



# **BENEFITS PREFUNDING:**

## **the HOLY GRAIL**

### **of Credit Union Employee Benefits**

a Credit Union Industry Showcase Paper  
By Mike Hales, [CUinfluential](#)

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### **Key Takeaways**

- **Employer costs of employee healthcare benefits are the highest in a decade and will continue to rise.**
- **In addition to healthcare, the growing employee need for financial wellness requires credit union leaders to expand their employee benefits offering to attract and retain top-notch talent.**
- **Traditional employee benefits funding methods are no longer sufficient to meet the expectations of a modern workforce.**
- **NCUA's revised Regulation 701.19 has opened the door to Prefunding strategies that significantly benefit credit unions as well as their current and prospective employees.**
- **SHOWCASE: Industry expert [Credit Union Benefit](#).**

### **Executive Summary**

Every credit union leader is on the lookout for that game-changing strategy – the one move that could elevate their organization to the next level. Is there a unique advantage credit unions hold over banks? Can we maintain financial prudence and still thrive?

This paper explores a powerful yet often overlooked opportunity: a shift in mindset around corporate investments that will enable credit unions to provide highly valued employee benefits without burdening operating capital.

Historically, credit unions have been limited to conservative investment options like CDs and bonds. When it comes to executive benefits, many rely on COLI (corporate-owned life insurance) plans, which are capped at 25% of net income and often takes decades to realize returns through death benefits.

However, a pivotal change occurred at the onset of the COVID-19 pandemic. Amid the chaos, a revised NCUA regulation – NCUA 701.19 – quietly reshaped the investment landscape for credit

unions. Unfortunately, many leaders were too focused on navigating the pandemic to fully grasp its implications.

**For many credit unions, employee benefits represent one of the largest operational expenses. Rising healthcare costs, regulatory changes, and the need to remain competitive in attracting top talent make it increasingly difficult to maintain a robust benefits program without compromising the credit union's financial health.**

This regulation now permits credit unions to invest in previously non-permissible vehicles – such as annuities, mutual funds, EFTs, and managed funds – **as long as the returns are used to benefit employees.** While salaries are excluded, one of the largest employee-related expenses – **health insurance** – is fair game.

Most credit unions currently earn modest returns of 2-3% after fees and liquidity requirements. In contrast, investment options allowed under the new regulation can yield a minimum of 6-8% annually, with some offering upfront bonuses of 13-23% to offset penalties from surrendering underperforming assets.

By partnering with a certified financial planner (CFP) who specializes in credit unions, leaders can design a strategy that:

- Protects principal
- Avoids market volatility
- Uses A-rated carriers
- Prepares you for NCUA audits, and
- Delivers significantly higher returns.

This paper isn't just about better returns, it's about reallocating investment gains to offset employee benefit costs, freeing up capital for strategic initiatives, and offering enhanced benefits that boost employee loyalty, retention and recruitment. All it takes is a shift in perspective. From cautious to strategic. From 2-3% to 6-8%. From reactive to proactive.

## **The Rapidly Changing Landscape of Employee Benefits Demands Changes in Credit Union Offerings and Funding Strategies**

**How did we get here?** For nearly a decade, credit unions have grappled with persistent staffing shortages and increasing turnover—trends that continue to intensify. According to Wipfli's 2024 report, **46% of credit unions** identify employee recruitment and retention as one of their top organizational concerns.<sup>1</sup>

These talent gaps extend beyond front-line staff. Leadership roles, compliance officers, risk managers, and internal auditors vacancies are increasingly difficult to fill—placing additional strain on institutions already navigating complex regulatory environments and rising member expectations.

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<sup>1</sup> Wipfli 2024 State of Credit Unions Report, [www. https://www.wipfli.com/news/2024/fi-2024-state-of-credit-unions-report](https://www.wipfli.com/news/2024/fi-2024-state-of-credit-unions-report)

**The implications are serious:** prolonged vacancies in critical positions can lead to operational delays, heightened compliance risk, and diminished service quality for members. As the financial services labor market grows more competitive, credit unions must act decisively to develop strategies that attract, engage, and retain high-performing professionals.

Maintaining long-term success will depend on how effectively credit unions can address these workforce challenges—through better succession planning, competitive compensation, robust training programs, and a renewed focus on employee engagement.

