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2015 SERP SURVEY

EXECUTIVE SUMMARY



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Disclosure

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Section 1: Introduction



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Looking for Leadership

***By David M. Hilton, Ph.D.
President/Founder D. Hilton Associates, Inc.***

CEO succession planning is one of the most significant challenges facing the credit union industry today. An aging workforce and the shortage of available CEO talent are issues that weigh heavily on the minds of most credit union Boards of Directors, and can be found as topics on nearly every conference agenda. However, in the quest to develop a succession strategy, Boards can often overlook some important factors.

Most Boards understand and appreciate that regardless of whether or not a CEO's departure can be anticipated, executive transitions are inevitable, and a solid succession strategy is essential to the welfare of their organization. To be prepared for an orderly transition whenever it occurs, a Board needs to have a process in place that enables it to effectively identify, interview and select the organization's next leader. Whether this process involves the promotion of an internal candidate, or the use of an executive search firm to find an external candidate, it is important to take into account some of the changes that have occurred in recent years within the credit union industry.

The Next Line of Command

One result of the 2008 economic downturn was a shift in succession planning. To keep a "steady hand at the helm to navigate stormy seas," it was not uncommon for credit unions to invest considerable time and money in encouraging their CEOs to stay longer than originally planned. Raises were given, and retirement plans were extended. But at the same time, executive development programs were temporarily suspended, and potential internal candidates for succession were asked to be patient.

Now that the industry has weathered the storm and the tenured CEOs are finally retiring, succession planning has become more complex. The senior leadership executives who were so involved in tactical execution and day-to-day crisis management found that they had less time to focus on strategic elements. Surviving the economic difficulties caused many credit unions to temporarily disregard their commitment to executive development—an essential element of a successful succession plan. Consequently, those executives who were once considered to be strong internal succession candidates are being passed over for the CEO role because they are perceived by the Board as not having the current skillsets



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necessary to effectively take the helm of the organization. In addition, these senior executives are now closer to retirement and may not be as appealing to the Board as they once were. Of the last 60 CEO searches at credit unions with over \$1 billion in assets, 38 of the placements were internal hires and 22 were external hires. Of the 60 placements, 54 were non-CEO C-suite executives.

While looking outside the organization for the next CEO may appear to be the best option for a credit union, passing over an internal candidate may have unexpected consequences. If not promoted, an experienced and accomplished senior executive who has been patiently waiting for the chance to run an organization may seek a CEO opportunity with another organization that recognizes his or her potential or perhaps retire earlier than scheduled. This can leave the credit union without an essential C-level executive, thus leading to the need for an additional external hire.

When Governance Muddies the Waters

Many Boards today use a traditional governance model in which the Board is focused solely on its one employee—the CEO. In general, the Board depends on the CEO to develop a succession plan for his or her job and does not concern itself with the senior leadership team. However, it may be time for credit unions to challenge this type of governance model and take a different perspective on succession planning.

Every credit union has a unique personality that differentiates its member experience from those of other financial service providers, including from other credit unions. The CEO and the credit union's unique characteristics must be aligned if the organization is going to be successful and run smoothly. Identifying and recognizing these characteristics should be part of a credit union's succession plan. Boards need to be willing to spend time analyzing the characteristics of all its leaders to ensure the next generation of operational and strategic excellence. However, when the Board does not have a relationship with the rest of the credit union's leadership team, this can be a challenge. If a credit union's unique personality is going to be replicated and enhanced, succession planning may require digging deeper into the organization beyond the typical CFO or COO levels.

This deeper look into leadership can include other C-suite executives as well as the managers reporting up to the C-Suite. Unfortunately, for credit unions that expect to pluck their CEO from the C-Suite, there is a risk that those candidates will be of similar age and have the same career horizon as their bosses. This is one of the many reasons why it is crucial that succession planning be repositioned as leadership development that includes several layers of management.



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High performing organizations with strong succession plans tend to incorporate leadership development at multiple management levels, rather than simply focusing on the top job. In the Fortune 500 world, it is not uncommon for an internal candidate to leapfrog from another management tier to the top job because the Board is willing to look at all options and recognize opportunities at other levels.

For effective succession planning in the financial services sector, Boards would benefit from identifying those leaders who have ascended rapidly within the organization and have had success in major initiatives. These individuals have taken risks and executed strategies that may be a departure from how the current C-Suite has approached these issues in the past. It becomes not so much a concern about the executive's experience level, but an appreciation for his or her ability to address the current issues in today's marketplace.

If a Board is not aware of its full bench strength at various management levels, it may miss an opportunity or lose a key executive. The goal is to maintain service continuity for the membership during various forms of executive transition. In a contingency scenario in which there is a sudden departure or the unexpected incapacity of the CEO or other senior manager, the goal is operational continuity for up to nine months. For a planned executive transition, the goal is an efficient recruitment and selection process to attract, identify and retain the services of a new CEO within a nine- to twelve-month time frame. Regardless of the scenario, the credit union needs to ensure leadership development is taking place at multiple levels, and that the Board is familiar with several levels of its leadership team. This will ensure the Board knows its options during any type of executive transition.



Succession Planning Timeframes are Expanding

While a traditional succession plan's timeline is generally based on the current CEO's anticipated retirement date, the Board needs to be prepared to execute its executive transition plan at any time and without delay, should there be a sudden or unexpected departure.

An effective, ongoing succession planning process:

- Leads to an executive transition that is designed to be a timeline-driven event.
- Provides a seamless transition that assures members, staff, and regulators that its Board is diligently executing its responsibilities on behalf of the membership.
- Anticipates the executive leadership competencies required under the current organizational structure and future growth strategies.
- Ensures that the credit union maintains a sound infrastructure and governance model during the executive transition period.
- Creates optimum conditions for an incumbent to succeed.

Conclusion

Succession planning will remain a top priority for the financial services industry, especially since the Baby Boomer generation's retirements have yet to peak. By understanding how the environment of the industry has changed, a Board can be prepared for the departure of their CEO by being familiar with their options—whether that is selecting an internal candidate or recruiting from outside the organization. Ensuring that leadership development is taking place on multiple levels will make executive transitions easier, if that means promoting and backfilling from the traditional CFO or COO roles, or looking at someone from a non-traditional management position to potentially take the helm.



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Section 2: **Methodology**



What is the function of a SERP?

A Supplemental Executive Retirement Plan (SERP), such as a 457(f), is by far a credit union's best executive retention and retirement tool. Many Boards consider their 401(k) and Social Security programs to be sufficient retention and retirement plans. They are certainly helpful benefits, but they are rarely adequate. In fact, as an executive earns more compensation, a 401(k) becomes less helpful.

The increasing prevalence of 457(f) plans among credit unions of all sizes is due in large part to IRS (IRC 415) contribution limitations placed on highly compensated employees. This rule limits the amount of total compensation (base pay + variable pay) that can be applied towards the employer's discretionary contributions to a qualified plan (i.e., 401(k), 403(b), etc.). The result is that senior executives rarely have the opportunity to participate at the maximum level needed to fund their retirement and causes a disparity between the executive's projected retirement savings and projected retirement needs.

D. Hilton's compensation database has established that a majority of CEOs at credit unions with assets above \$100 million are already above the 415 limits, meaning their total compensation exceeds the compensation threshold of \$265,000 for 2015. Because the cost of living index did not meet the statutory requirements to trigger an adjustment, the contribution limit will remain \$265,000 through 2016.

Included is an example of how these contribution limits work against a fictional President/CEO who is 45 years of age and employed at a mid-sized credit union. We assumed an annual salary adjustment of 5%, a 5% employer matching 401(k) contribution, employment through age 65, and the Social Security web site's projected annual 415 limit COLA (Cost of Living Adjustments) starting in year 2017. In this example, the CEO's 2015 total compensation was \$375,000. Assuming the 5% employer match, if there were no 415 limits the executive would have received an employer 401(k) contribution of \$18,750. However, because of the 415 limitation, the executive actually received a capped \$13,250 ($\$265,000 \times 5\%$). This resulted in the 401(k) match provided by the employer being just 3.53% relative to the intended 5% match provided for other employees. Thus, as the executive earns more compensation, the relative percentage of the 401(k) plan keeps diminishing.

While the \$5,500 deficit for 2015 may seem small, over the course of this CEO's remaining 20 year career there is an accumulated shortfall of \$310,486. This forfeiture grows substantially larger when considering the lost revenue from tax deferral and investment earnings. That is where a 457(f) comes into play. Not only does it make up for the lost percentage of the 401(k), but it also can be an effective benefit for both the credit union and the executive.



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Sample 401(k) 415 Limit Impact Illustration Reflecting Assumed Future Increases in 415 Limits

Year	Projected Total Comp (Base + Bonus)	Projected 401(k) <u>With</u> 415 Limits (5% of 415 Limit)	<u>Percentage</u> of Total Comp With 415 Limits	Projected 401(k) <u>Without</u> 415 Limits (5% of Total Comp)	Projected <u>Difference</u> With and Without Limits
2015	\$375,000	\$13,250	3.53%	\$18,750	\$5,500
2016	\$393,750	\$13,250	3.37%	\$19,688	\$6,438
2017	\$413,438	\$13,500	3.27%	\$20,672	\$7,172
2018	\$434,109	\$14,000	3.22%	\$21,705	\$7,705
2019	\$455,815	\$14,250	3.13%	\$22,791	\$8,541
2020	\$478,606	\$14,750	3.08%	\$23,930	\$9,180
2021	\$502,536	\$15,000	2.98%	\$25,127	\$10,127
2022	\$527,663	\$15,500	2.94%	\$26,383	\$10,883
2023	\$554,046	\$16,000	2.89%	\$27,702	\$11,702
2024	\$581,748	\$16,500	2.84%	\$29,087	\$12,587
2025	\$610,835	\$16,750	2.74%	\$30,542	\$13,792
2026	\$641,377	\$17,250	2.69%	\$32,069	\$14,819
2027	\$673,446	\$17,750	2.64%	\$33,672	\$15,922
2028	\$707,118	\$18,250	2.58%	\$35,356	\$17,106
2029	\$742,474	\$18,750	2.53%	\$37,124	\$18,374
2030	\$779,598	\$19,250	2.47%	\$38,980	\$19,730
2031	\$818,578	\$20,000	2.44%	\$40,929	\$20,929
2032	\$859,507	\$20,500	2.39%	\$42,975	\$22,475
2033	\$902,482	\$21,000	2.33%	\$45,124	\$24,124
2034	\$947,606	\$21,500	2.27%	\$47,380	\$25,880
2035	\$994,987	\$22,250	2.24%	\$49,749	\$27,499
Projected total forfeited due to 415 limits from 2015-2035					\$310,486



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What's new in this year's SERP Summary?

D. Hilton has conducted a review of retention and retirement trends for the past 12 years because we feel we have a responsibility to provide executive compensation decision makers with sound information in order to respond to marketplace changes. In today's environment, documenting executive compensation reasonableness has moved to the forefront, and D. Hilton's research initiatives are designed to give credit union Boards the assurance that they are making solid decisions, which ultimately leads to peace of mind.

In the 2015 SERP Survey, D. Hilton focused on gathering information about multiple types of non-qualified deferred compensation plans, such as Endorsement Split-Dollar plans and Collateral Assignment Split-Dollar plans, in addition to 457(f) plans (SERPs). Some of the new questions focused on the development of SERPs for non-CEO executives, timeliness of the SERP review process, recouping the credit union's investment upon plan completion, confidence in the plan for fulfilling retirement needs, and expected versus actual rate of return. Also included in the report is a sample Request for Proposal (RFP) template, Investment Policy Statement (ISP) sample, Tasks and Procedures sample, and the latest thought leadership from D. Hilton's Compensation Practice.

Once again, participation in the 2015 SERP Survey was significant, and D. Hilton extends thanks to everyone who took the time to participate in the study. We hope you will find the following information useful to your credit union, and we encourage you to contact us if you would like more information about compensation trends in the industry.



Survey Methodology

The 2015 SERP Survey was mailed to the Chief Executive Officer of a total of **1,520** credit unions with \$100 million or more in total assets. A total of **778** credit unions responded to the survey for a **response rate of 51%**, up from the 47% recorded in the 2013 survey. Because of the large response, D. Hilton is able to present results at a better than 95% +/- 3% confidence level. The 2015 survey was edited to provide a more concise and effective survey experience for survey participants.

Response rates varied by asset size. The response rate among each asset group was above 50%, with the exception of credit unions with assets between \$100M-\$199.9M, which reported a response rate of 44%.

Responses by Asset Size				
\$100M – \$199.9M	\$200M – \$399.9M	\$400M – \$599.9M	\$600M – \$999.9M	\$1B+
252	214	99	86	127
44%	55%	59%	53%	55%

The percentages in the above table represent response rate as a percentage of the entire asset group.



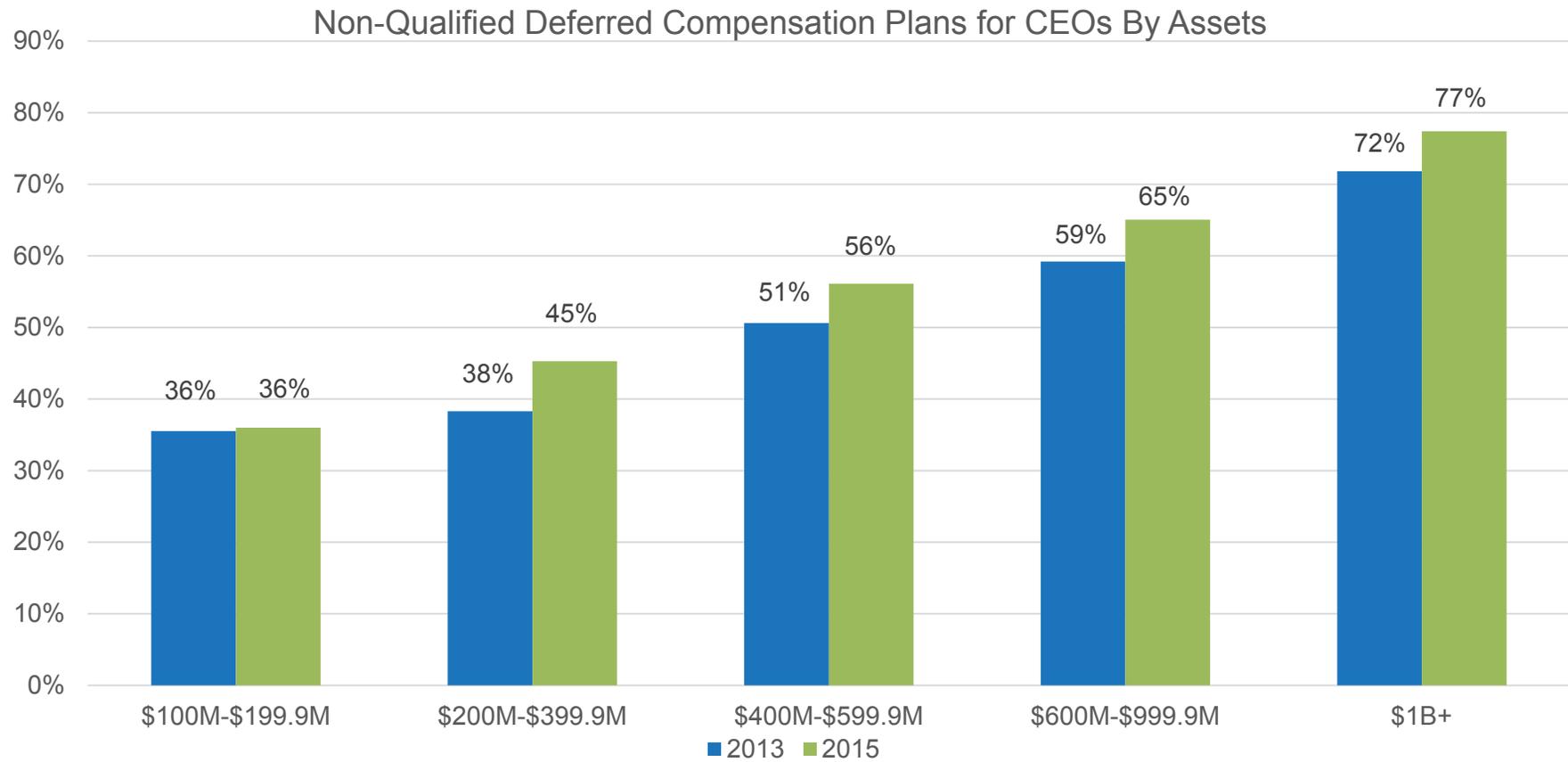
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Section 3: **Executive Summary**



Non-Qualified Deferred Compensation Plan Prevalence

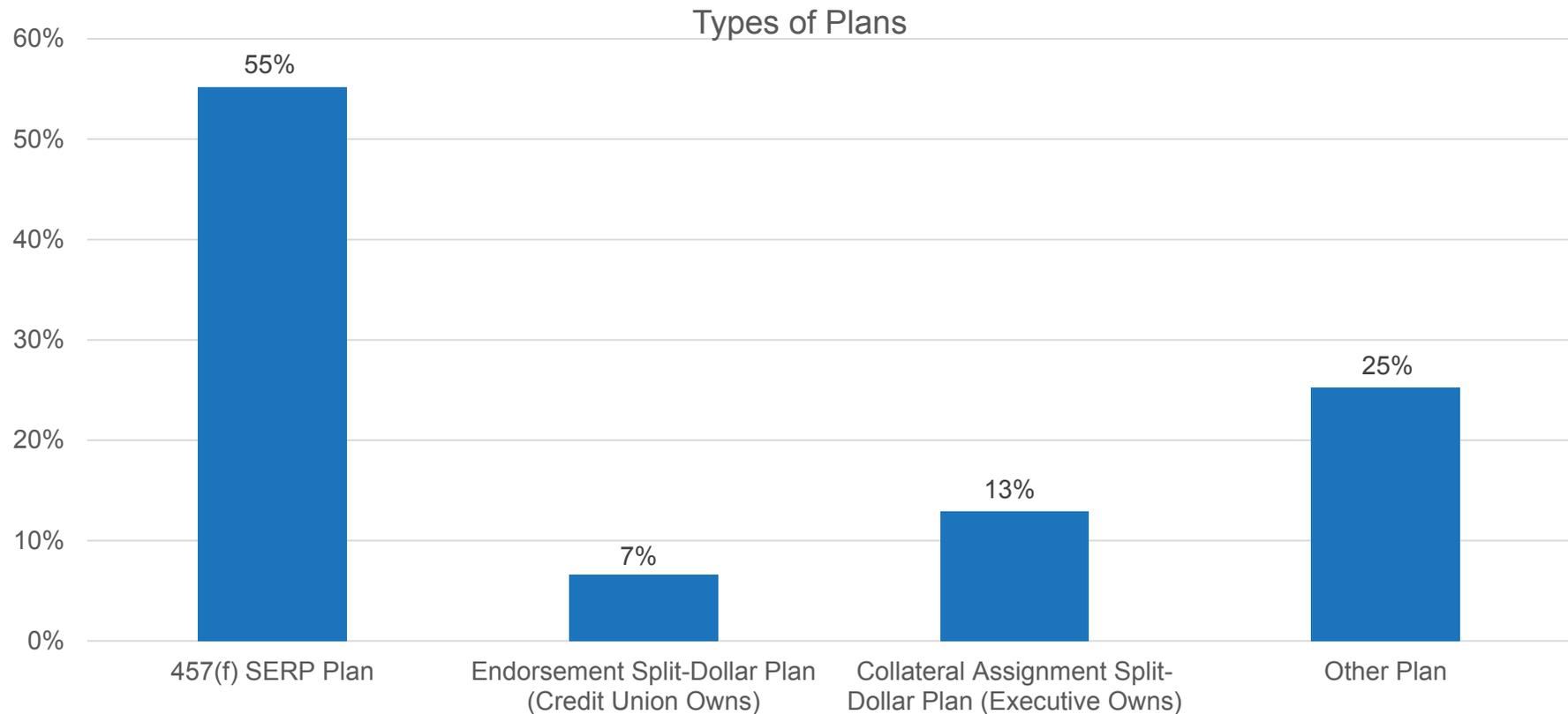
The 2015 survey found that **51%** of CEOs at credit unions with over \$100M in total assets have some form of a Non-Qualified Deferred Compensation Plan (NQDC) in place, up from 47% in 2013. The existence of NQDC plans increased for CEOs across all asset groups compared to 2013, demonstrating that regardless of asset size, this kind of tool is crucial to executive retention. Of the CEOs without a plan in place today, 81% believe that a plan will be in place for them within the next two years, further illustrating the growing desire for these plans as vehicles of executive recruitment, retention and retirement.





