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CFO Focus on Line: Increasing Yield & Decreasing Costs
An investment strategy tied to employee benefits' costs can help CUs significantly reduce out-of-pocket expenses.

By Lisa Hochgraf

May 8, 2008

Credit Union Management magazine's Web-only CFO Focus on Line column runs the second Thursday of every month.

Imagine you're saving for your 4-year-old's college education. You know college tuition costs are rising by close to 10 percent a year-and that actually paying for college is likely to be 14 years away. So wouldn't you be dismayed to learn that the only portfolio available to help fund your child's future education needs was one consisting of share certificates, Treasury bills, and government agencies? Of course you would! You would ask yourself, "How can investments that traditionally earn 2 to 4 percent a year help pay for something for which the cost is growing so much more quickly?" The short answer is: They can't.

"This is the exact scenario credit unions face when it comes to paying for the spiraling costs of their employee benefit plan obligations," says Matthew Butler, president of Elite Capital Management Group, Middletown, Conn., a registered investment advisor and CUES' partner in the CUES Yield Enhancement Service. Employee benefits costs, such as health insurance premiums, are increasing by as much as 10 percent a year or more, he says, while at the same time, traditional CU investments are currently earning 2 to 4 percent, or less.

[NCUA Regulation 701.19\(c\)](#) provides relief from this issue by allowing federally chartered credit unions to invest in vehicles that would otherwise be impermissible. These investments can potentially provide superior long-term returns when compared to traditional credit union assets. The excess returns can be used to help pay down employee benefits costs. Where applicable, state-chartered credit unions under similar rules may also take advantage of this relief.

The key is that "there needs to be a direct link between the investment made and the actual or potential employee benefit plan obligation," Butler says. This direct link can be established through Elite Capital Management Group's intuitive Employee Benefits Cost Analysis®.

How much money a credit union is allowed to invest in a yield enhancement program under NCUA Regulation 701.19(c) depends on the current and projected employee benefit plan obligations that fall under ERISA (Employee Retirement Income Security Act of 1974). ERISA-defined benefit plans include an employer match on a 401(k) account, non-qualified supplemental executive benefit programs, long- and short-term disability premiums, and group health insurance premiums, Butler says. As part of its Employee Benefits Cost Analysis, Elite Capital Management Group uses a weighted average method to determine future employee benefits costs over the next 15 to 20 years. This total is then translated into today's dollars using a net present value calculation.

Butler says credit unions may choose to invest just some of the money that would be eligible for the program, "as long as the link between the investment and the obligation is evident." Many credit unions with high capital levels have significant opportunity to put a portion of their funds to work. This means a yield enhancement program would have very little, if any, impact on the credit union's day-to-day operations.

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Elite Capital Management Group uses a unique asset allocation discipline—a scientifically and methodically developed practice for investing and managing funds—keenly suited to the needs of credit unions. In addition, the company has hired a nationally recognized organization as its investment strategist and research arm. The professionally managed portfolios that Elite Capital Management Group emulates and customizes for credit unions have award-winning track records dating back over two decades.

"The kind of investment discipline we adhere to for credit unions enables us to avoid unnecessary risk and volatility, yet enjoy significantly higher returns than what traditional credit union investments provide," says Butler.

Butler says Elite Capital Management Group portfolios are totally flexible and liquid. So a credit union investor could ask for a check for funds in its portfolio and expect the money straightaway.

He offers several reasons credit unions might want to get going on such an investment program sooner rather than later:

- The yields credit unions can currently get on traditional investments continue to go down as the Fed lowers interest rates and already-issued investments reprice.
- Benefit plan costs continue to go up and this is a good way to hedge that risk.
- Many credit unions have more capital than required, funds that currently earn little or no revenue. This program puts capital to work, creating far-reaching benefits to members and employees alike in the long term. (For more on this, see The Filene Research Institute's report, "[Are U.S. Credit Unions Overcapitalized,](#)" by Ed Jackson.)
- Investors get more for their money when the market is low, as is currently the case.

"Because of our discipline and investment methodology, our program is a great way for the credit union to balance the scales between safety and soundness and putting capital to best use. The out-of-pocket savings to the credit union are significant," says Butler.

[Lisa Hochgraf](#) is a CUES editor.

- ***Go to the current issue of [Credit Union Management](#).***