CU Benefits ALLIANCE

Maximizing Your ROA In Challenging Times

How Credit Union Executives Can Navigate the Current Crisis & Lead the Market with One Simple Approach

Executive Briefing

INTRODUCTION

How credit union executives continue to think, strategize, and act as they face the continued uncertainty of the marketplace will have a long-term effect on the position and performance of their institution.

Facing substantial earnings pressure, projected 50%+ declines of ROA, and an uncertain future, many credit unions are understandably adopting a reactive, button-down-the-hatches approach for this unprecedented time.

However, forward thinking CU leaders are proactively neutralizing the effect of the pandemic AND are positioning their organizations to pull away from the competition and dominate their market.

In this highly topical, on-point, and actionable executive briefing and the accompanying infographic, industry authority and advisor, John Harris shares a highly practical approach to the challenges and opportunities that credit unions are facing today.

Besides highlighting the current trends and outlook for credit unions and important considerations, this briefing reveals an often ignored and overlooked strategic opportunity to decrease expenses, increase margin, and significantly enhance ROA short- and long-term while providing more value to employees. The briefing also includes two real-world case studies any credit union would do well to imitate. Finally, you'll be able to score your credit union with the ROA Benchmarking Scorecard and receive customized insights and recommendations for your organization.

While it's vital for CU leaders to navigate the current disruption, it's also an opportune time to be proactive and implement an approach that leads to market dominance. Let this briefing be your guide to taking the right steps forward.

Currents Trends & Outlook for 2020 & Beyond

Credit union leaders across the country are all facing the same challenges, asking the same questions, and trying to piece together a workable and winning strategy for their organization, employees, and members.

Effectively, the US economy went from steady and stable growth to one of struggle and survival in an amazingly short period of time. The current marketplace disruption is causing a variety of critical affects on CUs large and small alike. These issues are culminating in a net result of serious earnings pressure and greatly suppressed ROA metrics. According to CUNA's forecast, average ROA for credit unions across the US are expected to be 0.40% which is more than a 50% decline from 2019's 0.93%.

Along with these low ROA forecasts are a series of other challenging realities including but certainly not limited to the following:

- **Net Interest Income Decline**
- **Increased Loan Loss Provisions**
- **Loan Growth Forecast Reduction from 3.5% to 2.0%**
- **Decreased Interchange Income**
- **Waived Fees & Emergency Loans**

Of course, some of these results were completely predictable with such an economic disruption but that does not make them any easier to absorb or turnaround. For instance, your members need your support right now more than ever, so member-focused concessions, benefits, and support are paramount for both humanitarian and business-centric reasons.

"Nevertheless, credit unions like so many other industries, are facing a painful time that does not have easy solutions." However, just because these negative trends are real and will continue to be felt for quite some time is no reason that CU executives should not make proactive decisions and leverage proven strategies that can help mitigate these challenges in a truly meaningful way.

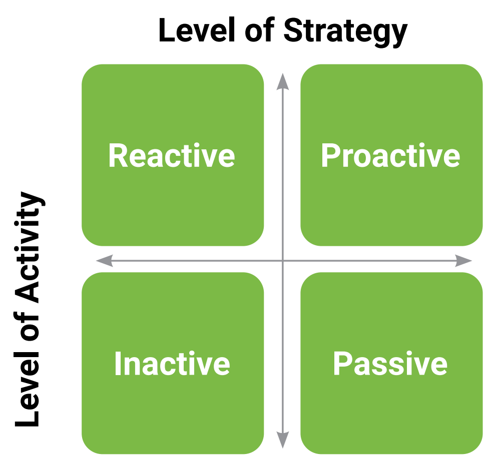
In the next sections of this briefing, you'll discover how to first, navigate the current chaos and then secondly, position your CU to leap ahead and potentially dominate the marketplace.

CU Executive Decisions: Reactive vs. Proactive

While the current marketplace is filled with questions, uncertainty, and a blurry horizon, now is also a time of massive opportunity. CU leaders who understand the unique challenges of today and how this current crisis will shape the immediate future and long-term future, will be able to position their organizations to not only survive but truly thrive moving forward.

Ultimately, in today's world like never before, leaders have no place to hide. They are expected to take the right action quickly, decisively, and then make real-time course corrections. Additionally, while no one is expecting perfection, the situation is so challenging that any decision less than optimal will likely produce an inadequate to even harmful result.