Plan Type

A majority of non-qualified deferred compensation plans established for credit union CEOs utilize a 457(f) SERP plan design. The prevalence of 457(f) SERP plans demonstrates the preference of utilizing this plan design. Within the “other plan” category, 457(b) and 403(b) were some of the plan types cited. Credit unions have the ability to implement multiple types of non-qualified deferred compensation plans for a single executive. However, just 16% of all credit unions report utilizing multiple plan designs for their executive.

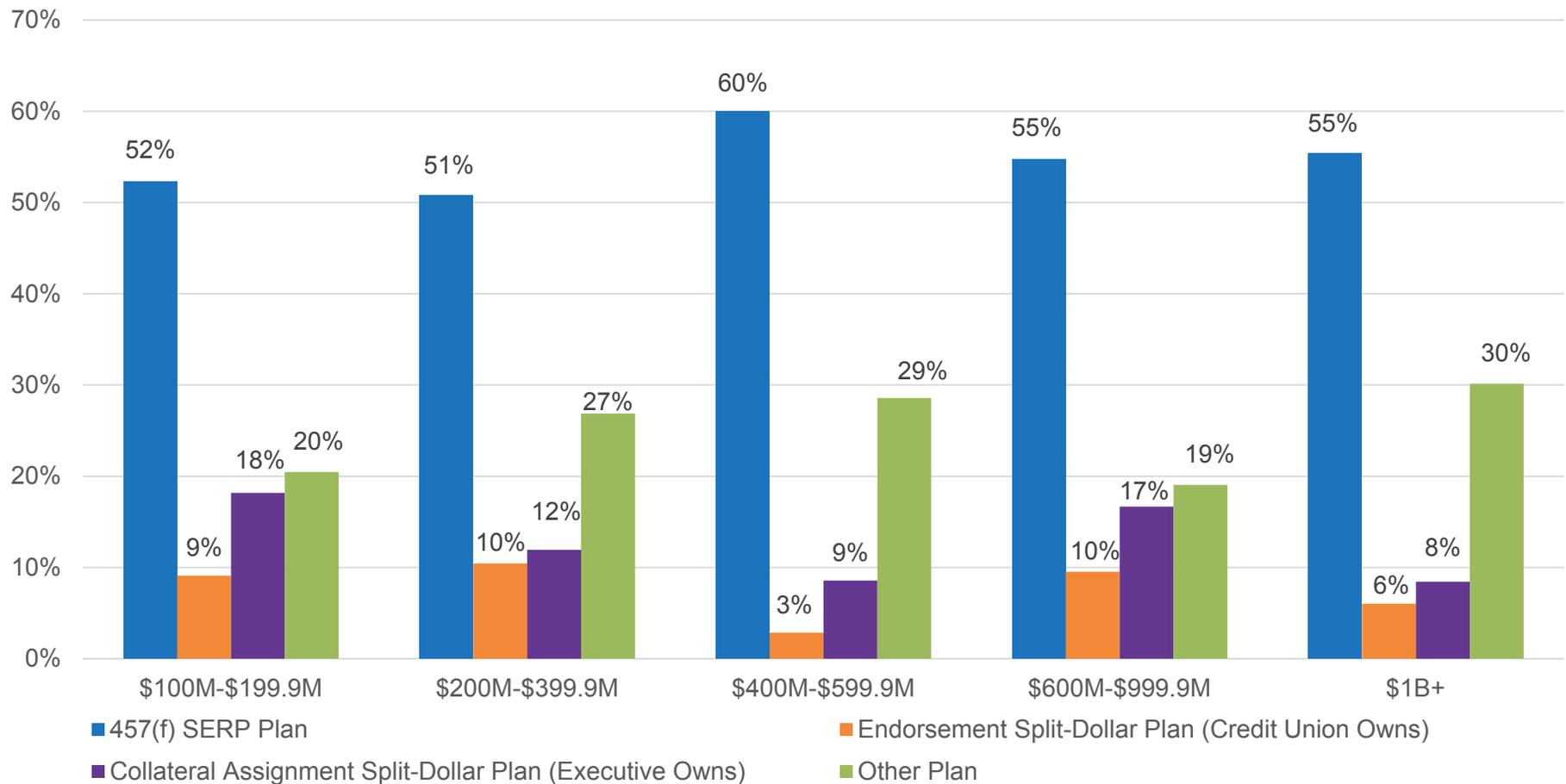




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Plan type usage varies by asset category but does not appear to have any significant relevance. The presence of 457(f) SERP plans as the desired plan design is prevalent across all asset ranges. One does see slightly higher usage of Collateral Assignment Split-Dollar plans among smaller credit unions (\$100M-\$199M). Credit unions in the \$400M-\$599.9M asset category are slightly more likely than the other asset groups to utilize 457(f) plans, and credit unions with more than \$1B in assets report higher usage of “other plans.”

Plan Types by Assets





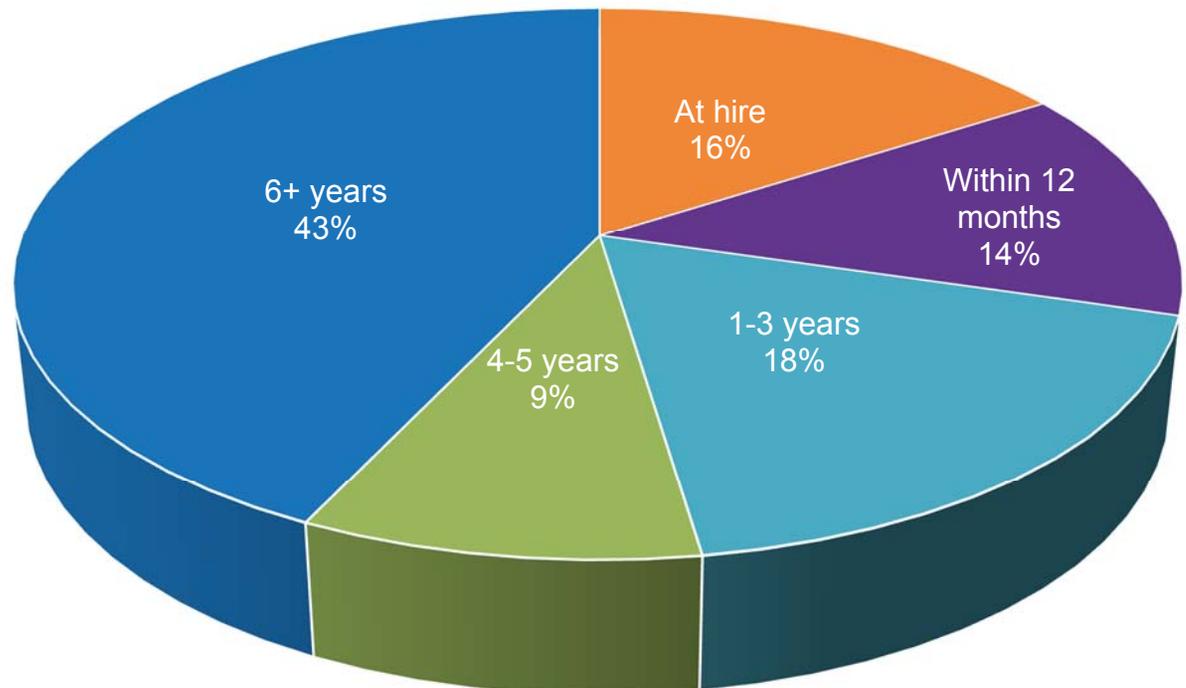
Plan Establishment

For many CEOs, a non-qualified deferred compensation plan was not established until they had been in the position for at least six years. Of the CEOs who had a plan, it was put into place after an average of eight years of tenure as CEO.

However, one must keep in mind that this is across all respondents. D. Hilton examined those CEOs who started in 2010 or later and when the Board implemented a non-qualified deferred compensation plan. For CEOs who were promoted or hired as CEO in 2010 or later, **plans were implemented within a maximum timeframe of 1.6 years**, demonstrating the importance an NQDC plan currently plays in the credit union's recruitment and retention strategy. An effective NQDC plan takes six to eight months to develop, so it is safe to conclude that a large majority of these plans were initiated at the time of promotion or hire into the CEO position.

About 20% of respondents had an NQDC plan in place in their previous position prior to their current CEO position.

Years as CEO Before Plan Established





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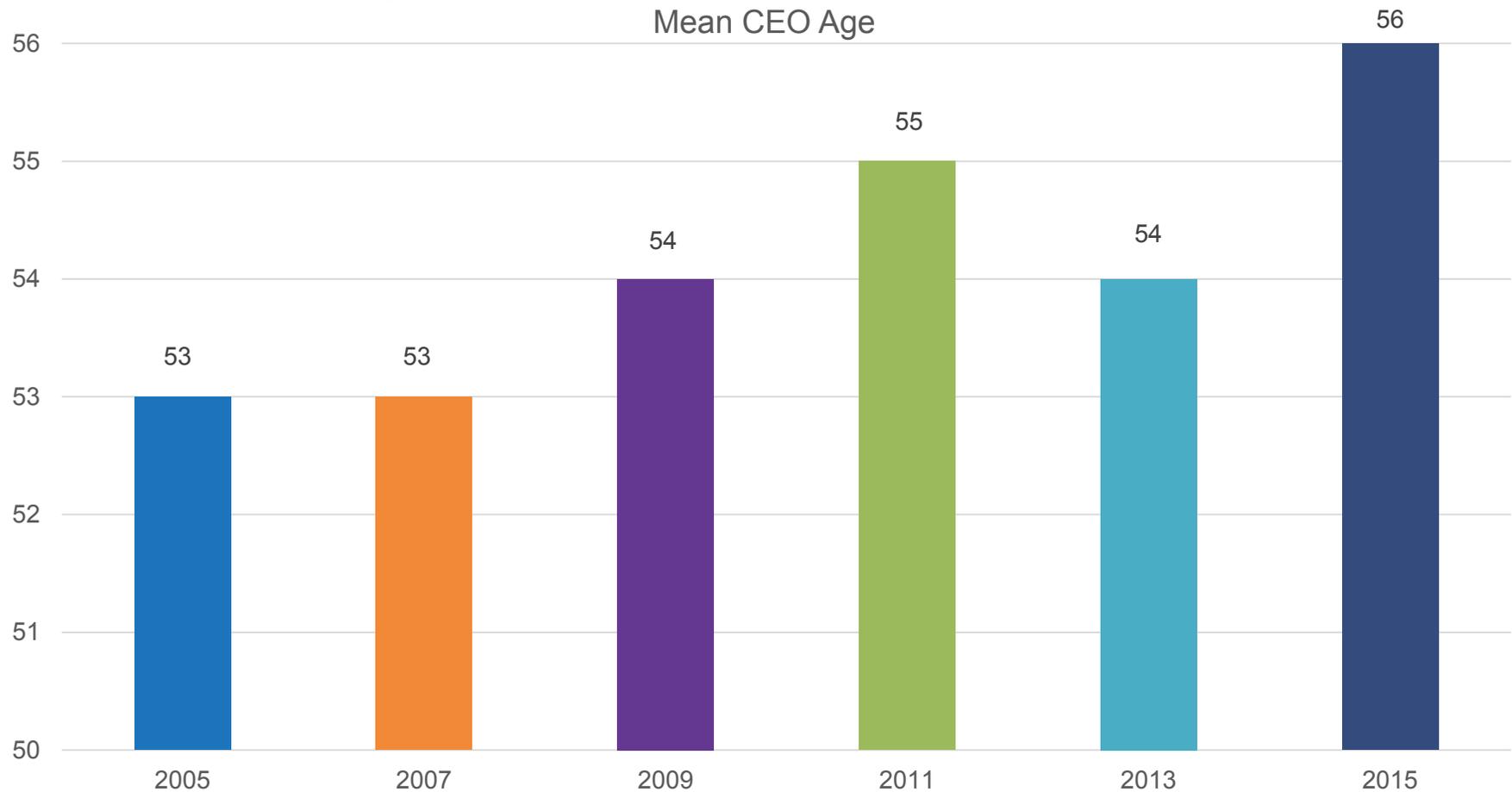
The chart below illustrates that among those CEOs who began in 2010 or later, an NQDC plan was put into place less than two years after becoming CEO. Implementing a non-qualified deferred compensation plan is considered an effective retention tool, and Boards are recognizing that early implementation contributes to stronger employee satisfaction and commitment.

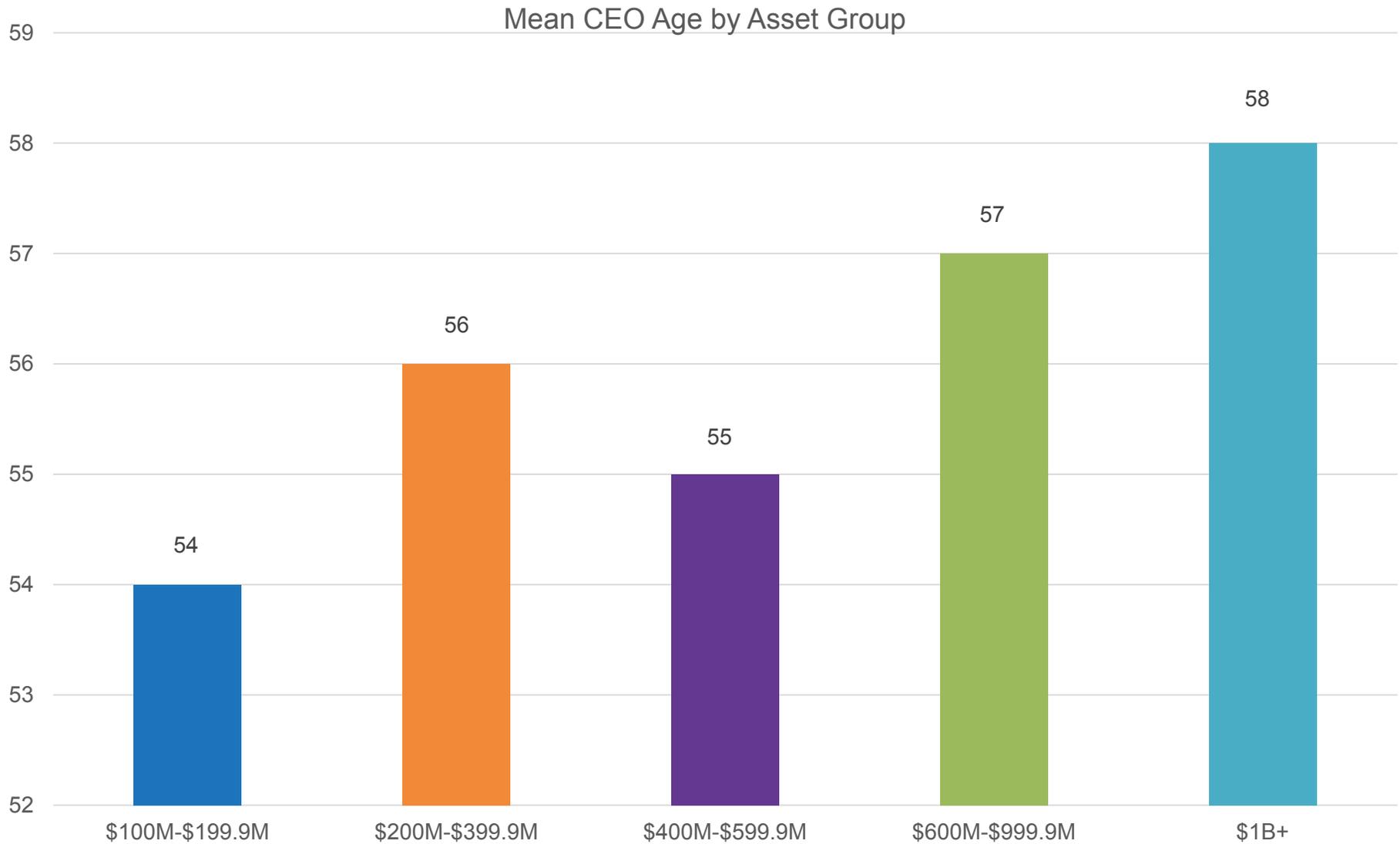
Year CEO Began/Promoted	Years of Tenure Before NQDC Plan Implemented
2014	1.0
2013	1.6
2012	1.2
2011	1.1
2010	1.4



CEO Demographics

The current and ongoing talent shortage due to the retirement of millions of Baby Boomers is a much-talked-about issue in the credit union industry today. This is easily seen among credit union CEOs, where the **average age is 56** (the highest average age recorded by D. Hilton in the past ten years). The average age of a CEO also increases with asset size, as can be seen in the accompanying chart. As more industry executives approach retirement, a strong retention and succession strategy will be crucial to the long-term viability of your organization.

