

Exploring the Advantages of Alternative Investment Accounts

January 2023

2 Minute Read

McQueen
Financial Advisors

Regulatory guidance allows federal credit unions and most state credit unions to use alternative investment accounts that permit them to set aside funds to pay for future employee benefits, such as health insurance, retirement plans, and other benefits. Alternative investment accounts are also often used to enhance charitable donations and community giving programs.

Why consider alternative investment accounts?

Employee benefit prefunding accounts (EBPA) and charitable donation accounts (CDA) offer the opportunity for enhanced earnings through non-traditional investment alternatives. Federal credit unions and most state-chartered credit unions can make investments that would otherwise be impermissible if the income is used to fund employee benefits or charitable donations. McQueen Financial Advisors provides credit unions with proven alternative portfolio management solutions. By including preferred stocks, corporate bonds, or other asset classes in an alternative investment portfolio, we will help you develop an investment strategy to match earnings with future obligations. We are an investment advisor, not a broker-dealer. At all times, our goals are aligned with your goals

*“Opportunity
for Enhanced
Earnings”*

What are the benefits?

One of the main benefits of alternative investment accounts is that they help credit unions better manage their finances by allowing them to set aside funds for future benefit expenses and giving programs. This can help credit unions avoid the financial strain that can occur when the cost of employee benefits rises quickly or when new community needs develop. Additionally, prefunding employee benefits can also help credit unions attract and retain employees by providing them with a more comprehensive benefits package.

I’ve got liquidity concerns. Is now the right time?

We know that liquidity concerns are top of mind, related to strong loan growth, higher interest rates, inflation, and a reduction of monetary supply. Despite these challenges, many institutions are looking to swap out of low-yielding bonds in their standard portfolio and reinvest into much higher yielding options within an EBPA or CDA portfolio. The new investments could include corporate bonds, preferred stocks or other non-traditional choices. These investment choices can help to quickly recoup losses, increase future earnings and enhance liquidity. Alternative investment accounts often offer higher returns than traditional investments and provide a way to diversify portfolios and increase overall returns.

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What are the potential financial benefits of using EBPA & CDA Accounts?

- **EBPA:** A \$10 million EBPA account invested conservatively has the potential to add up to \$650,000 to your net income every year. Smaller investments can have a meaningful earnings impact as well. A \$1 million EBPA account has the potential to add up to \$65,000.
- **CDA:** A \$5 million CDA account invested conservatively may allow you to make up to \$325,000 in charitable donations, this year and every year thereafter. A \$1 million CDA account has the potential to boost charitable donations by up to \$65,000.

What impact can a charitable donation account have on my local community?

We have the great pleasure of working with some amazing clients who are very passionate about their local communities. The work they do to give back to local charities is truly inspiring and a testament to the values and priorities of credit unions across the country. Here are just two of many examples that clients shared with us:

*“We provided food and presents
for 165 local families.”*

*“We are giving over \$50,000 per
year to our local YMCA to
support the community.”*

*“Passionate
about their
local
communities”*

***Talk to your McQueen advisor about the benefits and risks of
alternative investment accounts.***