**The changing employee benefits landscape.** In today’s competitive labor market, employee benefits have evolved from a basic operational necessity into a powerful strategic lever for attracting, retaining, and engaging top talent. *With unemployment rates low and skilled workers in high demand, credit unions can no longer rely on salary alone to differentiate themselves. Comprehensive and innovative benefits packages are becoming essential to meet the expectations of a modern workforce.*

## Employer Benefits Costs Expected to Rise Further Amid Emerging Economic Pressures

The historic increase in employer healthcare costs observed in 2025 is projected to continue into 2026. While long-standing factors—such as chronic disease prevalence, rising drug prices, and increased utilization—continue to drive healthcare cost trends, several emerging macroeconomic forces are likely to exacerbate the issue in the near to midterm. These include broader economic conditions, the potential impact of tariffs on healthcare-related goods and services, reductions in government spending on Medicare and Medicaid, and a possible cost-shift from public programs to the employer-sponsored insurance market.

**Industry leaders agree:** “The consistent trend of rising healthcare costs, coupled with the fact that these needs are anticipated to increase as one ages, is having a tangible effect on individuals” said Nate Black, VP, Health Solutions Product at Voya Financial. “Our research also revealed that more than half of employed Americans strongly or somewhat agree they would take a lower salary for employer contributions to health savings and spending accounts (59%), and better access to voluntary benefit offerings such as critical illness, hospital indemnity, disability income and accident insurance (54%). *As a result, this data highlights that priorities are shifting regarding individuals’ broader health care needs, particularly when it comes to support from their employer...Employers have a critical role to play helping their workforce leverage and maximize the full spectrum of their workplace benefits and savings offering.*”

**Employers anticipate 2026 to see the biggest healthcare cost increase in over a decade. “Emerging macroeconomic factors will likely exacerbate trend in the near-midterm, including the overall economy, the impact of tariffs on healthcare, government-spending reductions on Medicare/Medicaid, and possibly a cost-shift to the employer market.”**

- Ellen Kelsey, CEO Business Group on Health (BGH), Fast Finance, May 2025

## There's More to Employee Benefits than Healthcare

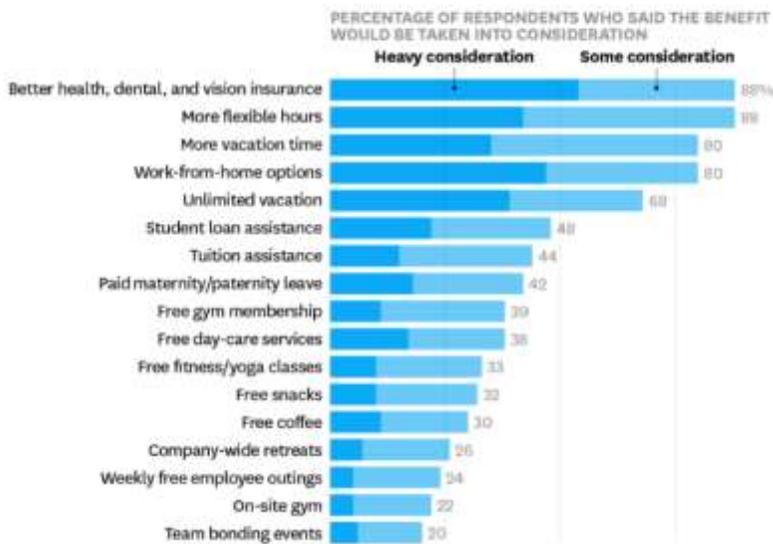
**Employee Financial Wellness Trends in 2025:** Amid ongoing economic uncertainty and elevated inflation, employees are increasingly prioritizing financial security over traditional workplace perks. A growing majority now favor meaningful, long-term financial benefits. For example, student loan repayment assistance is especially valued by younger workers burdened by education debt. Also, enhanced employer 401(k) match programs are seen as essential for retirement planning, particularly given market volatility and longer life expectancies. These preferences reflect a broader shift in workplace expectations: workers are seeking tangible support that directly contributes to their financial well-being rather than short-term incentives.