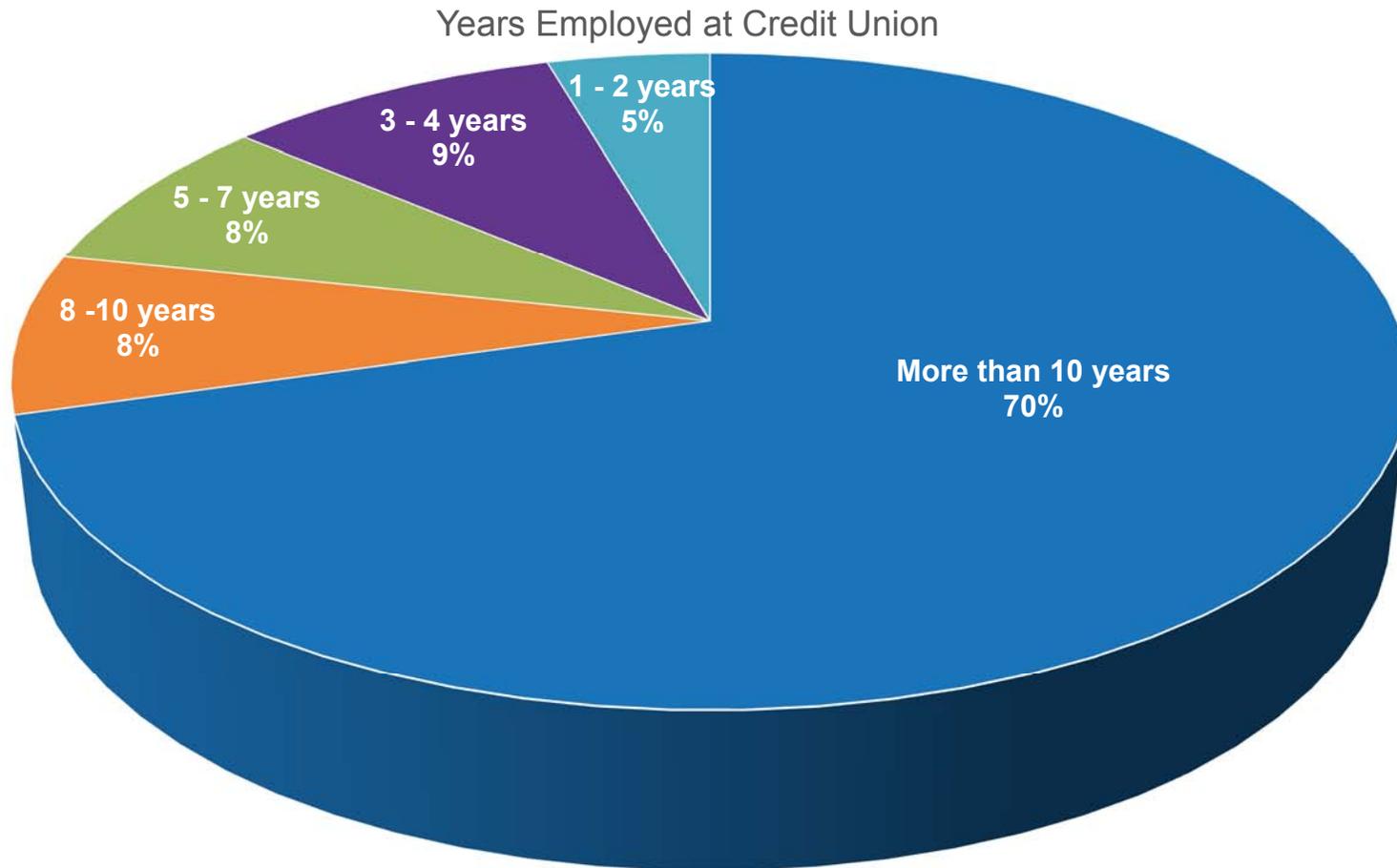






Years with the Credit Union

A large majority (70%) of CEOs have been employed by their current credit union for more than ten years. Given that the average age of a CEO is 56, the credit union industry should expect an increasing number of executive retirements over the coming years.





Experience as a CEO

Given the large amount of turnover the industry has experienced for the CEO position, it should come as no surprise that **30% of all credit union CEOs have less than five years' experience** in their key leadership role. Because of the unique nature of this position, ongoing leadership training and skill set enhancement is a vital investment for credit unions.

CEO Experience						
	\$100M – \$199.9M	\$200M – \$399.9M	\$400M – \$599.9M	\$600M – \$999.9M	\$1B+	Total
20+ Years	23%	19%	15%	28%	22%	21%
15 – 19 Years	10%	11%	13%	3%	15%	11%
10 – 14 Years	13%	14%	15%	10%	13%	13%
5 – 9 Years	23%	23%	36%	34%	18%	25%
< 5 Years	31%	34%	21%	24%	33%	30%



Internal vs. External Hire

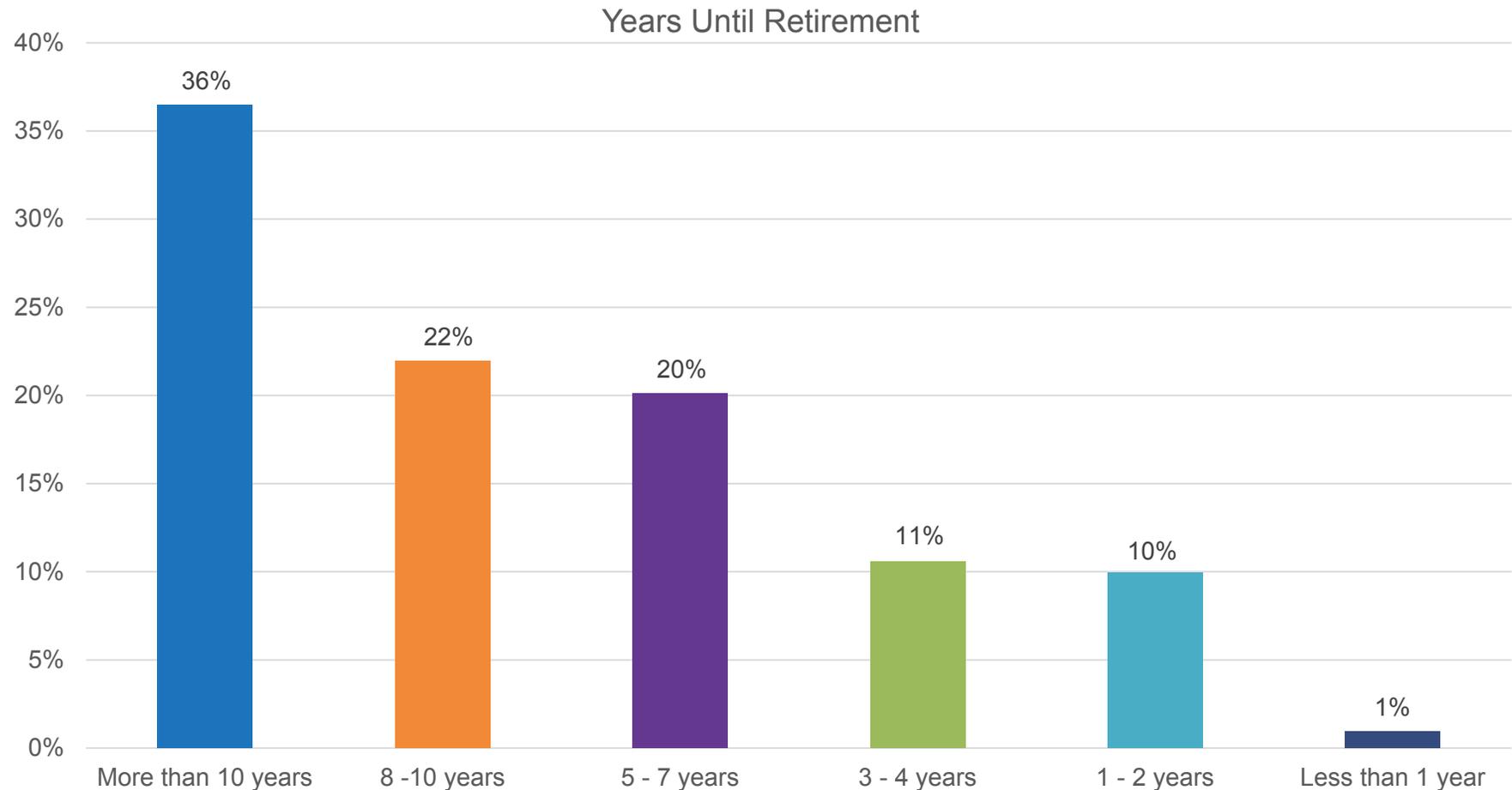
When asked how many CEOs were promoted into their CEO position today, 56% indicate that they were an internal hire, meaning 44% of all CEOs come from organizations outside the credit union. The rate of internal hires is particularly low at smaller credit unions, perhaps because of limited staffing and resources. Analysis by asset size reveals that internal CEO promotions are also less common at very large credit unions just as they are at smaller credit unions. One potential reason might be due to the fact that large credit union CEOs tend to be slightly older and have been at their credit union longer than CEOs at midsize organizations. Seeing as how succession planning is a fairly new concept for most credit unions, it is plausible that external hires were simply necessary at that time. A second theory could be that larger credit unions rely on more tenured senior staff because of the complexity of the lines of business. As a result, many of the executives are nearing the conclusion of their career. They may also have careers concentrated in specific lines of business and in the Board's eyes lack the broad experience needed for the CEO position. As the wave of Baby Boomers further move into retirement years, D. Hilton believes that external hires will continue to be necessary for many credit unions whom are unprepared for this enormous demographic shift.

Internal CEO Hire				
\$100M – \$199.9M	\$200M – \$399.9M	\$400M – \$599.9M	\$600M – \$999.9M	\$1B+
48%	63%	63%	63%	49%



Years Until Retirement

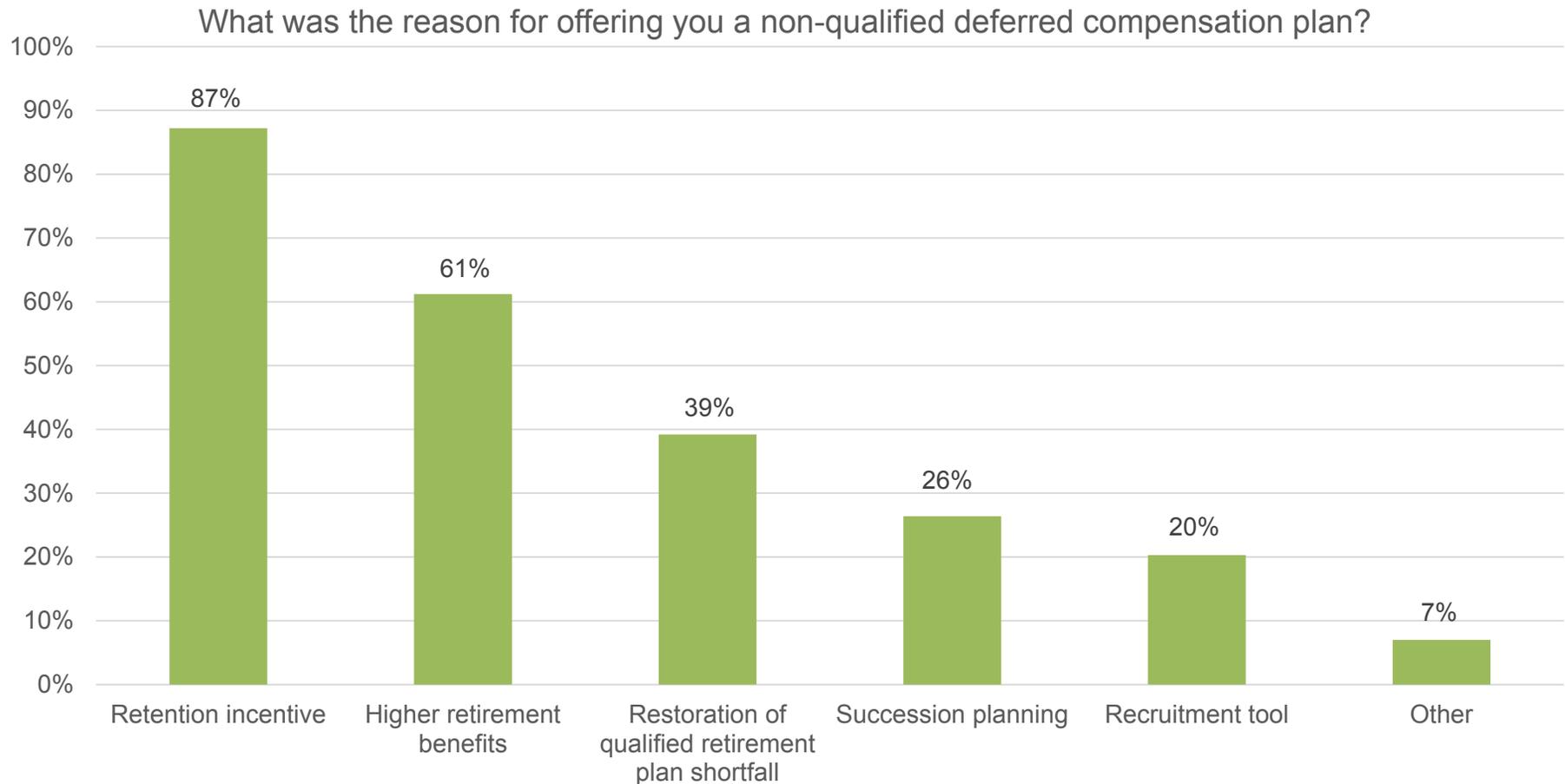
Given the average age of a credit union CEO is 56, it is no surprise that only 36% of respondents indicate they have more than 10 years until retirement. Only 22% of respondents indicate they have less than five years until retirement. This is a growing trend as more executives are choosing to delay their retirement dates. This can be for a variety of reasons, including lack of ample savings, costs of health care and extensions by a Board to the executive's NQDC plan.





Reason for Offering

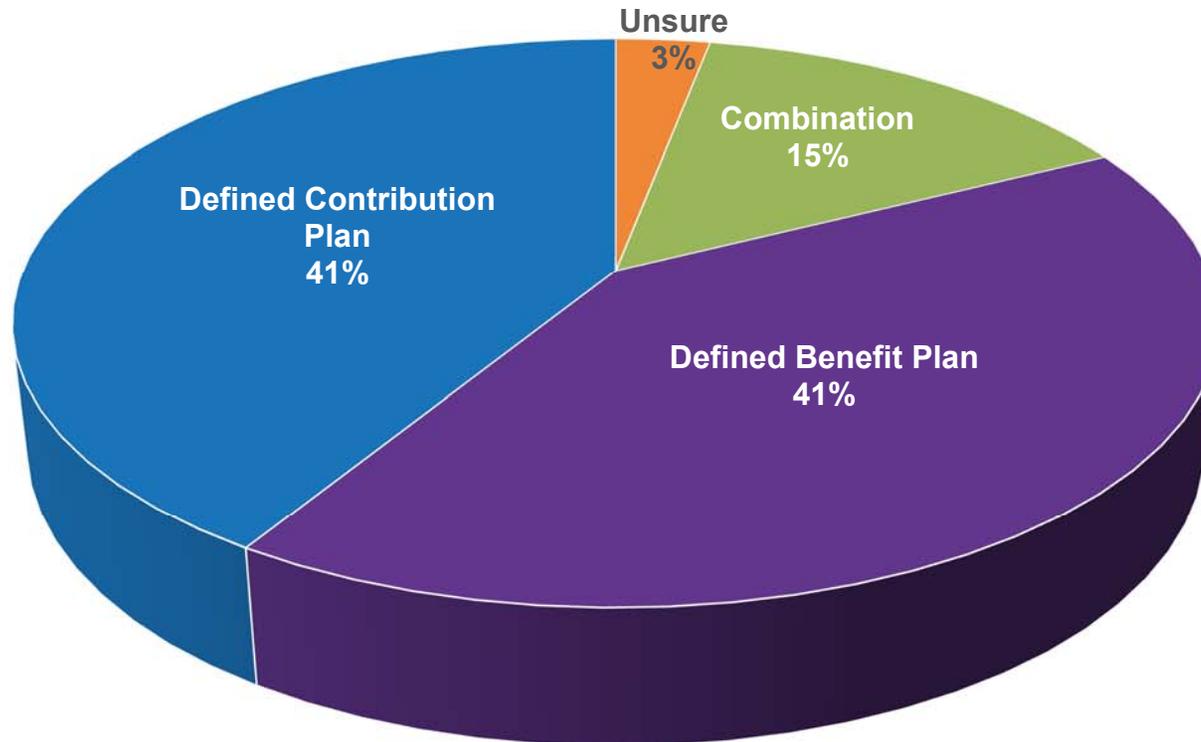
Retention was the largest driver for offering a non-qualified deferred compensation plan, as 87% of respondents indicate the credit union offered a plan to act as a retention incentive. The ability to offer a higher retirement benefit and the restoration of a qualified retirement plan shortfall were also reasons credit unions implemented these plans.





