Investing in Annuities and Limited Partnerships

Under **12 C.F.R. § 701.19, Benefits for employees of federal credit unions** (§ 701.19), federal credit unions can use investment products to prefund or offset employee benefit obligations if, among other regulatory limits, there is a direct relationship between the investment and the employee benefit obligation it serves to fund. Investments may only be held for as long as the federal credit union has an obligation under the related employee benefit plan. A federal credit union using this investment flexibility must comply with NCUA's requirements under § 701.19.

Generally, state law governs permissible investments for federally insured, state-chartered credit unions. These credit unions should verify their investments are allowed under applicable state law and regulation.

For federally insured credit unions that have purchased—or are considering purchasing—these investments, it is important to seek advice from a qualified accounting professional as to how to account for these investments. Pursuant to **12 U.S.C. § 1782(a)(6)(C)**, federally insured credit unions with $10 million or more in assets must comply with all applicable U.S. generally accepted accounting principles (GAAP) when filing required reports or statements with NCUA.

Some investments require more in-depth analysis of specific facts and circumstances to determine the proper accounting under GAAP, including materiality considerations. The following product features may affect the accounting for an investment.

Annuities

An annuity may offer a premium bonus rider that significantly increases the policy's accumulation value, suggesting an immediate gain. However, early in the policy contract, the accumulation value may not reflect the policy's fair value due to the premium bonus recapture, surrender charges, and other policy provisions. Some annuities contain a market adjustment rider or other indexing features that affect the timing or amount of cash flows under the policy; these riders may be embedded derivatives.

Limited Partnerships

Partnerships that invest in life settlements (purchases of life insurance policies) may offer a contribution (non-cash asset) from the general partner that adds value to the limited partner's account, suggesting an immediate gain. The stated value of this contribution (or the partner's account value) may not accurately reflect its fair value due to liquidity restrictions, transactions not conducted at arm's length, or other reasons. The Internal Revenue Service considers partnerships to be business entities; its income may be subject to Unrelated Business Income Tax.

Closing Reminders

Before investing, a federally insured credit union should fully understand the nature of the investment and its associated risks. Federally insured credit unions should ask their accounting professionals for advice based on each investment's facts and circumstances. Additionally, NCUA's approach may be different in each credit union based on the specific facts and circumstances, including materiality or safety and soundness risks.

Please see NCUA's resources for **Employee Benefits and Investments for Employee Benefits**, including **Pre-Purchase Analysis**. For questions or related GAAP citations, contact **EIMail@ncua.gov**.