*Rising healthcare costs, a growing emphasis on financial wellness, and shifting employee priorities — including mental health, work-life balance, and flexibility — are challenging credit unions to rethink their benefits strategies.*

Employee expectations around benefits have shifted dramatically in recent years, influenced by

### Which Benefits Are Most Valued by Job Seekers?

When choosing between a high-paying job and a lower-paying one with better benefits, respondents said health insurance and flexible hours might tip them toward the latter.



lifestyle changes, economic uncertainties, and growing attention to holistic wellness. To attract and retain top talent, credit unions need to prioritize benefits that reflect these changing needs and demonstrate a genuine commitment to employees' personal and professional growth.

Job seekers increasingly seek benefits that resonate with their unique life stages and personal goals. In response, companies are implementing personalized benefits packages, allowing employees to choose options

that fit their lifestyle. For instance, younger employees might prioritize student loan repayment and career development, while those with families may value childcare and family planning support.

## Most Credit Unions Can't Afford to Offer Expanded Employee Benefits ... Until Now!

**Credit unions need to change the way they pay for the benefits they provide for their employees.** For many credit unions, employee benefits represent one of the largest operational expenses. Rising healthcare costs, regulatory changes, and the need to remain competitive in attracting top talent make it increasingly difficult to maintain a robust benefits program without compromising the credit union's financial health.

A common executive-benefit investment vehicle used by many credit unions is Company-Owned Life Insurance (COLI). It is important to consider that life-insurance based COLI plans have returns averaging 2.5 – 3% after fees. Additionally, the credit union must wait to be made whole through a death benefit payout. In addition, life insurance investments are capped at 25% of a credit union’s net worth which limits how many senior executives can be covered by a COLI program. And what about tellers, CSRs, lenders, managers, and other non-executive employees?

Traditional approaches to funding employee benefits often involve setting aside funds in low-yield investments or simply absorbing the costs as they occur, which can strain a credit union’s budget and negatively impact net income. *As a result, more and more credit unions are faced with the increasingly difficult challenge of balancing the need to offer competitive employee benefits while also safeguarding long-term financial stability and security.*

## **PREFUNDING – THE STRATEGY SHIFT THAT COULD TRANSFORM YOUR CREDIT UNION’S FUTURE**

**Employee Benefit Prefunding is a Strategic Solution for Every Credit Union.** Prefunding is a financial strategy where credit unions set aside funds in advance to cover future employee benefits costs. These funds are invested, generating returns that can be used to offset the rising costs of employee benefits, effectively turning a liability into an asset. Prefunding offers several advantages, including improved cash flow, enhanced investment income, and increased financial predictability.

The “Secret Sauce” of Benefit Prefunding lies in NCUA Regulation 701.19 which provides a unique industry advantage for credit unions when it comes to covering employee benefit costs with investment yields.

Revised Regulation 701.19 allows credit unions to replace outdated, low-yield COLI plans and other low-yield investments such as corporate bonds and CDs with higher return investment options that have historically delivered a minimum of 6-8% returns on average – three times what COLI offers – all while protecting the credit union’s principal investment(s). More specifically, the revised regulation provides that:

**By leveraging the Credit Union Benefit Prefunding Program, credit unions can generate additional income to support their employee benefits program, reduce long-term costs, and improve financial ratios, making it an essential strategy for credit unions seeking financial stability and growth.**

“(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.”<sup>2</sup> In other words, Section 701.19 exempts an FCU from the investment restrictions of the Federal Credit Union Act and NCUA rules when the FCU invests under its authority to provide and fund employee benefit plans. Specifically, an FCU

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<sup>2</sup> 12 CFR 701.19

may purchase another impermissible investment if it is directly related to the FCU's obligation or potential obligation under an employee benefit plan and the FCU holds the investment only for as long as the FCU has an actual or potential obligation under the plan."<sup>3</sup>

Prefunding investment yields can be used for anything that benefits an employee (excluding salaries and commissions) to include:

- Employee continuing education,
- 401(k) plan matching increases and plan administration costs,
- Employee spot bonuses,
- Employee conferences, seminars and training – including fees and travel expenses,
- Employee holiday and vacation pay,
- Employee team incentives,
- Employee long-term care,
- Employee sick days/PTO,
- Employee pensions.