Design Type

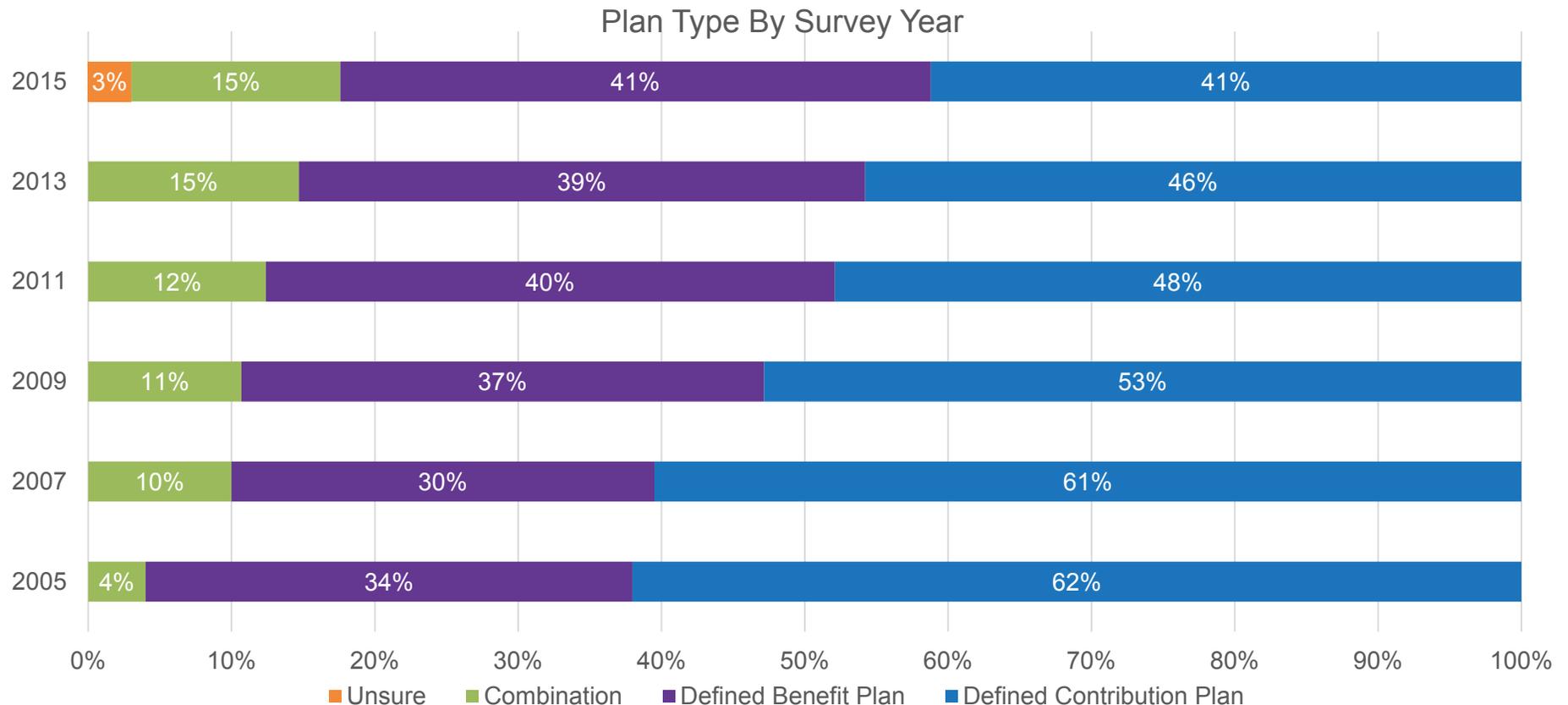
There are three types of plans that a credit union can design. A defined contribution plan design is the most dated design option and continues to decrease in preference. In a defined contribution design, the executive typically receives earnings on an investment made by the credit union. This design has become less popular due to the uncertainty of returns in a more volatile marketplace and comprises 41% of plan types. Use of a defined benefit plan design continues to increase and is equally popular as defined contribution plans with 41% in 2015. In a defined benefit design, the executive is guaranteed some form of minimum benefit. Similar to that seen in 2013, combination plans make up 15% of all plan design. In this scenario, the executive is promised a minimum benefit with the opportunity to receive a higher benefit based on earnings.





Plan Design by Year

Over the past ten years, the number of plans relying on a defined contribution design continues to decrease. In this competitive hiring environment, credit unions are finding that defined contribution designs are failing to provide the necessary recruitment and retention strategy. As a result, defined benefit and combination plan designs are gaining favor. These plans offer more security for retirement funds in a weaker economic market. Analysis by asset size indicates that credit unions in the \$400M - \$599.9M range have a greater percentage of defined contribution designs and could be vulnerable to retention issues.





Income Replacement Ratio

Non-qualified deferred compensation plans are discriminatory, meaning they can be customized to the individual executive. D. Hilton finds that the strongest plans are those that look to replace a percentage of the executive's final average compensation. Over the past few years, that replacement ratio has continued to increase along with the marketplace.

For 2015, **60% of all plans use a replacement ratio** while 40% utilize some other method (e.g., flat dollar amounts). Replacement ratios become even more prominent when looking at plans by asset category, as 76% of \$1B+ credit unions utilize a replacement ratio. D. Hilton favors replacement ratio designs because they coincide with a pay-for-performance compensation philosophy that is easily justifiable to all of the credit union's stakeholders (i.e., employees, members, media, etc.). As the executive outperforms, the Board uses compensation increases as recognition for that performance. As those compensation increases occur, the executive's deferred compensation plan also benefits. This methodology embraces the trend of pay-for-performance.

When examining those plans using a target replacement ratio, results indicate that 52% of all plans use a replacement ratio measuring base compensation, while 48% of all plans use a replacement ratio measuring total compensation (base + variable compensation). **However, the type of plan does weigh heavily on the measurement target for the replacement ratio.** When looking at 457(f) plans, one finds that 61% of those plans utilize a replacement ratio based on total compensation (base + variable compensation). When looking at split-dollar plans (Endorsement and Collateral Assignment), data reveals that a large majority (84%) utilize a replacement ratio tied to base compensation only. This is possibly due to the use of insurance as the funding vehicle for split-dollar plans, as insurance underwriting limits the amount of insurance carried on one executive and utilizes conservative investment instruments with limited return potential.

	457(f) Plans	Split-Dollar Plans
Base Compensation	39%	84%
Total Compensation	61%	16%



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Just as plan design has changed from defined contribution to defined benefit, the replacement ratio compensation benchmark has shifted from base compensation to total compensation. This is especially true for larger credit unions, as 70% of \$1B+ credit unions utilize a total compensation replacement ratio. There are several reasons for this trend toward a focus on total compensation.

One reason is due to IRS (IRC 415) contribution limitations for highly compensated employees. Senior executives rarely have the opportunity to participate at the maximum level needed to fund their retirements. This causes a disparity between the executive's projected retirement savings and projected retirement needs.

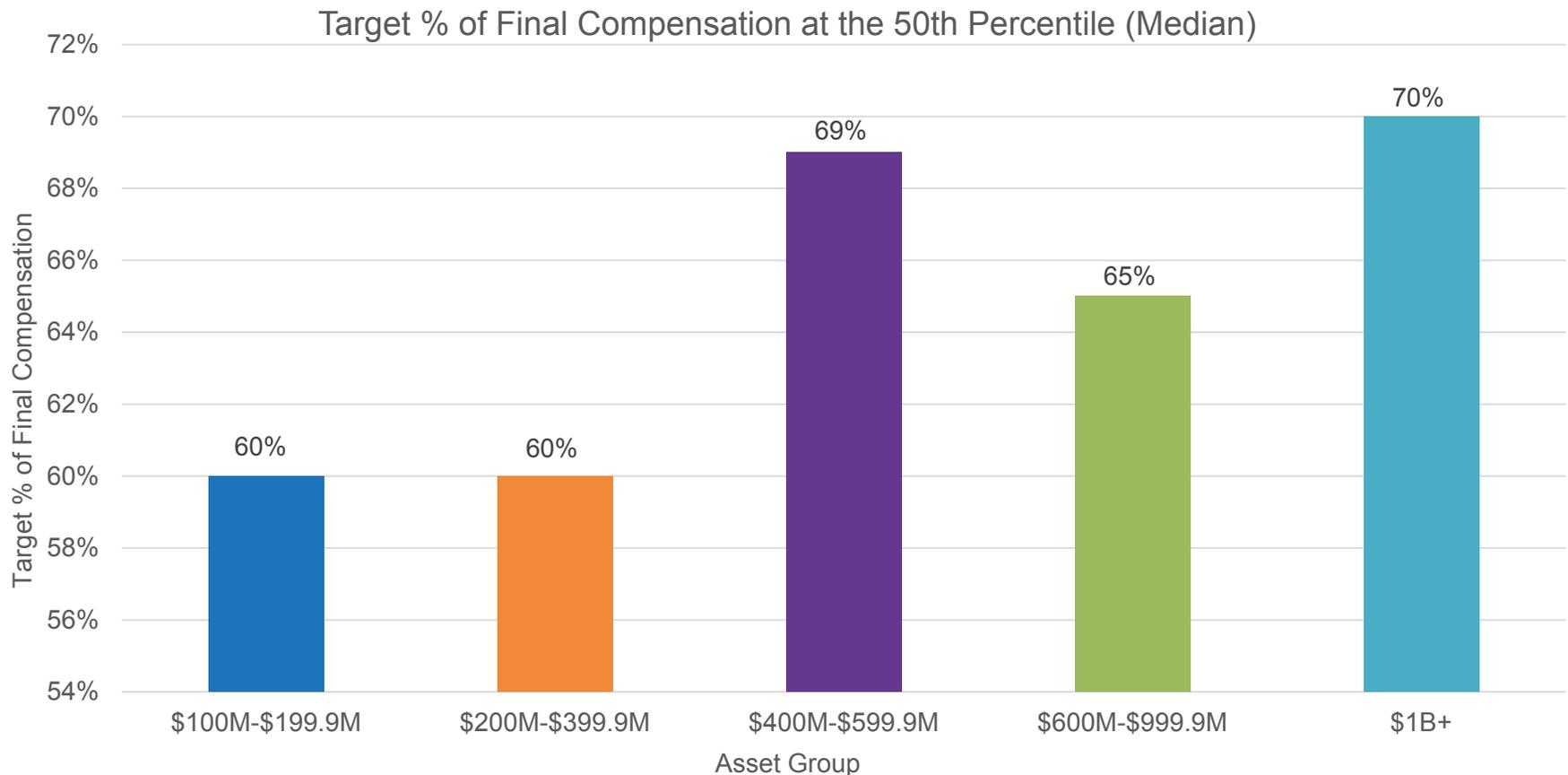
A second reason is because of a credit unions' greater reliance on variable compensation and a pay-for-performance system. Because of the heavy emphasis on pay-for-performance, credit unions are finding that total compensation replacement ratios are necessary to adequately retain high-performing executives. D. Hilton expects the emphasis on total compensation to continue.

	\$100M – \$199.9M	\$200M – \$399.9M	\$400M – \$599.9M	\$600M – \$999.9M	\$1B+
Base Compensation	72%	68%	52%	55%	30%
Total Compensation	28%	32%	48%	45%	70%



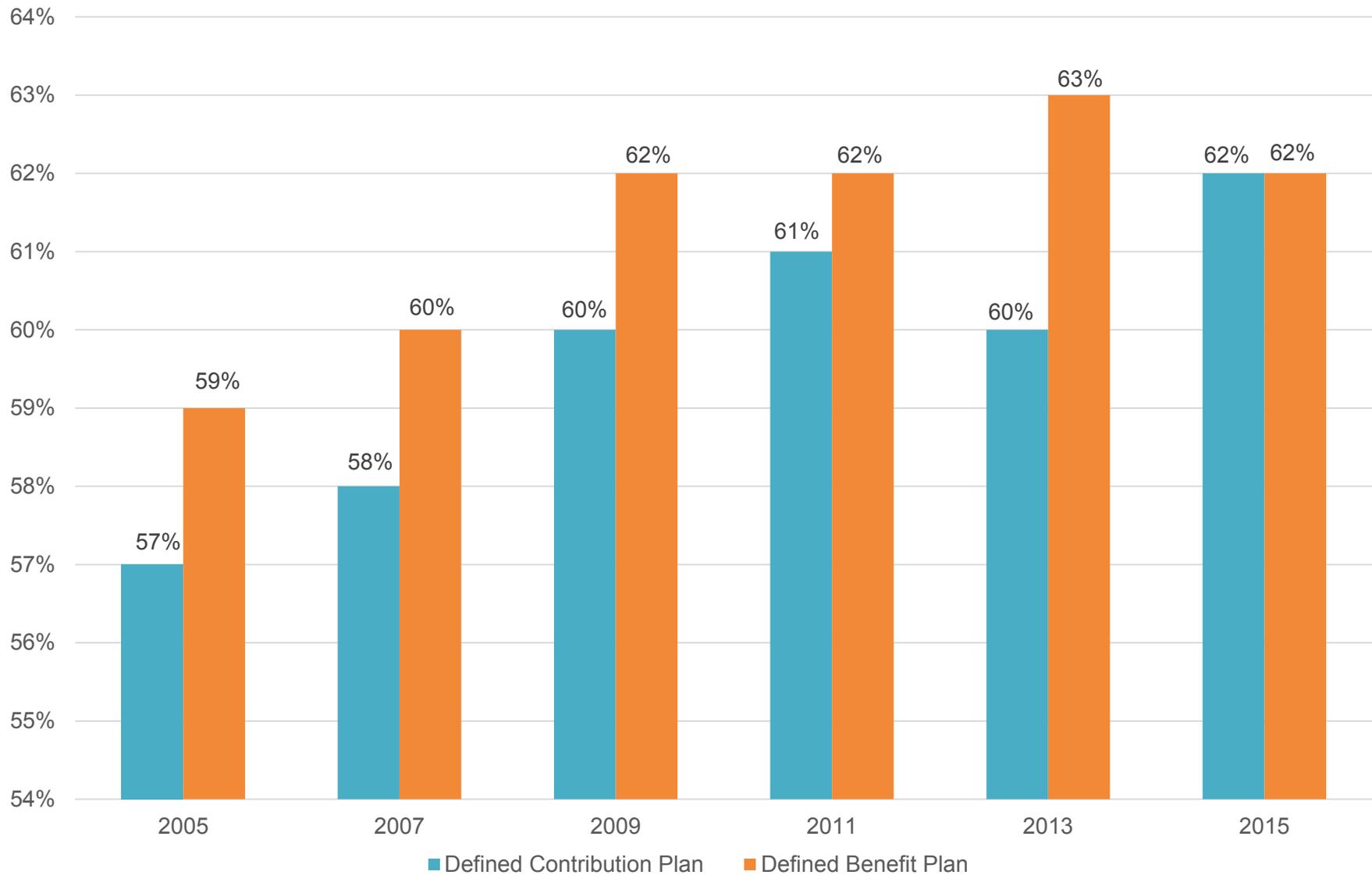
Target Percentage of Final Compensation

The following chart provides the percentiles for targeted percentages of final compensation by asset group. For credit unions \$1B+, the median target final compensation percentage is 70%, which means that 50% of credit unions have a targeted replacement income greater than or equal to 70% of final compensation, and 50% have a target less than or equal to 70% of final compensation. The average percentage of replacement income for all plan types is approximately 62%. When examining replacement ratios by asset size, the results reveal that most plans fall within a range of 60% to 70% of final total compensation.





Median Replacement Ratio By Plan Type



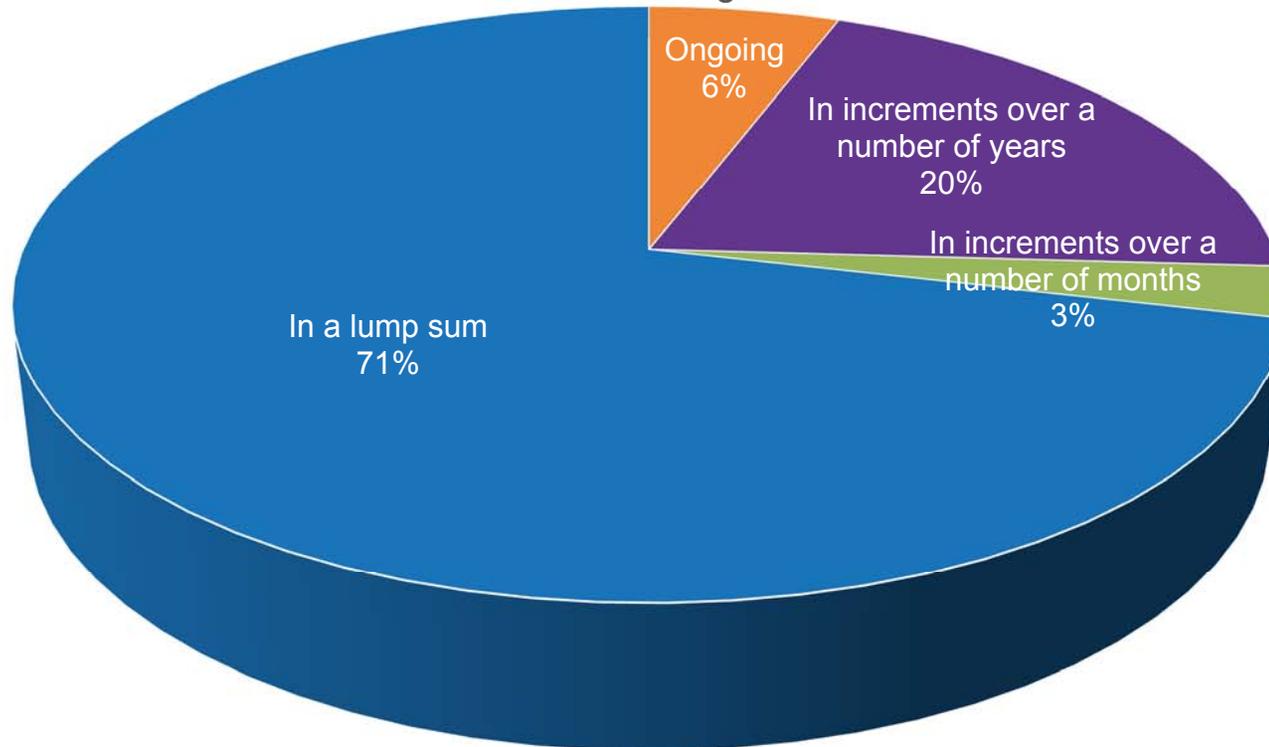


SERP Investments

Before funding their deferred compensation plan, 34% of credit unions projected the executive's future salary increases, while 32% projected both the executive's future salary increases and bonus pay earned. Less than one percent considered only bonus pay. A surprising **33% did not account for executive compensation before funding their plan**, creating a potential for an underfunded liability and uncompetitive offering.

A majority of credit unions opt to make a lump sum investment rather than staggered increments over time. This allows the investment to begin earning returns immediately and offset the benefit liability incurred.

