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DCUC DEFENSE CREDIT UNION COUNCIL ALERT

A Better Bottom Line

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It is jaw-dropping how much has changed in a quarter. The pandemic has a firm grip (and seems to be tightening it!), the US has experienced the sharpest GDP decline in history (relative to the time frame) and millions of Americans are suddenly unemployed. We have seen the S&P 500 plummet 34% from its February 19 high, only to climb back up 38.5% to end June at 3,100.29. (Notice how returns work - while the S&P is up 4.5% more than it declined, it was still below the market high; the S&P would need a total return of 51% from the low to get back to that high!)

In the midst of that, however, we are hearing how credit unions have stepped up to help, whether through helping the Federal government distribute some of the $3 trillion it has injected into the economy (and the ever-changing rules that came with that!) or by offering their own assistance to their members. And you had to do that while figuring out how best to work remotely yet serve members and keep your own employees safe. The work that has been done thus far is nothing short of amazing.

As DCUC member credit unions know, there is a cost, however: we're hearing from many clients who have revised their budgets for 2020 to reflect a substantial drop in net income. Several are even forecasting very lean earnings for 2021. All are looking for ways to enhance earnings, and there is also a focus on reducing expense.

One area that is often a target for tightening during these times is compensation and benefit expense. It does, after all, represent one of largest expense categories on the P&L. At a time when you have asked so much more from your team – and by most accounts they have delivered - we caution you to carefully consider those decisions and review some of the ways we've helped clients adjust their budgets while valuing their people.

Here are some of the ways that IZALE has helped clients this year:

- Client A, a $1 billion FCU, has used BOLI for several years to offset the cost of all employee benefits. With deposits up, loan demand tempered, and traditional yields down significantly, they allocated additional money to BOLI and immediately (with no market risk) boosted earnings by over $140,000.
- Client B, a multi-billion FCU, had an established 457(f) for several executives. We helped them evaluate the merits of continuing that plan vs. using a split-dollar loan structure, deciding the latter met their objectives. The client recaptured more than $5 million of prior expense while offering more net cash flow to executives.
- Client C, a multi-billion state CU, needed a program for senior executives. They have a rational process for first quantifying how much of a benefit they want to offer. The board, with input from the CEO, evaluated 457(f), split-dollar loan, and Restricted Executive Bonus Arrangements (or REBA), and decided that a combination 457(f) + REBA most met their objectives.

While there is no one best way for every institution to value their people or improve earnings, we believe you should evaluate all options and choose the one (or ones) that check the most boxes for the institution and executives (not vendor). Our examples above describe ways we've assisted larger institutions, but we helped clients in all asset sizes implement programs appropriate for their budget. IZALE has never charged for evaluating plans, and we welcome the opportunity to share what we've learned from helping to design (or redesign) over 1,100 executive benefit plans over the past 20 years.