





### Understanding pay-for-performance linkage.

Today it's not enough for a compensation committee to simply gather some pay data and recommend a pay increase. There is much more emphasis on the “what” a credit union rewards through its compensation programs and “how” an executive earns his or her compensation. The ability to understand a credit union's revenue engine, ALM strategies and budget assumptions are more critical than ever as compensation committees need to document why they pay what they pay for regulators, the membership and other stakeholders.

### Understanding the value of total executive compensation.

Executive total rewards today include base salary, incentive programs, benefits and retirement programs. Each program is a piece of the puzzle that influences executive recruitment and retention. While some credit unions have separate compensation and benefits committees, we have found a credit union is best served by having one committee that oversees all executive programs. In many cases, a committee deals with executives who are designated as highly compensated employees by the IRS, which means special considerations in how these executives are treated in a credit union's benefit programs.

### Reassess executive compensation benchmarking.

In the last two years, many credit unions have consciously shrunk assets to improve net worth positions. The question has become where one should shrink the peer group or keep the peer group consistent because those credit unions are still technically competitors for executive talent. There has always been a debate as to the merits of establishing meaningful peer groups and the lack of quality compensation information available in the market today. While banks can pull SEC disclosures to obtain valid executive compensation data, credit unions must rely on industry salary surveys and IRS 990 reports that are two years old at best. It's a delicate balance between identifying similar-sized credit unions to create a peer group compared to larger credit unions which might be targeting your executives. Each year a committee should evaluate the strength of its peer group definition and the utility of its compensation data sources to reaffirm that they are meeting the credit union's requirements.

## Key 2: Strategic Planning

World-class executive compensation committees are committed to integrating their work into the strategic planning cycle through the following action steps:

**Review the executive compensation committee charter annually** to ensure that the committee complies with their responsibilities and to see if any changes are required based on regulatory changes or evolving practices.

**Review the annual calendar at the start of each year** to highlight the key priorities for the year (e.g., SERP or annual incentive plan redesign).

**Allocate dollars to continuing education on emerging topics** such as the risk assessment process, succession planning, pay-for-performance and executive retention strategies. New committee members benefit greatly from education focusing on the credit union's historical executive pay practices and performance.



## About the Author

John W. Andrews, CCP, CSCP, SPHR, Executive Vice President, specializes in executive compensation, board governance, sales and variable pay design, market research and strategic planning. John has demonstrated competency as an executive compensation consultant, human resources trainer and strategic planning facilitator.

John has also worked with KPMG Peat Marwick, the Center for Coastal Studies and the National Association of Insurance Women. He has served as expert witness and executive compensation consultant to regulatory agencies such as the National Credit Union Administration, the Pennsylvania State Department of Banking and the California Department of Business Oversight.

John has diversified consulting experience where he has served as an executive compensation and organizational development consultant to numerous corporate, not-for-profit and trade association clients. Not-for-profit clients include the Texas Methodist Foundation, the ELCA Mission Investment Fund, the Texas Municipal League, The City of Yoakum, and The Woodlands Ballet Theatre.

He holds a Master's degree in Organizational Communication from Emerson College, Boston, and a B.S. degree from the University of Tulsa. John has held the Certified Compensation Professional designation of the World-at-Work Association since 1993 and the Senior Professional in Human Resources designation of the Society for Human Resource Management since 1996. Areas of certified competency include Job Analysis, Quantitative Analysis, Pay Structure Development, Performance Manager and Employee Benefits.

John has published articles in The Credit Union Executive, The Federal Credit Union, Credit Union Technology, The Eastern Communication Annual, Today's Insurance Women, The Public Relations Student Society of America Journal and Ball State University's Public Relations Journal. He has served as co-editor for D. Hilton's credit union executive, staff and benefits compensation surveys since 2003.

He has given speeches to the National Association of Federal Credit Unions, the Credit Union National Association, Credit Union Conferences, National Association of Credit Union Presidents, the International Telephone Credit Union Association, the League of IBM Credit Unions, the National Association of Insurance Women and numerous state credit union leagues.



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