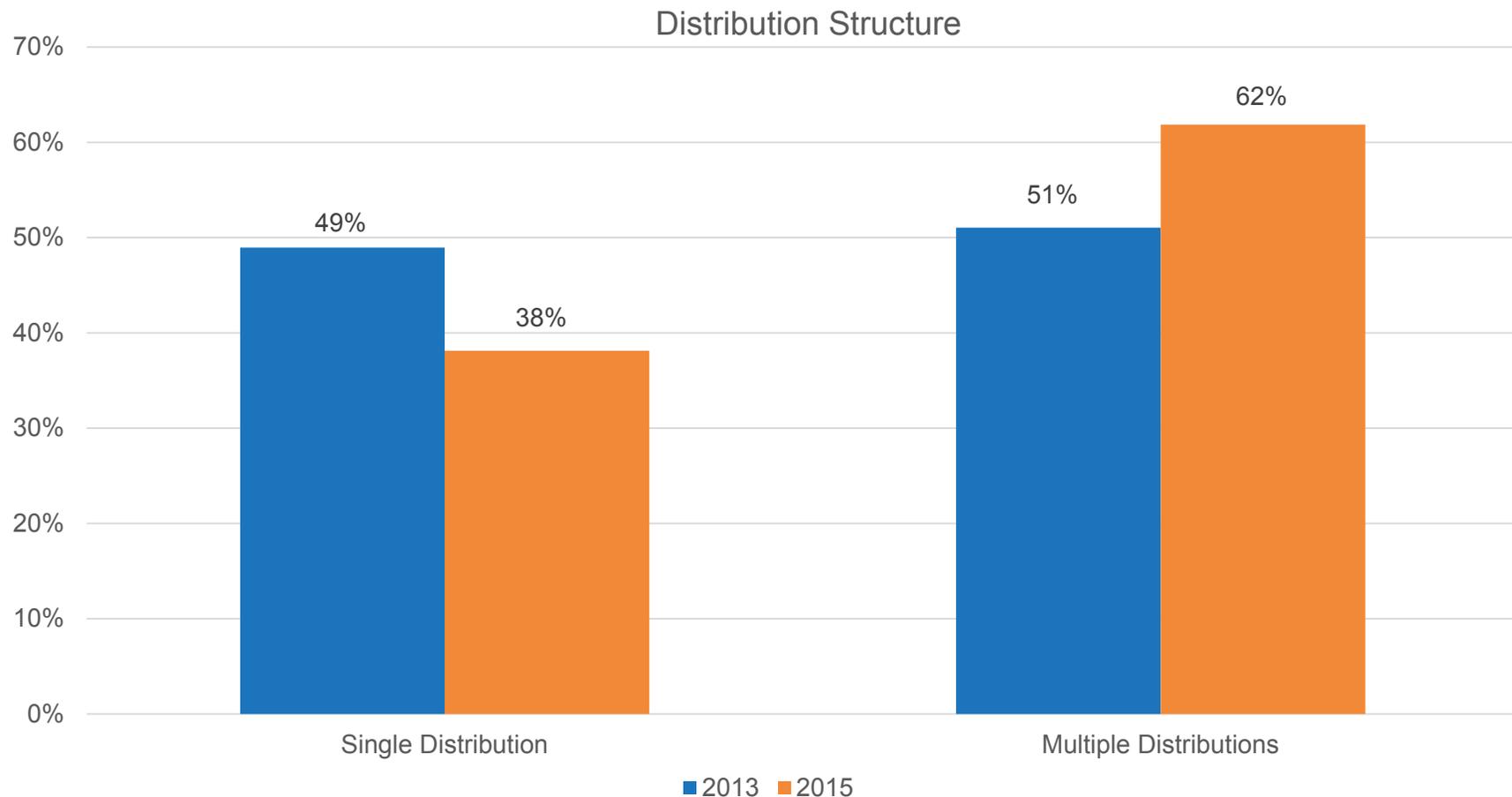
How was the funding invested?





SERP Distributions

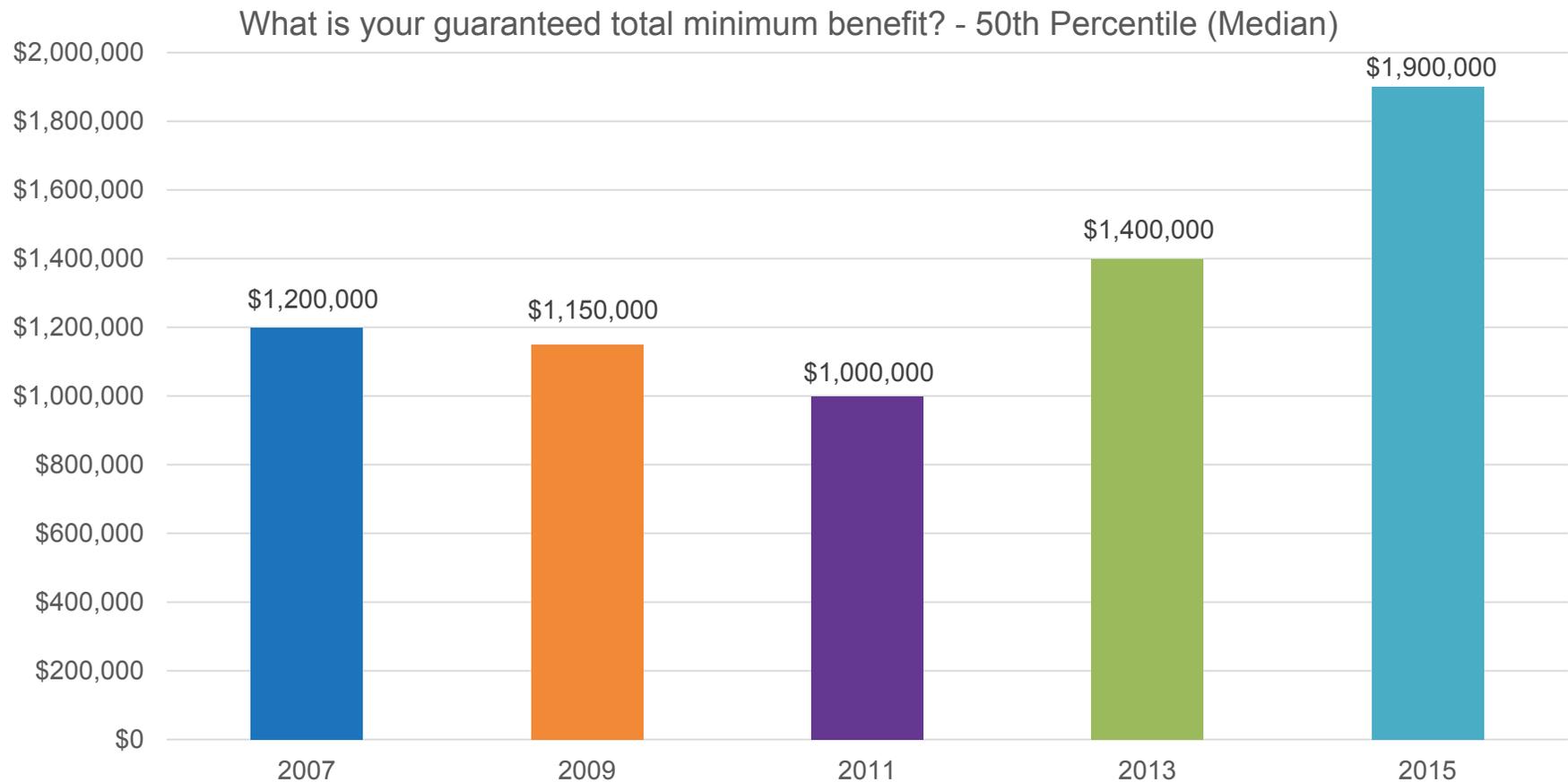
Distribution structure is one area of design that has seen major changes since 2013. Credit unions citing their plan design utilizes multiple distributions increased by 11% to 62% of all plans. By utilizing multiple distributions, the credit union is able to recognize career milestones throughout tenure and help protect the executive from recruitment efforts. This strategy is particularly useful with younger executives and those with a longer career window.





Minimum Benefits

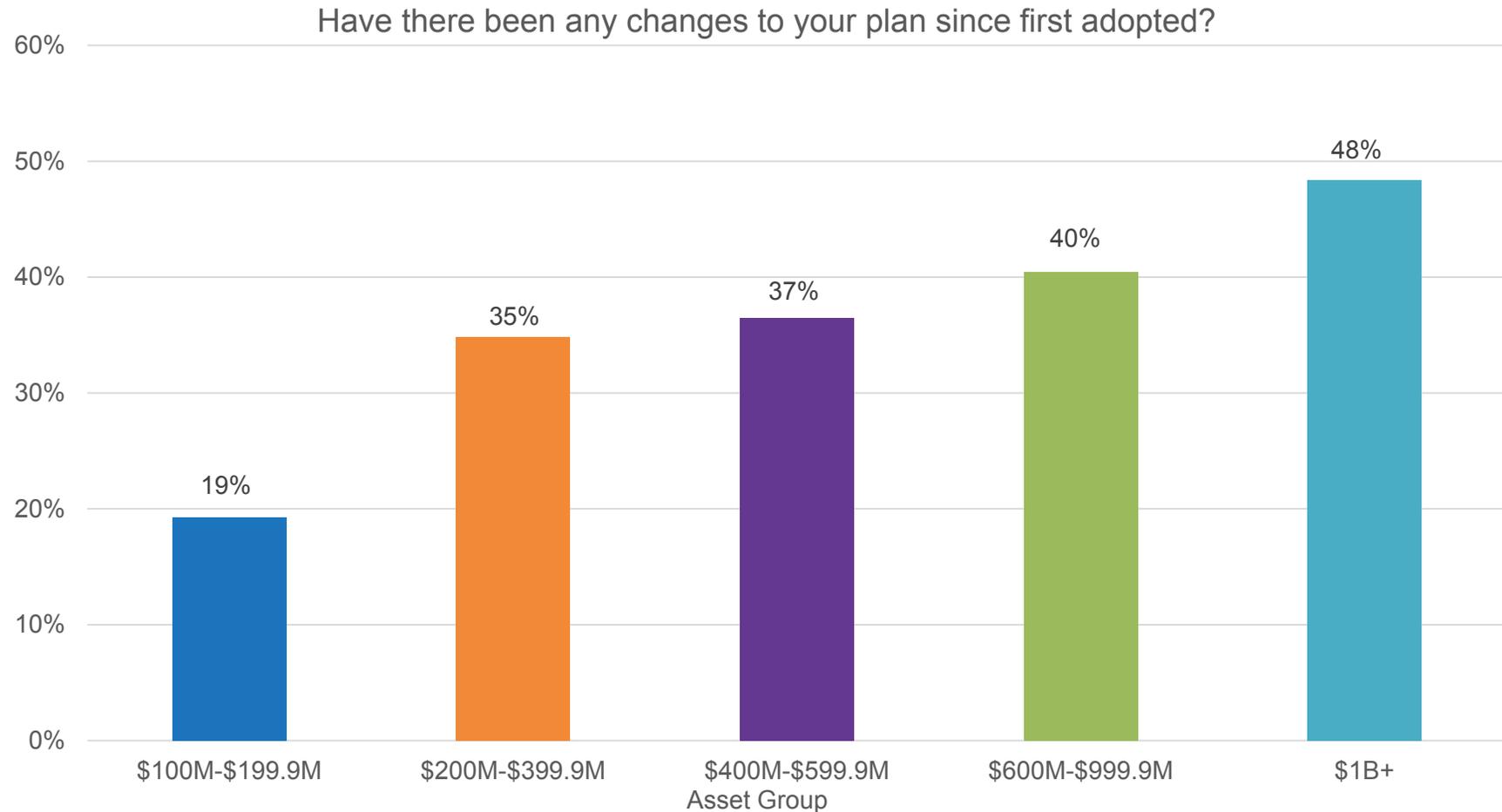
As presented previously, **56% of credit unions guarantee some form of a minimum benefit** either through a defined benefit design or a combination design (defined contribution and defined benefit). The guaranteed minimum benefit for 45% of plans comprises a set dollar amount with a median dollar amount of \$1,000,000. An additional 32% use a target percentage of final total compensation ranging from 50% to 70%. Only 10% of plans guarantee a minimum benefit based on a guaranteed rate of return with the median rate of return used being 4.5%. The creation of IRS code 409A in 2005 has made the use of a guaranteed rate of return strategy obsolete on new plan designs.





Plan Changes

More than one in three plans (36%) have been altered since inception. Of those who have made changes, **34% made changes within the past 12 months**, followed by 30% who have made a change between one and three years ago. Asset size appears to be a driver in plan changes, as almost half of large credit unions (\$1B+) report making changes.

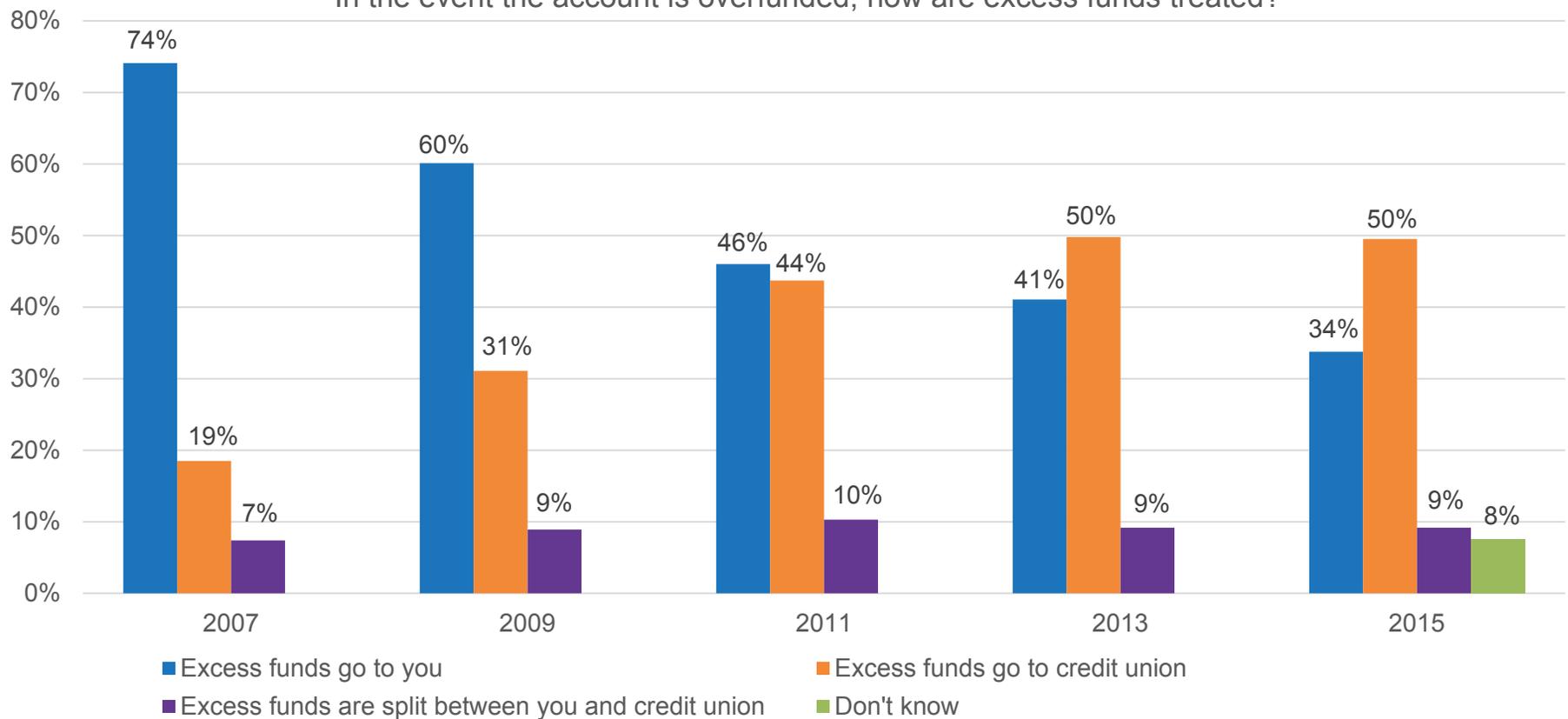




Excess Funds

When it comes to the credit union's initial investment, 74% of all plans are designed so the credit union recovers its investment at plan completion. In the event the plan has excess funds, 50% of credit union plans direct those excess funds back to the credit union. Providing excess funds to the executive or sharing excess funds continues to decrease in popularity, largely because more plans are guaranteeing a benefit to the executive. About 82% of credit union plans place the tax liability with the executive. Only 10% of plans are grossed up to cover all taxes, and 4% are grossed up to cover some of the taxes. This trend is present regardless of asset size.

In the event the account is overfunded, how are excess funds treated?

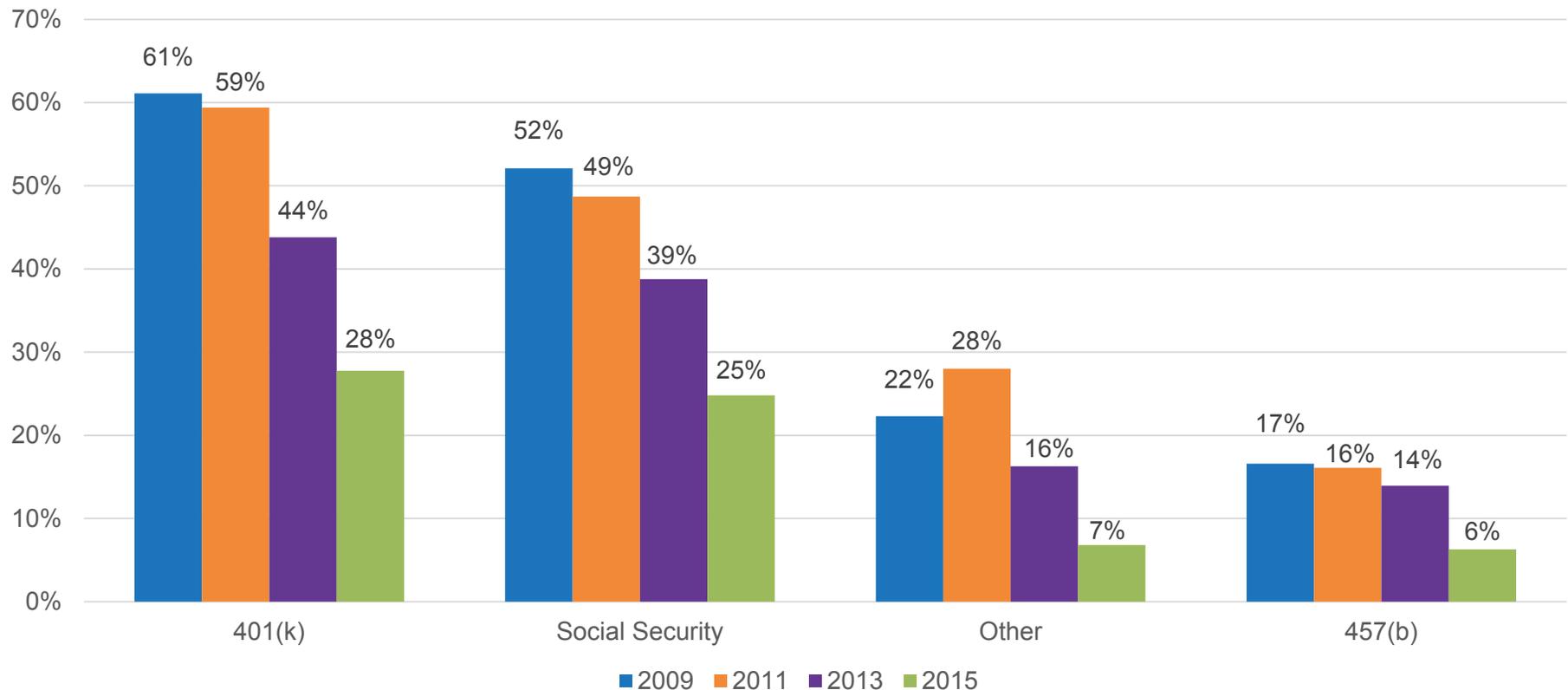




Plan Offsets

When calculating the executive's benefit, many plans have traditionally included several offsets. Social Security is one offset that has been decreasing in usage, typically among plans designed for younger executives, where many questions arise concerning the likelihood that Social Security will exist in future years. As market volatility has increased, more credit unions have opted to also exclude 401(k) balances as an offset. By doing so, the credit union does not incur liability for the executive's self-directed investment decisions.

