BENEFITS & INSURANCE SPECIALISTS FOR CREDIT UNIONS

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The Great Resignation: The Impact to C-Suite Compensation and Benefits

Expanded conversation from 2022 CUNA GAC Breakout Session

Welcome!

- The webinar will begin at 1:00 PM CT
- All participants will automatically be muted upon entering the webinar
- If you have a question or comment during the presentation, please type the question in the chat
- Time has been allotted for a Q&A session at the end of the presentation
- The webinar will be recorded and will be available to view within 48 hours

The Great Resignation:
The Impact to C-Suite Compensation and Benefits

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Executive Compensation and Benefits 2022

- 40% of credit union CEOs reach retirement age in the next five years. So, the "Great Resignation" in credit union land was already on the calendar long before today's executive marketplace was disrupted by increased retirements and moving to other executive positions.

- Significant turnover in the executive ranks will be a disruptor that can be a challenge to overcome or an opportunity for the industry.

- Upward mobility opportunities for executives are abounding.

- Concern in credit union land about competitive executive salaries, bonus plans and benefit plans – much to lose if not able to compete for and retain top notch executive talent.

Things We Have Learned

- Recruiting and retaining executive talent is more competitive than at any time in credit union history.

- Credit unions, as a whole, have been late to the game on both comparative compensation/bonus plans with the FI industry and other industries competing for talent – as well as executive benefits plans designed to recruit and retain top level talent.

- It is imperative that credit unions catch up – or the Great Resignation becomes the Great Retreat on quality executive talent.

Things We Have Learned

- Every CEO needs competitive salary/bonus/benefits plans funded by the boards.

- But, equally as important because of the executive bench strength found there, every EVP, SVP, VP, CAO, COO, CLO, CTO, CFO, etc. is in danger of being lost with competitive recruiting initiatives in today's market.

- Every new CEO will shuffle executive positions at the credit union replacing a CEO and oftentimes at other credit unions from which the new CEO comes.

Things We Have Learned

- A credit union cannot wait until an executive leaves and positions go unfilled to play catch up.

- Executive benefits plans are as essential for retention of quality executives as salary and bonus.

- With NCUA looking to require a written succession plan that meets their approval at all federal credit unions, the time is now to begin a serious and strategic review of compensation, bonus plans and executive benefits.

Questions to Ask

- What is the competitive salary, bonus and benefits plan that we should have for a CEO at our credit union?
- With that scale determined, how do we appropriately flow that down to the other members of the executive team?
- How do we know what the right figure is and who can tell us that objectively?
- For those executives we do not want to lose in this market, how much of their income should be guaranteed upon retirement?
- How do we structure their retirement benefits so that they have maximum incentive to stay and not lose it (golden handcuffs)?
- Is the 457f or a split dollar plan the best for the executive?
- Is the 457f or a split dollar plan the best for the credit union?
- Who should I ask these questions of?

Things We Have Learned

- Find out he "how much" by comparing multiple vendor sources for compensation data before choosing a firm to assist with this part of the equation.
- Who you pick to help you determine "how much" should not be the same firm you go to for answering the question of "how to" provide the benefits.
- Do not use the same firm for both. Maintain integrity by separating those functions.
- Use multiple firms to help with the "how to" function as well. Some firms only sell 457f plans. Others only split dollar plans.
- Compare structure on the executive benefits plans you utilize. For example, one single policy covering both death benefit and income generation together on a split dollar plan versus dual policies where one covers death benefits and the other income generation (normally a less expensive option).
- Make sure your "how to" firm understands the tax implications (excise tax, for example) for the credit union and also for the executive.

Today, we have experts in each category.

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The Great Resignation

Why It Matters For Board Members

The Great Resignation has placed a heightened emphasis on credit union Board members to ensure a defensible process in setting and determining CEO compensation.

- **How would you explain or defend the process for setting your CEO's compensation if asked by the NCUA or IRS?**
- **Can you satisfy burden of proof regarding rebuttable presumption of reasonableness?**
- **Would you be able to justify that compensation paid to your CEO is reasonable and aligned with market practices?**

Checklist For Setting CEO Compensation	
√	Are Board members independent?
√	Is there in place a formalized CEO compensation philosophy?
√	Is reputable external market data used to assess competitiveness?
√	Are similar size organizations used to evaluate pay competitiveness?
√	Is there a use of a third-party independent compensation consultant?
√	Are pay actions deliberated and documented?
√	Are pay actions communicated to the CEO?