Therefore, it's vital CU executives understand the Four Dimensions of Leadership Strategy. This simple yet very useful matrix provides extreme clarity for leaders who need to determine their overall strategic approach to a given set of challenges.



When we work directly with credit union leaders across the country to boost their profitability while simultaneously helping them build a happier, healthier workforce, their decisions are always determined in part by these four categories. Often, their ability to be proactive is dependent upon having some level of situational control.

Thus, with the current crisis, thoughtful reactivity is key to navigating the disruption you will as read about in the next section.

Being proactive is more challenging, but as you'll see later on – there is a core area within virtually every credit union that is woefully underperforming that can have a significant impact financially on the whole of the organization.

Regardless of how reactive vs. proactive you are able to be in leading your organization and team through these times, it is clear that inactivity and passivity will not win the day.

Navigating the Marketplace Chaos

Currently, credit union leaders like you are facing extremely difficult decisions related to all of the following challenges and issues:

- staff management/reduction,
- reallocation of resources to shore up cash flow and mitigate losses,
- drastically changing or scrapping plans for membership growth,
- dealing with less competitive lending rates, and
- massively reduced/deferred interest revenues.

These are all on top of the primary challenge of the times, keeping your employees, their families, and your members safe in the face of an unprecedented global pandemic.
Most CUs have followed key protocols related to safety by serving members remotely in the wake of closed branches or limited in-person access. While that aspect of our industry is commendable, the economic fallout produced by the crisis doesn't have nearly as straightforward of a response. Even so, there are three categories every CU leader should consider and work through ongoingly to best navigate the current challenges.

- **Safety & Service –** As the Hippocratic Oath states, "first, do no harm." Most critically, it's vital to remain up to date on the latest information relevant to your impacted area and then, properly communicate that information (including all safety guidelines, rules, and restrictions) to both your team and members. This should be reevaluated with any meaningful regulatory changes or at least weekly.

- **Resource Management –** Specific areas where you can likely cut, defer, or negotiate (at least temporarily) to free up available monetary resources include but are not limited to: office supplies, service fees, software/IT, utilities, insurance, healthcare/benefits costs (this one is substantial as you'll see in the next section), marketing expenses, etc.

- **Goals & Projection Reevaluation –** Finally, as you are no doubt facing serious pressure around certain goals and projections, be sure to take time to strategically determine how your organization is likely effected especially in the near-term. Then, share those details with the board to manage expectations and educate and other key parties on how your navigation efforts are going. Right now, as always, transparency and trust are crucial.

Ultimately, as essential as your ability to productively react to market changes is, the current challenges demand for a healthy level of proactive strategy. In the following section you'll discover a simple approach that dozens of other CUs have already leveraged to directly increase their earnings metrics while also developing a stronger workforce.

Positioned to Dominate

Dozens of CUs are creating a sustainable competitive edge with an opportunity, and now, is a critical time to take action.

As CU leaders struggle to find ways to shore up their earnings metrics, maximize ROA, and continue to show financial strength, it's important to know that most CUs have a remarkable opportunity available to them that can drive serious dollars back to the bottom line without having to sacrifice quality, reduce staff, nor add new members. If you want to position your CU to dominate during and beyond the scope of the current crisis, the answer is immediately available to you.

Credit unions, like almost every other employer across the US, have experienced rapid and relentless increases in their employee healthcare costs year after year after year. The result is massive premiums with no additional benefit to the employee, and in some cases, portions of those rising healthcare costs have actually been passed over to the employees, themselves. For the vast majority of businesses, including credit unions, healthcare is consistently a top three expense – yet little to nothing is being done to proactively address the ever-increasing costs.

If you're like most CU executives, rising healthcare costs has just been a fact of life, as the common myth is that nothing can be done to meaningfully reduce much less control such costs. However, as pervasive as that myth is; it is just that, a myth. Rising healthcare costs do not have to be (and should not) be a foregone conclusion for your credit union.

Our work with credit unions all across the country focuses on helping hold their healthcare dollars accountable while actually enhancing the care and outcomes that their employees receive. In other words, credit unions, just like yours, can pay much less (up to 30% less) while providing better benefits to employees. Higher value, lower costs.

One of our clients you can read about in Case Study #1 was able to realize roughly $1.2 million in savings, creating an instant boost to ROA of 24%! This is just one of many examples of what's possible when CU leaders decide to treat their employee healthcare the same way they treat all there other investments.