Which of the following were included as offsets in your plan calculations?





Fiduciary Responsibility

As Board members have taken on more post-recession fiduciary responsibility, their knowledge of the plan details has increased. Approximately 71% of respondents report that their Board is very knowledgeable or somewhat knowledgeable about their plan, up from 62% in 2013. However, additional fiduciary oversight is still necessary for some credit unions. Just 26%

Board Knowledge of Plan	\$100M – \$199.9M	\$200M – \$399.9M	\$400M – \$599.9M	\$600M – \$999.9M	\$1B+
Very Knowledgeable	26%	24%	44%	23%	53%
Somewhat Knowledgeable	42%	47%	20%	51%	24%
Neutral	17%	17%	20%	11%	14%
Somewhat Unknowledgeable	4%	8%	10%	9%	1%
Very Unknowledgeable	11%	4%	7%	6%	8%

of those in the \$100M - \$199.9M asset range indicate their Board is very knowledgeable about their deferred compensation plan, compared to 53% of Boards among \$1B+ credit unions. Given the complexity of these plans, the credit union must hold Board members accountable for fiduciary oversight regardless of asset size.

When asked about the CEO's own knowledge of their deferred compensation plan, a total of 60% of respondents indicate being very knowledgeable regarding the plan details. This has increased significantly from the 48% recorded in 2013. D. Hilton has found this knowledge increase is a direct result of increased regulatory examination of these plans.

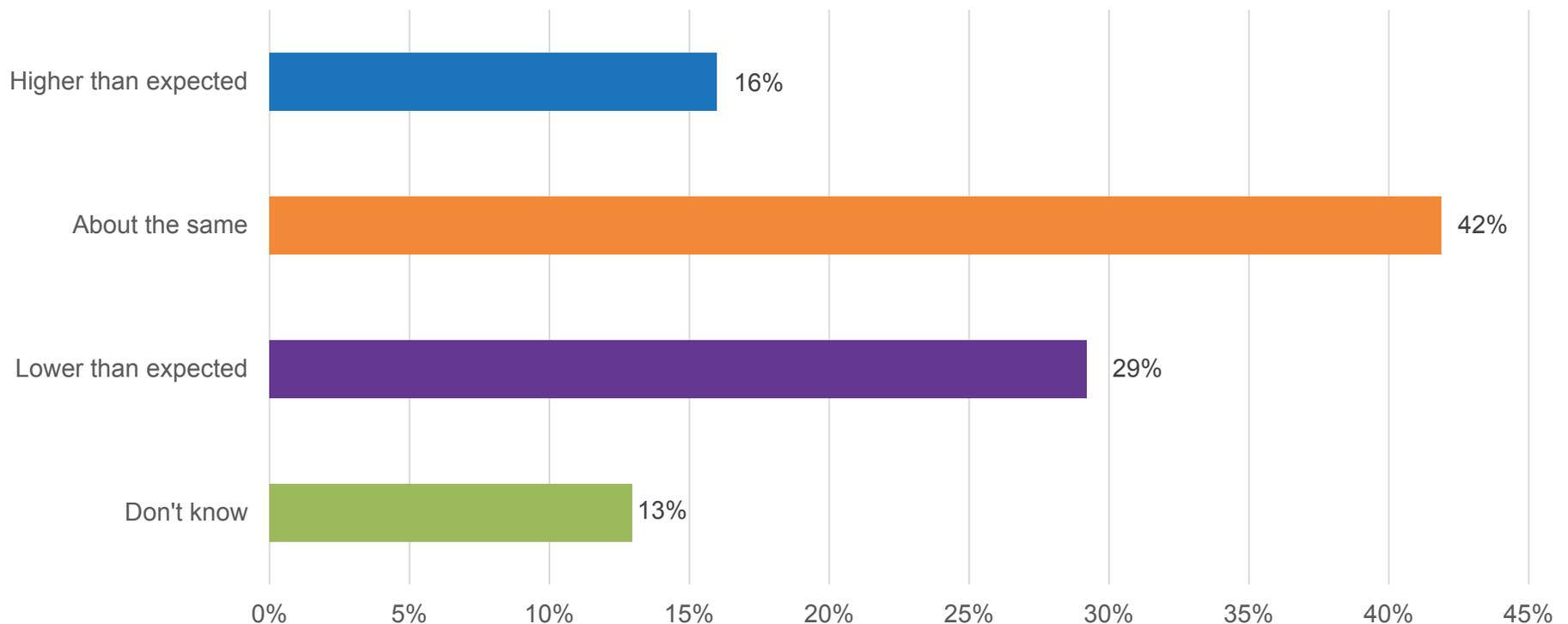
Frequency of plan review has also increased, as 64% report reviewing the plan annually. While few review the plan more than once a year (2%), a surprising 9% indicate they never review their plan. D. Hilton finds that annual reviews ensure plan compliance and continued competitiveness in the marketplace.



Plan Returns

When designing their plan, **74% of credit unions made an assumption as to the rate of return**, while 11% were unsure of the rate of return and 15% indicated there was no rate of return established. The range of that rate of return varies based on timing of the plan implementation, age of the executive, and risk tolerance of the credit union. The average assumed rate of return was 5%, and for most credit unions ranged between 4% and 6%. However, credit unions reported rates of return ranging from 2% to 8%. Despite the bull market experienced over the past several years, 29% of respondents indicate that their actual returns are lower than the assumptions made at the time of funding. This could put a credit union at risk for having to make up for plan shortfalls at plan conclusion or losing executives because of a lack of returns.

Assumed Returns Versus Actual Returns





Confidence in Plan Returns

Lower returns certainly play a factor in an executive's confidence that the plan will meet his or her retirement needs. When asked about their confidence in the deferred compensation plan, a surprising 26% of CEOs indicate they are not confident in their plan's ability to fulfill their retirement needs. Lack of confidence was particularly high among credit unions \$600M - \$999.9M in assets, indicating a large portion of CEOs vulnerable to recruitment.

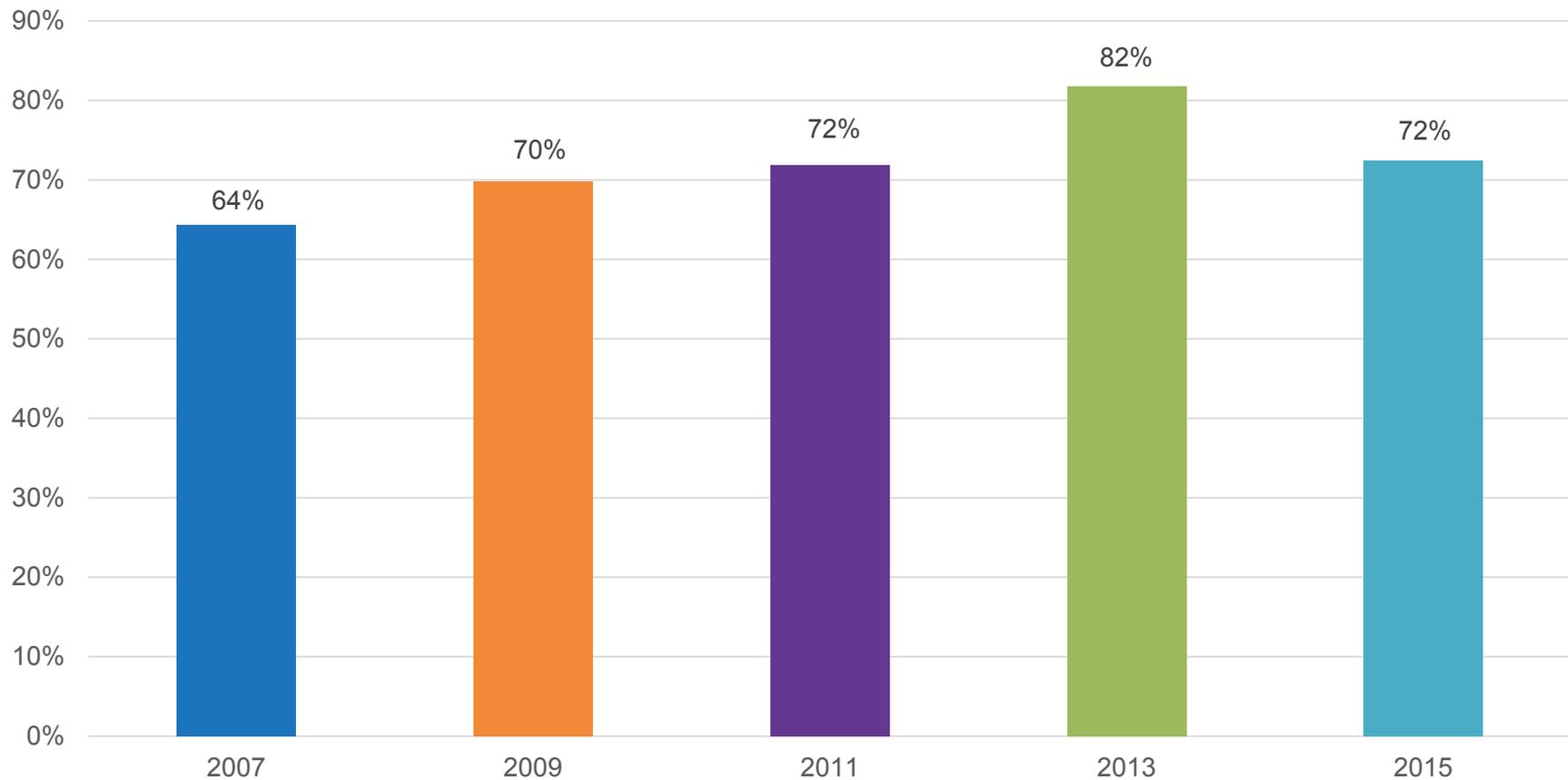
	\$100M – \$199.9M	\$200M – \$399.9M	\$400M – \$599.9M	\$600M – \$999.9M	\$1B+
Very Confident	28%	18%	25%	30%	42%
Somewhat Confident	26%	42%	43%	11%	31%
Unsure	13%	18%	4%	15%	14%
Somewhat Unconfident	13%	13%	11%	4%	8%
Not Confident	21%	9%	18%	41%	6%



Plan Competitiveness

Plans are beginning to show additional weakness as the result of a lack of competitiveness. While 82% of CEOs felt their plan provided them a meaningful retention tool that prevented them from seeking opportunities in 2013, that percentage is down to 72% in 2015. Given the number of credit unions using outdated design features and lack of plan review frequency, it is no surprise that the retention aspects of some CEOs' plans are lacking.

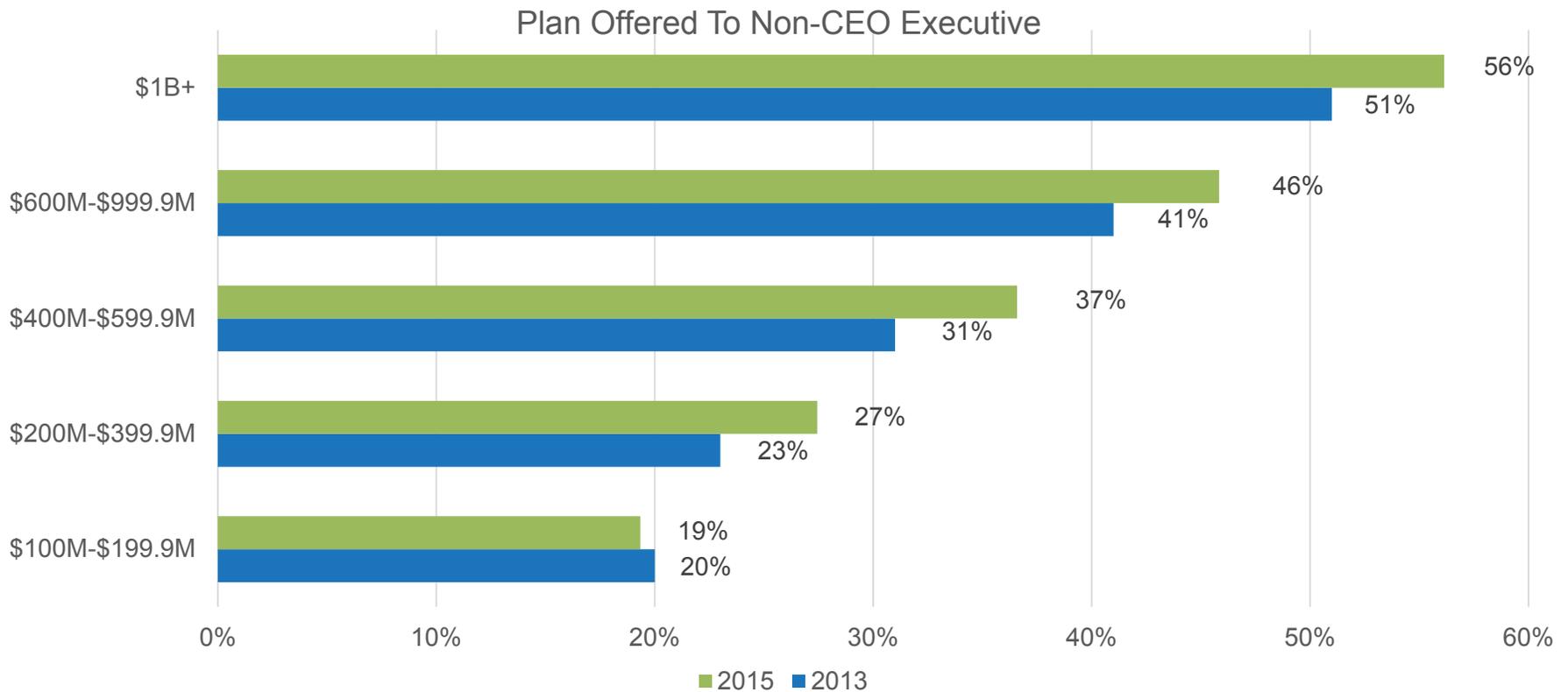
Plan Prevents You From Seeking Other Opportunities





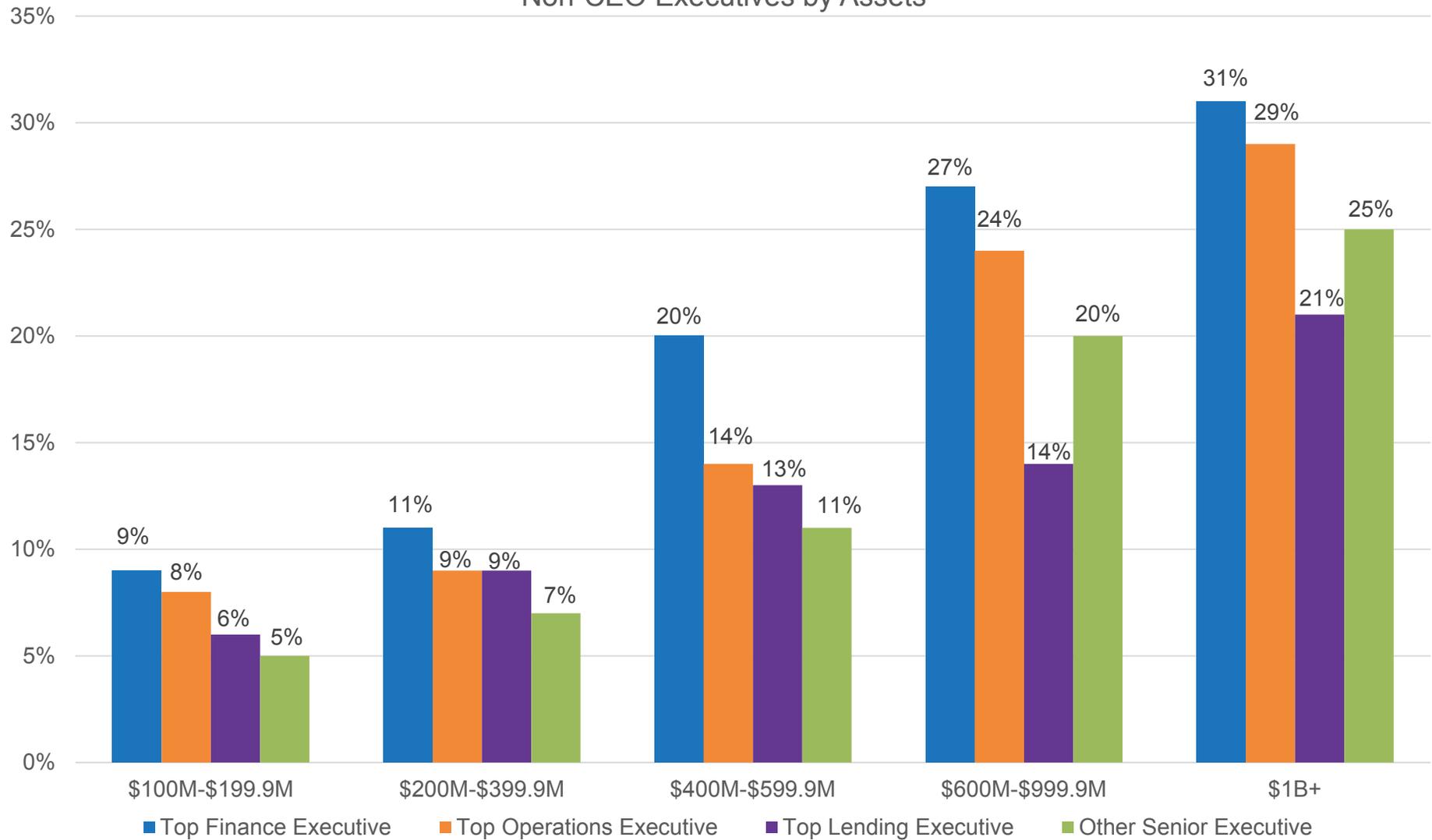
Non-Qualified Deferred Compensation Plans for Non-CEOs

With the onslaught of retirements, more credit unions are implementing deferred compensation plans for other C-suite executives reporting to the CEO. Across all credit unions \$100M or more in assets, **34% report having non-qualified deferred compensation plans in place for non-CEO executives**. The positions most likely to have a plan in place include the top finance position (17%), top operations position (14%), top non-CEO position (12%) and top lending position (11%). With the exception of \$100M - \$199.9M organizations, the prevalence of plans for non-CEO executives has increased in credit unions across all asset categories. Of those who do not have a plan in place for non-CEO executives, 24% expect to have a plan in place within the next two years.