*Benefits prefunding is the “Holy Grail” of employee benefits for credit unions of all sizes, locations, fields of membership. It is a game changing strategy that can simultaneously improve the financial performance of a credit union and the lives of its employees and their families. It is an opportunity that credit union leaders should seize with the help of an industry expert. **CUinfluential** proudly presents industry expert Credit Union Benefit:*



### **Showcase:**

## **Introducing the Credit Union Benefit Prefunding Solution**

Since 2013, highly experienced financial planning and employee benefits strategist **Credit Union Benefit** ([totalbenefitprefunding.com](http://totalbenefitprefunding.com)) has provided expert advice, education and resources that help credit unions increase revenue, attract and reward employees, and improve member services. Today, with over \$400 million in assets under management and serving the employee benefits needs of credit unions from coast-to-coast ranging in asset size from \$25 million to \$3.5 billion, **Credit Union Benefit** and its CUSO **Total Benefit Prefunding** offer a unique opportunity for credit unions to turn a traditional expense into a valuable employee asset. Specifically designed for credit unions, **Credit Union Benefit's** individually tailored program:

- Is fully compliant with NCUA Regulation 701.19, assuring compliance with regulatory guidelines,
- Provides investment opportunities with zero principal risk and zero market volatility, and

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<sup>3</sup> NCUA 06-0817 / December 2006, revised 11/14/24

- Offers flexible investment options tailored to the unique needs and goals of each credit union

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[Credit Union Benefit's](#) analysis of credit unions that have implemented the Prefunding Program shows significant improvements in financial performance and employee benefits offerings. The proven track record of delivered results includes:

- **Increased net income.** Credit unions experienced an average of 50-60% over the course of the refunding program, demonstrating a potential for significant financial growth.
- **Enhanced employee retention.** By offering employees “fully-funded” benefits funded through the prefunding program, participating credit unions realize significant improvement in employee retention, reducing recruitment, onboarding and training costs.
- **Better financial ratios.** Prefunding improved participating credit unions’ return on assets (ROA) and capital adequacy ratios, strengthening their financial position and regulatory compliance.

The key benefits of the [Credit Union Benefit Prefunding Program](#) include:

**Financial stability and growth:** Prefunding allows credit unions to generate consistent investment income, reducing the impact of benefit costs on the bottom line.

**Enhancing Employee Benefits:** [Credit Union Benefit's](#) program enables credit unions to offer more competitive and sustainable employee benefits. By generating investment income from prefunded assets, credit unions can afford to enhance their benefits packages, making them more attractive to current and potential employees.

**Compliance and Peace of Mind:** One of the most significant advantages of the [Credit Union Benefit Prefunding Program](#) is its full compliance with NCUA regulations. This ensures that credit unions can participate in the program without fear of regulatory repercussions, providing peace of mind to CEOs, CFOs, and HR Directors. Since its inception in 2019, 100% of Credit Union Benefit's clients' investment programs have passed their NCUA audits.

**Predictable Budgeting and Reduced Costs:** By prefunding employee benefits, credit unions can better manage their budget, as the income generated from investments helps offset rising benefits costs. This predictability is crucial for long-term financial planning, enabling credit unions to manage expenses more effectively.

**Improved Financial Ratios:** The [Credit Union Benefit Prefunding Program](#) improves key financial ratios, making credit unions more attractive to regulators, potential and existing members. By converting a liability into an asset, credit unions can represent a stronger financial position, which is essential for growth and competitiveness.

[Credit Union Benefit](#) only partners with and presents financial products from A-rated carriers. In addition, the company has the following certifications: Certified Financial Planner (CFP), Accredited Asset Management Specialist (AAMS), Chartered Retirement Plan Specialist (CRPS),

Life and Annuity Certified Professional (LACP) designation and their team holds Series 7, 22, 24, 51, 63, and 65 accreditations.

## **Recommended Next Step**

Implementing a Prefunding Program that is strategically tailored to meet the specific needs of your credit union is not just a financial tactic, it's a strategic investment in the future of your credit union. Please visit CU Benefit at [www.totalbenefitprefunding.com](http://www.totalbenefitprefunding.com) for additional information.

**Whether yours is a \$25 million asset credit union or a multi-billion dollar institution, the next step is to reach out to Tony Streeter, Senior Vice President of Strategic Growth at Credit Union Benefit. Tony's direct number is (210) 317-9060 and he can also be reached by email to [tony.streeter@totalbenefitprefunding.com](mailto:tony.streeter@totalbenefitprefunding.com).**

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