The more items above that are included in the process for setting CEO compensation, the more defense credit union Board Members would have if the IRS were to question CEO pay

The Great Resignation

Why It Matters for Executives

Current labor market conditions are prompting potentially emerging short and long-term trends specific to executive compensation in the credit union industry

		Emerging Trends and Practices
Short-Term Trends & Practices	1	**More emphasis on variable pay** (annual incentive plans) versus fixed compensation (base salary)
	2	**More structured and simplified annual incentive plans** that align executive pay with credit union financial performance and also include qualitative or strategic goals for executives
	3	**Focus on national market data** to reflect the broader, competitive labor market for executive talent
	4	**Emphasis on supplemental retirement benefits** to reinforce retention and help maintain competitiveness of the total compensation and benefits packaged offered to executives
Long-Term Trends & Practices	1	**Greater interest in designing formal long-term incentive plans** akin to publicly traded companies but with a design similar to private companies
	2	**More frequent use of retention awards** for select executives or roles to ensure continuity of leadership and longer-term credit union leadership stability
	3	**Increased levels of involvement** from Board of Directors / Compensation Committees on executive pay program design and a heightened focus on ensuring pay alignment with credit union performance

The Great Resignation

CEO Base Salary

Over the last 24 months, base salaries for CEOs at credit unions have increased more rapidly than historical norms

CEO – Percent Change in Base Salary – 2020 to 2021*

Total Assets	$75M-$150M	$150M-$400M	$400M-$1B	$1B+
50th Percentile	5%	4%	5%	7%
75th Percentile	7%	6%	10%	11%

What is Driving Higher Levels of CEO Base Salary?

- More competitive external labor market (competing more with broader financial services institutions)
- More compensation structure contributing to clearer compensation philosophies and desired target market positioning
- Retirement / succession planning
- Attraction and retention pressures

* Source: 2021 NAFCU-Gallagher Executive Compensation and Benefits Surveys

The Great Resignation

Executive Annual Incentive Plan Payouts in 2021 in Relation to Target

For the 2021 performance year, most credit unions reported executive incentive payouts above target

	Above Target	Below Target
Total Sample n = 34	79%	21%

% of responding organizations

	Above Target	Below Target
Assets Greater Than $6 Billion n = 13	80%	20%

% of responding organizations

	Above Target	Below Target
Assets Less Than $6 Billion n = 21	79%	21%

% of responding organizations

* Source: Willis Towers Watson Credit Union Q1 2022 Pulse Survey

The Great Resignation

Business Strategy is Closely Tied to Executive Compensation Strategy

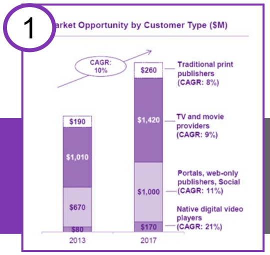
Before designing an effective executive compensation program, it is important to understand the credit union business / strategic plan and align it with executive compensation program design and outcomes

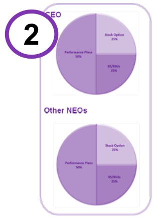
Clarify Strategy → **Review and Design** → **Communicate** → **Support**

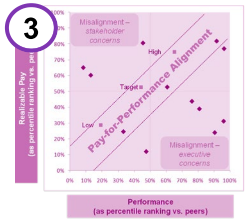
Clarify Strategy
- **Business Strategy**
- **Labor Markets**
- **Rewards Philosophy**

Review and Design
- **Comp benchmarking**
- **Benefits benchmarking**
- **Pay mix analysis**
- **Leveling**
- **Salary structure**
- **Incentive design**
- **Target-Setting**
- **Pay equity**

Communicate
1. Strategy and projections
2. Pay approach
3. Pay for performance





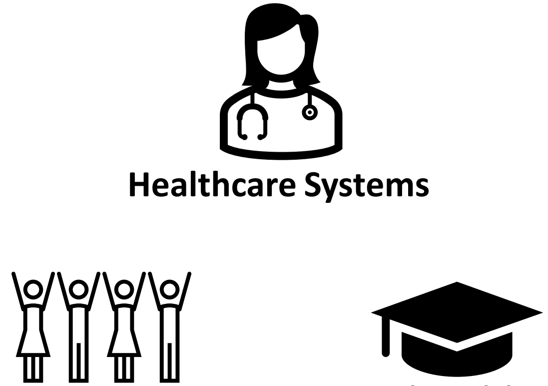


Support
- Efficient administration and governance
- Stakeholder "buy-in"
- Employee buy-in
- Transparency

Internal and External Support

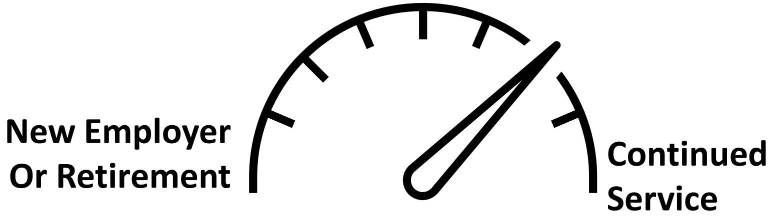
You Are Looking More & More Like Your Larger Tax-Exempt Peers