Non-Qualified Deferred Compensation Plans for
Non-CEO Executives by Assets





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Section 4: Practice Leaders' Perspectives



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Incentive Plans Are Good, But Clawbacks Make Them Even Better...

What Do The Queen Of England And Incentive Plan Clawbacks Have In Common?

An NCUA complaint against RBS Securities claimed that the bank misled multiple corporate credit unions about the nature and quality of RBS Securities' investment products, resulting in several corporate credit union's ultimate financial collapse. This complaint seeks to recover billions of dollars in losses and alleges that RBS' underwriters downplayed investment risks and made misrepresentations in offering documents by underestimating the likelihood that borrowers would default on their mortgages.

While settlement of this matter has proven to be a lengthy and drawn out process, it is likely some credit unions would love to have taken the action Queen Elizabeth did in 2012. She simply stripped former RBS CEO Fred Goodwin of his knighthood and cut his pension in half. Goodwin is renowned for his role in RBS' near collapse in 2008. In the past, only convicted felons were subject to "knighthood-ectomies," but costing UK taxpayers £45 billion (about \$69 billion) was sufficient impetus for the Queen to take such drastic action. If only credit union Boards wielded the same clawback power! They actually do! The following article outlines the case that, while credit union directors may never deal with issues of this scale, they have had the power of clawback all along, if their incentive plans are properly designed.



Focusing On Incentives Not Bonuses

Pay-for-performance programs go by so many different names. For example, many people use the terms “bonuses” and “incentives” interchangeably, which technically is incorrect.

- A **bonus** is compensation that is arbitrarily given to an executive above his/her normal wage for performance beyond expectations. It is usually given after the performance period is completed and is not necessarily based on a financial formula. It tends to be more subjective and relies on a Board to determine the payout amount. Thus, an executive can be completely surprised by the generosity of the Board, or he or she can be equally frustrated by lack of rationale for a given award. D. Hilton has heard of executives dusting off their resumes after receiving a smaller bonus than the year before.
- **Incentive compensation** is defined as potential compensation that is tied to achievement of one or more specific metrics (e.g., a level of growth or revenue). It is not included in a base salary like a merit increase or a raise is designed to be.

The biggest difference between the two concepts is that bonuses are arbitrary, after-the-fact awards, while incentives have payout formulas established prior to the performance period. With bonuses, executives may not know what the final amount will be until after the performance period. Without intending to, bonus programs can lead to executive trepidation, while incentive programs traditionally do a better job of outlining performance reward and consequences prior to the performance period. And by consequences, we are talking about the ability to use a clawback feature that outlines circumstances that require the executive to forfeit future payouts based on nonperformance, lack of sustained excellence, and even malfeasance.



Clawbacks In Variable Pay Design

Individuals who are entering the executive level within the industry, as well as newly hired executives (three years or less), tend to seek compensation packages with annual incentive targets at the higher end of the spectrum. This trend should continue as more positions turn over. Younger executives generally desire to prove their worth. They are willing to put more dollars at risk because they want to be paid for performance. They see their role in the credit union the same way small-business owners look at their companies: if you own a company and an employee made you an additional, unforeseen \$500,000 in net income, wouldn't you be willing to pay that employee an incentive of \$200,000?

The common theme among the credit union industry's strongest executive pay-for-performance programs is that they do three things really well that align the credit union's safety and soundness with an executive's pay package:

- **A balance of risk and reward.** Payout targets are set within a "sweet spot" that provide motivation but not at such high levels that encourage executives to expose their credit union to imprudent risk.
- **Controls.** The plans include design features that are compatible with existing risk management controls. This allows the credit union and the executive to play under the same set of rules or guidelines. It leaves few items up for interpretation as executive actions must fall within agreed upon policies, procedures, and accounting controls.
- **Governance.** The plans are supported by strong corporate governance, including active and effective oversight by the Board's executive compensation committee. In most cases, directors drive the bus in terms of establishing tough but fair metrics rather than simply rubberstamping executive recommendations.



First Principle: Balance

When evaluating the strength of your current variable pay program, consider three design elements that high-performing credit unions tend to use:

1. **The riskier the activity on which the award is based, the lower the payout relative to less risky activities.** Don't make the award so focused on one or two elements that financial fundamentals are put at risk. Make sure items such as Capital Preservation, Earnings, and Loan Quality are recognized as key performance metrics.
2. **Deferral of payment with potential clawbacks for performance or risk outcomes.** There can always be the issue of risk with incentive plans when an executive seeks short-term gains at the expense of long-term strategic objectives. What if your executive abuses the program? For example, what if your executive "plays fast and loose" with loan policy guidelines and creates an exposure that won't be known about for a year or two? The best way to prevent this scenario is to pay incentives over a three-year period of time. For example,
 - If the executive earns an incentive in 2015 of \$60,000, pay out \$20,000 in 2015 and hold \$40,000 for 2016 and 2017.
 - In 2016, the executive earns an incentive of \$75,000. The payout would be \$20,000 for 2016 and \$25,000 for 2017 for a total of \$45,000 for 2018, and the remainder would be again distributed the following two years.
 - In 2017, the executive earns \$90,000. The incentive would be \$30,000 divided evenly between 2017, 2018 and 2019 and the total payout for 2017 is \$75,000 including previous amounts (\$20,000 + \$25,000 + \$30,000 = \$75,000).

This would continue every year going forward. If the executive leaves the credit union, the remaining incentives would be lost. This type of plan would prevent the executive from worrying about the short-term, one-year incentive and pay more attention to the long term horizon.



- 3. Use of longer performance periods.** D. Hilton has seen the emergence of rolling three-year targets rather than annual targets. In the Fortune 500 world, many companies set performance metrics based on the Economic Value Added (EVA) concept. EVA was devised by Stern Stewart as a means to capture the true economic profit of a company. For public companies it was a means to demonstrate that the management team was creating shareholder value. A key EVA component used in incentive plans was “sustained excellence.” A CEO could not have a bad year and then simply start afresh the next year. They were required to make up the loss in the next year. For example, if a company’s 2015 earnings were \$2 million short of its target of \$10 million, then the \$2 million (plus the going rate of return) would be added to the 2016 earnings goal.

In the credit union industry, the use of a three-year Return on Average Assets metric rather than an annual ROAA metric would hold an executive accountable for sustained excellence. For example, in the years where a number of credit unions sold their credit card portfolios, the one-time gain would be smoothed out over three years, and if the credit union took a severe earnings hit, the executive would feel the consequence for a number of years. It mitigates risk in the sense that if an executive bets wrong, there is a longer-term consequence than missing a bonus payout for one year.



Second Principle: Controls

Credit unions benefit from having strong controls to ensure that their processes for establishing balanced variable pay programs include a review by appropriate risk management personnel. A strong risk management program is staffed by risk management employees that have appropriate skill sets and experience. Rather than being included in staff and executive variable pay programs which are based on overall credit union financial results or specific business unit results, these executives should be compensated by market competitive base salaries. The goal is to identify potential conflicts of interest as a first step toward transparency.

An executive compensation committee can conduct a self-assessment of the strength of its variable pay program by evaluating the reasonableness of payouts and the success of its pay programs by using the following checklist annually:

- Does the plan make sense for our current financial circumstances? Can we afford the payouts, and are the payouts commensurate with the revenue generated by the executives? Are we rewarding the right behavior (i.e., building net worth vs. building assets)?
- Is the plan externally competitive? Is the plan defensible in terms of peer incentive plans?
- Does it safeguard resources? Internal compliance audits with policies are important to ensure that an incentive compensation system is implemented as intended by the Board. Not only should the internal audit function or supervisory committee play a key role in this activity, risk management, finance, and HR should be involved. This monitoring resembles "back-testing" in risk management models. To be effective, monitoring should include some quantitative analysis; however, because all incentive compensation systems involve some exercise of human judgment in decision-making, effective monitoring is not likely to be purely quantitative.
- Can all parties understand its objectives? Does the incentive plan have proper documentation that everyone can understand what is being measured, how it aligns with the strategic plan and how the plan is funded? This ensures that future Boards and regulators can understand the plan's objectives.
- Is it efficient to administer and flexible enough for the future? Is the plan straight-forward and capable of being reshaped based on changing economic conditions and local market forces?



Third Principle: Governance

Credit union Boards (of all sizes) should use executive compensation committees to actively oversee the design and implementation of the organization's total compensation programs, including variable pay programs. The current challenge is that executive pay issues are more than traditional human resources issues. They are equally strategic, financial, and member satisfaction issues. In the past, if a director had HR experience, he or she was sure to be assigned to the executive compensation committee. Today's committees find attorneys and finance volunteers to be valuable additions to the committee's makeup as credit unions address new levels of risk.

There is a significant trend of credit union executive compensation committees hiring one or more external executive compensation and investment consultants to provide guidance. As credit unions become larger, fewer organizations are willing to submit data to third-party compensation survey providers. The rationale is that if executive compensation is a competitive tool to retain key executives, organizations need to be more discerning as to whom they share compensation data with. Keeping your pay practices close to the vest leads to a competitive advantage.

Good governance means strong transparency. D. Hilton is seeing more credit unions adopt a transparency disclosure as part of its executive compensation job descriptions. High-performing committees are fully prepared to explain, defend, and champion their pay program to stakeholders. By reaffirming its pay program philosophy and maintaining a transparent process, a credit union Board is publically committing to sound governance practices and the following principles:

- Its volunteer Board is elected directly by the membership to oversee the organization.
- Its directors are unpaid volunteers that devote substantial time to the organization.
- Its Board's primary responsibility is to select the best talent to run the organization.
- It routinely uses an independent compensation consultant to assist in establishing competitive pay packages for its executives by requesting compensation data to be gathered from peers.
- The Board's executive compensation committee is independent with no personal ties to its senior executives.
- Its executive compensation practices are routinely audited by federal regulators and outside auditing firms to ensure that programs are reasonable and are free of excessive risk taking and this oversight is welcomed.



The Art of the Clawback in Variable Pay and Retirement Plans.

Clawbacks have been a wise practice, but they didn't come into popularity until public outrage occurred over substantial employee bonus payouts (e.g., Enron's bankruptcy scandal in 2001) despite financial failures. Because bonuses are paid out for the previous year's or years' activity, clawback provisions are proposed to make compensation recoverable once a previous performance period's activity is scrutinized by financial auditing and reporting.

There are a variety of stages of clawback criteria, but the primary three big stages are the following: Sarbanes-Oxley (SOX 2002), Dodd-Frank Act (2008) and Troubled Asset Relief Program (TARP 2009). Each law targets different aspects of a corporation's executive suite, but the primary objective of all clawback programs is to recover funds (in the form of paid compensation) that were paid to executives with the basic premise that such compensation would not have been paid otherwise had the earnings or financial reporting not been overstated in the first place.

SOX 2002 targets specific senior-level executives (e.g., CEO and CFO) and particularly aims to discover fraudulent misconduct. The review period for recovery (or "lookback") is one year.

The Dodd-Frank Act of 2008 is a much broader program that targets a larger employee subset that includes all executive officers and the next top 20 highest paid executives/employees. There are substantial changes to the two different programs with Dodd-Frank increasing the lookback period to three years and removing the discretionary element of enforcement to a triggering event if earnings are restated. Rebuttable presumption was enacted, meaning certain executives are deemed to be substantially responsible. Rules around materiality tests, holdback and periods of holdback amounts, deferral amounts all came from this legislation.

TARP was enacted as a result of financial institutions receiving government bailout funds during the financial crisis in 2009 and beyond. The FDIC requires that TARP recipients implement clawback conditions into certain levels of executive compensation where rules are enacted to capture different types of compensation (e.g., discretionary bonuses but not stock options).



NCUA's Rule 750 now requires SERP agreements to include a provision that allows the Board to withhold or terminate the SERP benefit if recommended by the state or federal regulators. Created in response to the continuing financial problems facing federally insured credit unions, NCUA published Rule 750, which prohibits certain federally insured credit unions ("FICU") from making golden parachute payments and indemnification payments to an "institution-affiliated party" or an "IAP." This final rule is meant to help protect the National Credit Union Share Insurance Fund. Limitations on indemnification payments apply to all federally insured credit unions, including state chartered credit unions, regardless of their financial health. NCUA Rule 750 applies to any SERP that is newly created or amended after June 27, 2011. The majority of SERPs implemented or amended since 2008 have included a clawback provision. Typical design finds that within 18 months of a benefit distribution, the credit union may "claw back" or seek to recover the payments if circumstances are discovered that may have resulted in a "for cause" termination.

The Pros and Cons

Advantages: Clawback provisions can protect a credit union from paying out compensation that is later determined to have been paid on an inaccurate basis (or due to fraudulent activities). In the past, an employer's only guarantee may have only been a severance payout. Clawbacks also align with member interests in that they are, in practice, a good stewardship initiative. Depending on the type, a credit union can create a voluntary provision designed to protect the organizational interests, and an executive can knowingly and willingly agree to such a provision and fully acknowledge the rules and engage at will.

Disadvantages: The enforcement of clawback provisions can be complicated and difficult to prove. Clawbacks can potentially demotivate some employees who may not strive for higher opportunity in the management line, knowing that the risk of their errors can jeopardize not only the organization's financial performance, but their own income as well. Consequently, clawback provisions can create an implied promotional ceiling.



Conclusion: The Royal High Art of Executive Compensation

Should a Board simply throw in the towel and eliminate all executive incentive and retention programs because the stakes are so high and the risks are increasing? Not if they want their organizations to thrive. Good credit union governance means a Board must take acceptable risks—not eliminate all risks. Today’s top credit union executives and those future executives will seek reward and recognition programs that include pay-for-performance principles. Those credit unions willing to create these types of pay programs while controlling risks will be the winners. Those that fail to embrace modern executive pay practices will be ripe for the picking.

With that said, there has always been a fundamental disconnect in the offering of variable pay and retirement programs and an absence of clawbacks. In the past, executives may have received impressively large “performance-based” payouts if they hit their strategic plan targets. They typically didn’t need to worry so much about “how” those targets were achieved. If, upon review, those successes require restatement, revision or repair—and the misleadingly-gotten gains were not subjected to a clawback provisions, one observer noted, “Heads, they win; tails, they don’t lose.”

The executive pay plans of the future will address this risk head-on and create fruitful relationships with executives based on sustainable long-term excellence. In other words, a Board’s best return on its investment is a fairly compensated executive management team that delivers long-term sustainable financial and member satisfaction results.

It’s not just regulators that are commenting that the status quo is unacceptable. The 99% and its general disdain for unreasonable executive pay practices are also leading the charge for reform. A credit union that invests more time and thought into designing variable pay programs and retirement packages than considering clawbacks is guilty of bad business and even worse management. Clawbacks shouldn’t be punishment for flawed decisions or bad luck; they should be positioned as deterrents and insurance policies for credit unions that fear that executives may take inappropriate or unsustainable shortcuts to get paid. It’s simply one more governance tool that more credit union Boards should utilize.

Sometimes executives spend more time trying to circumvent the system than playing by the rules. Some say that human nature will never change, and that there will never be a 100% foolproof executive pay strategy. But clawbacks represent one of those rare mechanisms that address regulator and the general public’s concerns, while incentivizing Board-defined performance outcomes. D. Hilton argues that there’s no such thing as a well-designed executive compensation program that doesn’t outline consequences for poor performance. And remember you are in very good company—the Queen wouldn’t stand for it, and neither should your organization.



Tumultuous Times Ahead with HR Regulations

The Year of Controversial Changes and Propositions Affecting 2016 Total Rewards

“Controversy” is an understated word to use in reference to the impact of United States Supreme Court rulings and Department of Labor (DOL) proposed rulemaking in 2015, which is set to affect 2016 compensation, without even mentioning litigation for the Affordable Care Act (ACA). Here’s a brief overview of how some of these changes will affect credit unions.

Fair Labor Standards Act – Proposed Rule Changes

There is always heated debate surrounding changes related to the Fair Labor Standards Act (FLSA), the federal act which regulates labor and wages in the United States and by which an organization can claim an “exemption” privilege for a position in order to avoid paying overtime compensation when certain criteria are met. Headlines have been much abuzz with the latest proposed rulemaking changes, as the impact will potentially affect millions of people and cost many employers across all industries a pretty penny or two.

In response to President Obama’s call to revise the abuse of the FLSA exemption status, the DOL announced in late June 2015 changes to the salary basis criteria of its exemption tests. The current salary basis criterion is that the employee must earn at least \$455 each week. The proposed change would increase that rate by 113%, to \$970 each week (\$50,440 annually). The rationale for determining this rate is based on the 40th percentile of current US salaried workers earnings. Furthermore, the bright-line test of \$100,000 annually is proposed to increase to \$122,948 (22%)—the 90th percentile of US salaried worker earnings. There was no proposed rule change announced to the duties criteria of the exemption tests.

The DOL accepted public commenting on the proposed rule changes and will consider the comments before issuing a final rule that would go into effect sometime in 2016. HR professionals and lobbyist organizations have jumped on board to comment, including the Credit Union National Association (CUNA), which commented, “This may impede efforts to expand credit union products or service offerings, and inhibit innovation. Credit unions may be stuck navigating how to operate in the same way at a higher cost, without adding any additional value to members.”



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If the proposed rules stand, credit unions will need to conduct a compensation audit for current FLSA exempt positions that fall below the \$50,440 salary threshold. There are several options at play for employers, including raising current salaries or making the positions non-exempt in 2016, but D. Hilton suggests credit unions discuss viable options with an employment attorney once the final rules are announced. Until then, credit unions should consider increasing either pay budgets to accommodate increased salaries, including affected benefits such as life insurance and retirement plan contributions, or increasing overtime budgets in affected departments. Credit unions should also review paid time off policies to weigh the loss of benefits, if any, that accompany changes in FLSA status.

Problems with the proposed rulemaking, aside from financial impact, also surrounds the stigma that non-exempt status carries as well as irrational logistics.

Despite the income benefit to the employee for working overtime, many employees still perceive a non-exempt status negatively. Being non-exempt requires additional duties of time-keeping and tracking attendance that wasn't required before. For example, an employee leaving work a couple of hours early for a doctor appointment was not necessarily recorded for exempt employees will now be required to report the absence on attendance tracking systems. Paid time off is also jeopardized for a converted employee if the credit union has separate accrual rates for non-exempt employees.