Imagine being able to drive $1,000+ per employee per year back to your bottom line just by making a few simple changes to how you design your healthcare program. Those are real dollars that don't require any other outside action other than a proper alignment of your employee healthcare program. To achieve such a goal or greater, there are three foundational strategies to follow:

- **Strategy 1 – Stop** paying for healthcare that is not used. The traditional approach to healthcare costs requires employers pay insurance premiums for projected claims that never actually occur. By paying in advance for healthcare that may never be utilized, credit unions end up dramatically overpaying. There are superior alternative funding methods for healthcare that can create a windfall of immediate savings for your organization.

- **Strategy 2 – Leverage** aggregated risk to lower (and control) costs. Other leading credit unions across the country have aggregated their risks together to diminish risk levels which in turn directly reduces costs. This process is made even easier due to our firm's leadership in developing a consortium of credit unions that already exists. There's no need to reinvent the wheel; your organization can simply tap into this larger group so you can begin seeing the cost benefits as if your organization was a much larger organization.

- **Strategy 3 – Hold** your healthcare dollars accountable. Ultimately, as with any investment, it's vital you ensure your healthcare dollars are being properly allocated to produce the best results for your employees and the overall organization. Our team is able to not only reduce costs for our clients but also keep them low by helping them manage the healthcare supply chain. As with any other substantial and multi-pronged investment, there is misalignment, waste, and even abuse all throughout the healthcare industry. By carefully paying attention to the four main categories of healthcare costs: hospitals, prescriptions, outpatient procedures, and doctor visits, we help our clients truly control those costs and create much better health outcomes for their employees.

Through the implementation of these three core strategies, your CU can not only drastically reduce a top three expense, but also develop an even healthier, happier, and more loyal workforce.

$1.2 Million to the Bottom Line: A Case Study

A Massachusetts credit union with 334 employees wanted to reduce their high cost, employee health insurance without reducing the level of benefits offered.

Workers Credit Union – $1.2 Million Employee Benefit Savings (29% Cost Reduction)

Challenges: In 2018, the credit union paid $16,795 per employee for group medical insurance. They received a 2019 renewal increase of 5.4%, or a new annual cost of $17,769 per employee. The cost had increased every year for the past several plan years. The executive team was at a crossroad; they needed to begin cutting benefits or find a way to reduce their third largest expense.

In an effort to cut cost and enhance cash flow to the credit union, the management team decided to hire CU Benefits Alliance as their employee benefits consultant. The credit union wanted to use their existing insurance provider network and minimize any impact to human resources and its employees. As a result, solutions needed to consider the impact on existing carrier relationships, employee processes, and acknowledge that the human resources department had a number of program initiatives underway. The credit union's goal was to reduce their 2019 annual renewal quoted cost by at least 10%, or $400,000.

Process: CU Benefits Alliance conducted a high-level feasibility study to determine if the objectives could be met. Working closely with the CFO and human resource team, CU Benefits Alliance built a benefits program that allowed the credit union to remove much of the overspending that happens in health plans. Most employers pay for healthcare in advance (in the form of insurance premiums), meaning they often pay for insurance and healthcare they do not use. The new CU Benefits Alliance strategy allowed the credit union to only pay for the healthcare their employees use.

CU Benefits Alliance Solution: After determining the credit union needed to change how they funded their group healthcare coverage, CU Benefits Alliance implemented their CU Healthcare Coalition program which enables a credit union to take advantage of next generation benefit strategies, in collaboration with other credit unions nationally. The CU Healthcare Coalition model has reduced healthcare cost by over $10 million, cumulatively, in the past five years for dozens of credit unions. Additionally, CU Benefits Alliance negotiated program savings that could be passed on to employees, meaning less money coming out of their check each month to cover their family.

Results: The resulting savings were over $1.2 million in 2019. CU Benefits Alliance was able to reduce the annual cost per employee from $17,769 to $12,434…a 29% decrease!

The credit union has been able to maintain the same operational and claims processes for human resources and employees, but with improved funding and information flow resulting from the newly introduced CU Healthcare Coalition strategy.

"After many years of double digit increases on our employee medical plan, CU Benefits Alliance delivered a 29% drop in the first year. They far exceeded our expectation and completely changed our mindset about the cost dynamics of this important benefit for our employees."

Timothy Smith, CFO
Workers Credit Union

Your Next Steps

Direct cost reductions of a top three expense often in the 20-30% range combined with better benefits and healthcare for employees, credit union leaders can establish an enduring competitive advantage.