1. Focused and ongoing education of member boards on compensation trends, strategies and options.
2. Seeking out future board members with expertise in this area.
3. Forming a Compensation Committee of the Board to oversee this area.
4. Integrating the finance team.
5. Engaging compensation consultants who are financially independent of any compensation or benefit plan decisions.
6. Engaging and educating the credit union's Public Relations resources.
7. As a retention strategy, providing more informative and engaging reports to participating executives.
8. Providing financial planners, at the credit union's expense, to C-Suite executives.



Current Retirement Benefit Industry Metrics

1. 2%-3.5% income replacement per year of service
2. Income replacement benchmarked to final average total compensation (base compensation + incentive compensation)
3. Inclusive of all employer funded plans, including 50% of Social Security, and employer contributions to qualified and non-qualified plans.
4. Back-end vesting but complimented with short and long-term retention plans
5. Accelerated vesting to full benefit for death, disability and change in control



Retirement Benefit Trends

1. Compared to pre-pandemic levels:
   - The <55 age labor force has largely returned, but many have switched employers.
   - Large portions of the 55+ age labor force have not returned. This is the age range most associated with C-Suite executives. Many are "attempting" early retirement, enabled by the strong stock market and/or rising home prices.
2. Retirement benefits are second only to cash compensation in evaluating a new employer. And its not just the amount … it's the terms, vesting, certainty and tax efficiency.
3. Retentive, protected, "high certainty" and tax-advantaged retirement benefits could create an attractive means to recruit and retain these groups.

Case Study #1

1. Highly sought after executive in secondary market
2. Strong board desire to retain until normal retirement
3. Target 70% income replacement at retirement
4. Implemented a combination of retention bonuses (to provide periodic incentives) and split-dollar plan (that vests at retirement), the later providing tax-free retirement income
5. Split-dollar plan allowed for recovery plus interest to employer, thereby perpetuating their community mission
6. Executive was later recruited by major metropolitan organization. Executive declined the offer due to the retention/retirement package with current employer

Case Study #2

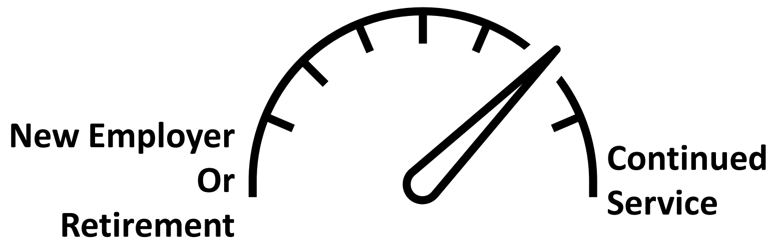
1. Near-term retirement of organization's CEO
2. Two current executives were being considered as CEO's replacement, and Board wanted the flexibility to recruit externally
3. Critical to retain current executives even if not selected as CEO
4. Comprehensive incentive structure, both near term and long-term, plus back-end vested retirement benefit put in place for each of these executives
5. Both executives have remained with the organization

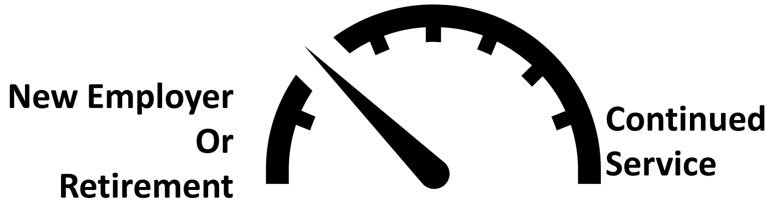
Case Study #3

1. Organization had a team of 10 executives critical to future success
2. Board had a strong desire to retain these executives given increasing talent demand in the market, and increasing complexities of the positions
3. Comprehensive incentive structure, both near term and long-term, plus back-end vested retirement benefit put in place for these of these executives
4. Ongoing plan reviews, to communicate to these executives the value of these programs, was implemented
5. All executives are still with the organization

Other Case Study Snippets

1. Educated organization's public relations team to manage community inquiries on compensation. Well prepared for questions from local press.
2. Developed retentive retirement package to sellers of a title company to a credit union CUSO
3. Developed incentive and retirement package to incentivize CEO to retire at age 65, thereby retaining heir apparent





Questions?

Please submit in the chat.

Thank you for attending!

A recorded version of the webinar will be available on BenefisCU.com and the link will be emailed to you once available.

To have a meeting scheduled with all three presenters, please email Jessica White at jwhite@triscendnp.com

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