

January 28, 2000

David L. Andreatta, President
Dover-Phil Federal Credit Union
119 Fillmore Avenue
Dover, Ohio 44622

Re: Life Savings Insurance.

Dear Mr. Andreatta:

You have asked whether a federal credit union (FCU) may directly provide life savings insurance coverage to its members. The answer is no. NCUA has long prohibited FCUs from entering into the business of insurance.

For many years, your FCU attracted deposits in regular share accounts by offering members free life savings insurance on shares up to \$2,000. Currently, the FCU purchases insurance coverage from Minnesota Life. Rather than paying premiums to the insurer, the FCU pays the insurer after each claim is made, including an administration fee. You propose that the FCU provide its members with insurance coverage for qualifying member shares. The FCU would analyze actuarial data, then adjust the insurance benefits accordingly.

FCUs do not have express or incidental powers under the Federal Credit Union Act to underwrite insurance products for their members. FCUs may make insurance products available to their members through a third-party vendor. See 12 C.F.R. Part 721. Except for insurance products related to offering share accounts or extensions of credit, reimbursement is limited. 12 C.F.R. §721.2. The FCU may endorse an insurance plan and perform administrative functions on behalf of a third party insurance vendor. 12 C.F.R. §721.1. This does not authorize an FCU to provide insurance products directly to its members or to otherwise engage in the business of insurance underwriting.

You note that FCUs may establish self-funded employee health plans and suggest that NCUA should similarly authorize your proposed life savings insurance plan. FCUs may furnish reasonable health insurance to officials. 12 C.F.R. §701.33(b)(2)(ii). Subject to limitations in the FCU Act and an FCU's bylaws, an FCU may also establish employee compensation packages. 12 U.S.C. §1761b(12). As such, partially self-funded employee health and dental plans are components of employee compensation and not impermissible self-

insurance. These plans are authorized with a series of conditions, including reinsurance by a well-rated reinsurer, plan administration through a reputable insurance company, and fiduciary liability insurance for FCU official fiduciaries. See the enclosed letter from Richard S. Schulman to Robert Rusch, dated January 30,

1996. Therefore, partially self-funded employee health plans permitted differ significantly from your proposed plan.

Sincerely,

Sheila A. Albin
Associate General Counsel

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