life insurance financing strategy. The insurance products shown in this report are representative of the market and are based on a hypothetical investment yield which is not guaranteed.