Consider being able to reallocate substantial dollars back to your bottom line to maximize your earnings metrics and potentially reinvesting those dollars to bolster the organization or even accelerate growth. In the current environment of uncertainty, adopting such an approach that creates such meaningful profit cannot be overstated.

Let this briefing serve as a catalyst to take back control over your healthcare dollars so you can truly mitigate the financial disruption of the current economy and simultaneously develop a long-term competitive edge.

Of course, you understand that knowledge without action is useless. To that end, here are two critical next steps to take to begin realizing the same types of results you read about from your peers.

1) **Complete ROA Benchmarking Scorecard –** This 2-minute online assessment will let you know how well your credit union is doing in the face of the current marketplace chaos. When our team receives your score, we'll set-up a personal 1-on-1 strategy session with this briefing's author, John Harris to answer your questions and give you specific insights and recommendations based on your score.

You can complete the scorecard HERE.
Direct link: https://tinyurl.com/cuba-roa-scorecard

2) **Or you can contact John Harris and the CU Benefits team directly:**
John Harris
877-674-7555
jharris@cuBenefitsAlliance.com
www.CUBenefitsAlliance.com

About CU Benefits Alliance

CU Benefits is an innovator in the development, delivery, and management of employee benefits plans that strengthen an organization's most valuable resource, its employees. With unparalleled experience in the Employee Benefits industry, the professionals at CU Benefits understand that the current status quo does not begin to offer the solutions necessary to make employee benefits more affordable, or more effective.

The options that are currently offered to employers ignore the fact that all organizations have their own specific needs and challenges. When it comes to developing a benefits strategy that can make a difference in the health and productivity of its organization, CU Benefit's expertise is invaluable. Representing organizations across the country, CU Benefits has set a high standard for providing opportunities to transform the one-dimensional paradigm of employee benefits.

About John Harris, CEO

John is a nationally recognized employee benefits and insurance expert with cross-functional expertise in building and leading the sales and service functions for companies in various start-up, stable and high growth situations. Strengths in formulating long-term strategic policies and technological initiatives that have supported impeccable financial results for his clients.

John has 30 years of experience in the insurance and financial services industry. After receiving his BBA in Marketing from The University of Texas at Austin, he formed a retail insurance agency and later built a successful start-up insurance operation for a large community bank. He is currently the CEO of CU Benefits Alliance, giving credit union executives the "insider" tools to control cost and help them improve benefit plan design so they can attract and retain the best employees.

Additional Resources for CU Leaders

The C-Suite Survival Guide

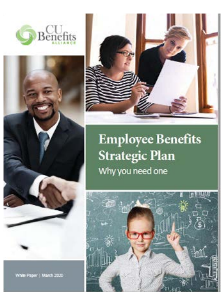
Conventional wisdom holds that cost containment of your healthcare spend is a binary choice: Accept the cost of offering health care OR reduce your healthcare offering. Cutting healthcare as an employee benefit is unimaginable for most credit unions, so before events force you and your credit union to that point, you should know the conventional wisdom that health care is an uncontrollable cost is dead wrong.

Direct link: https://cubenefitsalliance.com/wp-content/uploads/2020/04/C-Suite-Survival-Guide-FINAL.pdf

Seven Secrets to Lower Your Employee Benefits Cost This Year

As organizations look at budgets each year, one area that will undoubtedly undergo intense scrutiny is the cost of employee benefits. It is a particularly difficult item to manage due to the increasing cost and utilization of health care, not to mention compliance burdens. HR and finance managers need to take a long-term view and commit to developing a multi-year strategy instead of relying on short-term tactics to contain employee benefits costs.

Direct link: https://cubenefitsalliance.com/seven-secrets-whitepaper/



Employee Benefits Strategic Plan White Paper

Leaders understand the necessity of a strategic plan for outlining short and long-term corporate goals. However, when it comes to employee benefits (A top 3 organizational expense), most employers overlook the importance of developing strategy for this important recruiting and retention tool. This white paper details how to design a worthwhile employee benefits strategic plan for your credit union.

Direct link: https://cubenefitsalliance.com/wp-content/uploads/2017/02/Employee-Benefits-Strategic-Plan-White-paper.pdf

Contact Us

www.CUBenefitsAlliance.com

WESTERN OFFICE
1500 NW Bethany Blvd., Suite 330
Beaverton OR 97006

503-616-7500

CENTRAL OFFICE
2121 W. Springcreek Pkwy
Plano, TX 75023

972-347-4500