Many employment experts are also voicing concern with using the 40th and 90th percentiles for determining the salary levels bases. If these percentiles will be used to adjust the salary basis tests in the future—as the DOL has proposed automatic updating—there will always be a significant increase to the test because the percentiles will reflect the salary adjustments made as a result of the 2016 changes. For example, if a large population of exempt employees currently earning \$40,000 are adjusted to \$50,440 in 2016, then the 2017 40th percentile will have recalculated by potentially \$10,000 or more as result of these changes. The same applies with the 90th percentile for bright-line exemptions (bright-line exemptions occur when a position earns more than a specified high-dollar amount, e.g., \$100,000, and also performs at least one exempt duty).

If, however, the final rule were to use traditional economic benchmarks (i.e., excluding the bottom 10th or 20th percentiles), even factoring in inflation, the new rule would be around \$35,000 or \$40,000 annually.



Whatever salary level the DOL finally determines, credit unions will also have to consider pay compression that results from increasing salaries. Pay compression occurs when lesser experience wages are set higher, such as from a result of company policy or government regulation, without adjusting the wages of more experienced workers. As a result, newer hires begin to earn as much as, if not more than, their experienced counterparts or supervisors. Will the new, higher salaries cause a ripple effect to the employees' supervisory roles? Will supervisors' pay need to be adjusted as well?

Mortgage Loan Originators and DOL Authority

If you're frustrated with the DOL and the proposed rulemaking for the FLSA and how much authority it yields, it is worth noting the March 2015 US Supreme Court ruling in *Perez vs. Mortgage Bankers Association*.

At issue in the case was whether mortgage loan originators (officers) in a financial institution environment were exempt from the FLSA. Historically, these positions were deemed non-exempt in DOL interpretative letters until 2010 when the DOL shifted the interpretation and deemed the role FLSA exempt. At the heart of the change, as determined by the Supreme Court, was that mortgage loan originators who are not capable of passing the Outside Sales Exemption test (because they are not spending the majority of their time outside the placement of business) do not truly exercise discretion and independent judgment enough to pass the Administrative exemption test. They are following prescribed procedures determined by the financial institution on loan origination.

The ultimate take-away that was most controversial, however, is not with mortgage loan originators; the Supreme Court sided with the fact that the DOL has the authority to make interpretative changes that have significant financial impact without requiring or involving public commenting. As Justice Antonin Scalia opined during oral arguments, "Maybe we shouldn't give deference to agency interpretations of its own regulations. That would solve the problem of this case."

Thus, credit unions should be cautioned that not only will the salary level tests change in 2016 if the proposed rules stand, but they must consider that future changes to the duties criteria tests could also change without any feedback from public commenting as well.



Qualified Retirement Plan Audits

Another controversial Supreme Court ruling in May 2015 (Tibble v. Edison International) relates to employer responsibilities for monitoring retirement plan fees and performing third-party audits. The case related to employees who sued their employer (a California-based energy firm) for not offering identical, available institutional funds in the company's 401(k) plan with lower fees.

The DOL estimated for the court that a 1% fee change could potentially affect employees' investments by as much as 28% over the course of the plan's accrual. The Court ruled that employers have a fiduciary responsibility to monitor the investment options offered to plan participants.

All employers are now required to meet annually to discern retirement plan fees and triennially have a third-party audit conducted.

It would not be unreasonable to assume that because of this ruling, NCUA examiners may have a review of documentation of these meetings and audits on their list of upcoming examinations. Thus, credit unions should prepare themselves by ensuring that they are indeed meeting annually to monitor these fees and have third-party audits of their employee retirement plan on a three-year cycle.



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Section 5: Resources



SERP (Supplemental Executive Retirement Plan) Tasks & Procedures*

SAMPLE*

Initially	Executive Committee of the Board of Directors	Board of Directors	Legal/ Finance & Accounting/ Human Resources/ Participant
	<ul style="list-style-type: none"> • Establish a compensation strategy and philosophy <ul style="list-style-type: none"> ○ Create/affirm compensation philosophy statement • Commission compensation study/gather market data <ul style="list-style-type: none"> ○ Evaluate data sources – methodology review ○ Affirm appropriate peer group • Evaluate executive base pay <ul style="list-style-type: none"> ○ Evaluate executive performance relative to strategic plan ○ Conduct performance evaluation (results and competencies) ○ Determine appropriate base pay for each executive ○ Determine adjustment amount if appropriate • Evaluate variable pay program <ul style="list-style-type: none"> ○ Review annual results ○ Determine payout per formula ○ Recommend next year's metrics and payout targets • Evaluate total compensation • Evaluate all credit union retirement programs including SERPs <ul style="list-style-type: none"> ○ Affirm executive retirement program strategy and philosophy ○ Obtain the expertise of independent outside advisor ○ Gather market data ○ Evaluate data sources – methodology review ○ Affirm appropriate peer group 	<ul style="list-style-type: none"> • Review and approve Executive Committee recommendations regarding: <ul style="list-style-type: none"> ○ Compensation strategy and philosophy ○ Compensation philosophy statement ○ Compensation study / market data ○ Data sources – methodology ○ Peer group ○ President/CEO's base pay and adjustment amount if appropriate ○ Variable pay program <ul style="list-style-type: none"> ▪ Annual results ○ All credit union retirement programs including SERPs ○ New SERPs for select key executives <ul style="list-style-type: none"> ▪ Eligible executives ▪ Goals ▪ Designs ▪ Payment triggers ▪ Targeted benefits ▪ Offsets ▪ Stipulations ▪ Investment amount ○ Legal processes and documentation • Confirm that SERP goals meet succession planning needs 	<p>Legal Department</p> <ul style="list-style-type: none"> • Evaluate President/CEO's employment contract and SERP agreement for consistency • Review and confirm compliance and accuracy of all SERP-related documents <p>Finance and Accounting</p> <ul style="list-style-type: none"> • Begin accruing for the potential financial impact of SERP terms • Arrange for the transfer of funds to purchase SERP investments • Review insurance and investment documentation and statements <p>Human Resources</p> <ul style="list-style-type: none"> • Provide the Executive Committee and designated outside advisor with pertinent executive compensation information including: <ul style="list-style-type: none"> ○ Base pay ○ Variable pay targets ○ Variable pay payments ○ Qualified and non-qualified deferred compensation distributions ○ Employer portion of 401(k) and other qualified plan balances



Initially	Executive Committee of the Board of Directors	Board of Directors	Legal/ Finance & Accounting/ Human Resources/ Participant
	<ul style="list-style-type: none"> ○ Determine which executives may be considered for SERPs ● Consider SERPs for President/CEO and select key executives <ul style="list-style-type: none"> ○ Determine if and/or for which executives SERPs may be appropriate ○ Take into consideration any pre-existing SERPs ○ Research SERP <ul style="list-style-type: none"> ▪ SERP objectives (benefits philosophy, recruiting, retention, restoration of qualified plan shortfall?) ▪ Targeted benefits (replacing a percentage of anticipated final pay?) ▪ Offsets (401(k) matches, qualified and non-qualified deferred compensation distributions and benefits, anticipated Social Security payouts, etc.?) ▪ Stipulations (circumstances under which any or all of the SERP will or will not be paid to the executive) ▪ Investments (discount rate, investment amount, investment options?) ▪ Investment policy and procedures ○ Agree upon SERP goals, designs, payment triggers, targeted benefits, offsets, stipulations and investments ○ Confer with President/CEO regarding potential SERPs for additional executives ○ Confirm that SERP goals meet succession planning needs ○ Consider each SERP candidate's personal retirement goals ○ Resolve any outstanding Board issues relating to Executive Committee recommendations 	<ul style="list-style-type: none"> ● Communicate and resolve any outstanding issues with Executive Committee recommendations ● Communicate approval to Executive Committee 	<ul style="list-style-type: none"> ● Retain copies of all SERP-related, signed documents including SERP agreements, beneficiary designation forms, corporate resolutions, insurance policies and investment contracts/documentation <p>Participant</p> <ul style="list-style-type: none"> ● Provide accurate personal information ● Understand and sign all SERP-related documents including: <ul style="list-style-type: none"> ○ SERP agreements ○ Beneficiary designation forms ○ Insurance policies ○ Investment contracts/documentation ● Retain copies of all SERP-related, signed documents including SERP agreements, beneficiary designation forms, insurance policies and investment contracts/documentation



Initially	Executive Committee of the Board of Directors	Board of Directors	Legal/ Finance & Accounting/ Human Resources/ Participant
	<ul style="list-style-type: none"> ○ Obtain approval from Board for recommended actions ○ Consult with and retain legal counsel to create and follow through on all legal documents <ul style="list-style-type: none"> ▪ SERP agreement ▪ Corporate resolution ▪ DOL "Top Hat" filing ○ Ensure that those executives receiving SERPs understand their terms, structures, stipulations, potential tax implications, etc. ○ Document and provide backup for all decisions and actions ● Communicate appropriate information to Finance and Accounting, Human Resources, in-house Legal department and President/CEO 		



Annually	Executive Committee of the Board of Directors	Board of Directors	Legal/ Finance & Accounting/ Human Resources/ Participant
	<ul style="list-style-type: none"> • Reaffirm the compensation strategy and philosophy <ul style="list-style-type: none"> ○ Reaffirm the compensation philosophy statement • Commission compensation study / gather market data <ul style="list-style-type: none"> ○ Reevaluate data sources – methodology review ○ Reaffirm appropriate peer group • Evaluate executive base pay <ul style="list-style-type: none"> ○ Evaluate executive performance relative to strategic plan ○ Conduct performance evaluation (results and competencies) ○ Determine appropriate base pay for each executive ○ Determine adjustment amount if appropriate • Review variable pay program <ul style="list-style-type: none"> ○ Review annual results ○ Determine payout per formula ○ Recommend next year's metrics and payout targets • Review total compensation • Review all credit union retirement programs including SERPs <ul style="list-style-type: none"> ○ Reaffirm executive retirement program strategy and philosophy ○ Obtain the expertise of independent outside advisor ○ Gather market data ○ Evaluate data sources – methodology review ○ Reaffirm appropriate peer group 	<ul style="list-style-type: none"> • Review and approve Executive Committee recommendations regarding: <ul style="list-style-type: none"> ○ Compensation strategy and philosophy ○ Compensation philosophy statement ○ Compensation study / market data ○ Data sources – methodology ○ Peer group ○ Executive performance relative to strategic plan ○ Executive performance evaluation (results and competencies) ○ Base pay for President/CEO and adjustment amounts if appropriate ○ Variable pay program <ul style="list-style-type: none"> ▪ Annual results ▪ Payout per formula ▪ Next year's metrics and payout targets ○ All credit union retirement programs including SERPs ○ Current SERPs and recommendations for new SERP implementation ○ Legal processes and documentation • Re-confirm that SERP goals meet succession planning needs 	<p>Legal Department</p> <ul style="list-style-type: none"> • Review President/CEO's employment contract and SERP agreement for consistency • Review and confirm compliance and accuracy of all SERP-related documents <p>Finance & Accounting</p> <ul style="list-style-type: none"> • Re-affirm proper accrual for the potential financial impact of SERP terms • Review investment documentation and statements • Follow through on SERP payouts when appropriate • Ensure compliance with all auditors' requests for SERP account values <p>Human Resources</p> <ul style="list-style-type: none"> • Re-affirm all SERP-related, signed documents including SERP agreements, beneficiary designation forms, corporate resolutions, insurance policies and investment contracts/documentation are up to date and accurate



Annually	Executive Committee of the Board of Directors	Board of Directors	Legal/ Finance & Accounting/ Human Resources/ Participant
	<ul style="list-style-type: none"> ○ Reaffirm suitability of executives with current SERPs ● Review current SERPs <ul style="list-style-type: none"> ○ Review SERP investment allocations and returns ○ Evaluate current SERP and compensation status relative to targeted objectives ○ Determine funding adequacy ○ Investment policy and procedures ○ Recommend and follow through on any approved adjustments and investments ○ Address any regulatory changes ● Review imminent SERP payouts <ul style="list-style-type: none"> ○ Confirm that SERP payouts will be made according to plan ● Review documents / evaluate program administration effectiveness <ul style="list-style-type: none"> ○ Identify/address any potential compensation practice concerns ○ Assess expertise and independence of outside advisors ○ Document and provide backup for all decisions and actions <ul style="list-style-type: none"> ▪ SERP agreement ▪ Corporate resolution ● Re-ensure that those executives receiving SERPs understand their terms, structures, stipulations, potential tax implications, etc. ● Consult with and retain legal counsel to confirm that all legal documents are accurate and current <ul style="list-style-type: none"> ○ SERP agreement ○ Corporate resolution ○ DOL "Top Hat" filing ● Obtain final approval from Board for recommended actions ● Communicate appropriate information to Finance and Accounting, Human Resources, in-house Legal department and President/CEO 	<ul style="list-style-type: none"> ● Communicate to Executive Committee the Board's final approval for recommended actions ● Communicate appropriate information to Finance and Accounting, Human Resources, In-house Legal department and President/CEO 	<ul style="list-style-type: none"> ● Provide the Executive Committee and designated outside advisor with pertinent executive compensation information including: <ul style="list-style-type: none"> ○ Base pay ○ Variable pay targets ○ Variable pay payments ○ Defined benefit projections ○ Employer portion of 401(k) and other qualified plan balances <p>Participant</p> <ul style="list-style-type: none"> ● Inform Human Resources of any changes in personal information, circumstances or beneficiary designation ● Pay taxes on any SERP payouts received



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SERP INVESTMENT POLICY STATEMENT (IPS)
(Supplemental Executive Retirement Plan)
SAMPLE****

1. Purpose of the SERP Investment Policy Statement

This SERP investment policy statement sets forth the process that (Credit Union Name) has adopted to make investment-related decisions with respect to assets of the SERP plan. The policy identifies the investment goals and objectives of the plan, sets out decision-making processes for selecting investments, and specifies the procedures and relevant measurement indexes to be used in assessing ongoing investment performance, in accordance with the stated investment objectives. The investment policy statement will be used as the basis for measuring and evaluating future investment performance and will itself be reviewed, at least annually, by the SERP Investment Committee.

2. Roles, Responsibilities and Procedures

a. SERP Investment Committee

The SERP Investment Committee shall supervise the investment of the assets of the plan and make all decisions concerning selection and retention of the investment options available under the plan. Accordingly, the SERP Investment Committee shall have authority both to select and monitor funds, and to appoint investment managers. Decisions of the SERP Investment Committee on investment policy, the selection of investments and/or investment managers, performance analysis and investment monitoring, etc., may be, but need not be, based on the recommendations of an investment advisor engaged to advise the SERP Investment Committee on such matters.

b. SERP Investment Advisor(s)

An investment advisor may be appointed to assist the SERP Investment Committee in the overall supervision of the plan's investments. An investment advisor is a qualified person to whom the fiduciaries delegate responsibility for investing and managing the SERP plan assets in accordance with this SERP investment policy statement and applicable laws. In this role, the investment advisor will offer resources for additional due diligence as well as independent third-party analysis. More specifically, the independent advisor may offer guidance and recommendations to the SERP Investment Committee in the selection and retention of



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investment options, the selection and retention of investment managers, where applicable, and assistance in the periodic monitoring of fund performance.

- i. Specifically, the investment advisor is responsible for:
 1. Analyzing our current financial situation and assisting us in determining our risk/return profile
 2. Advising us about available investment solutions and strategies
 3. Monitoring the performance of our portfolio relative to our goals and objectives
 4. Periodically reviewing the suitability of the investment solutions selected for our portfolio
 5. Being available to meet with us at least once each year, and being available at such other times within reason as we request
 6. Preparing and presenting appropriate reports, including Quarterly Performance Reviews
- ii. Our financial advisor shall consider the following criteria when assisting us in the selection of our investment solutions:
 1. Our risk/return profile
 2. The current economic environment
 3. Our overall investment objectives, including a consideration as to whether we have primarily accumulation needs or distribution needs
 4. The potential of an investment to add value, considered relative to other investments having the same objective



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3. Written SERP Investment Records

The SERP Investment Committee shall create and maintain written records of all decisions relating to the choice and ongoing monitoring of SERP investment funds under the plan. Minutes shall be taken of all meetings, noting time and place, attendees, matters discussed, and decisions reached. The minutes shall document investigation, facts, and the reasoning that went into the making of such decisions. Relevant documents or materials used by the SERP Investment Committee in its decision-making process may be included in or annexed to such minutes.

4. SERP Investment Philosophy

- i. General Philosophy: Investment options chosen in coordination with the establishment of the SERP plan shall be selected in order to:
 - ii. Provide a wide range of investment opportunities in various asset classes, so as to allow for diversification and cover a wide risk/return spectrum
 - iii. Maximize returns within reasonable and prudent levels of risk
 - iv. Provide returns comparable to returns for similar investment options
 - v. Control administrative and management costs to the plan
- b. The SERP Investment Committee shall select such investment vehicles based upon their stated investment objectives or investment type and historical performance. The SERP Investment Committee also intends to base its selection on the options' historical adherence to their stated investment objectives.
- c. The SERP Investment Committee shall reevaluate each asset class and investment vehicle based upon the foregoing criteria, no less frequently than annually, in order to determine the continuing suitability of each such option under the plan.
- d. The SERP Investment Committee shall agree upon and communicate the investment objectives, the time-horizon and risk-tolerance of the SERP account to the investment advisor.



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5. Select and Monitor SERP Investment Options

a. Selection of SERP Investment Options

- i. The SERP Investment Committee shall select the plan's investment options (with the assistance of the plan's investment advisor, if applicable), and shall set forth and describe each selected investment option in Appendix A to this SERP investment policy statement. Selection criteria shall include, but not be limited to, the following:
 1. The investment option's volatility and performance relative to benchmarks
 2. The investment option's demonstrated adherence to stated investment objectives
 3. Competitiveness of fees and expense ratios, compared with those of similar investments
 4. The organization's size, structure, and history; management profile and investment philosophy; staff experience and depth; and technological commitment to research
- ii. Asset classes may include the following:
 1. Large Cap Equities
 2. Small/Mid Cap U.S. Equities
 3. U.S. Fixed Income
 4. International Equities
 5. Emerging Markets Equities
 6. International Bonds
 7. Real Estate Investment Trusts



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8. Commodities
9. Market Inverse vehicles

iii. Investment Vehicles may include the following:

1. Mutual Funds
2. Exchange Traded Funds
3. Insurance Contracts

b. Monitoring of SERP Investment Options

The SERP Investment Committee shall evaluate the results of the existing investment funds at least annually. Performance comparisons will be made against the representative performance universe and market indexes for each investment.

6. Review and Revise the SERP Investment Policy Statement

The SERP Investment Committee reserves the right to amend this SERP investment policy statement at any time and from time to time, as it deems necessary or appropriate. The SERP Investment Committee shall amend this SERP investment policy statement as necessary to comply with any amendment to the SERP plan documents or with any change in federal or other applicable laws that may affect the investment of the plan's assets. As changes occur in the investment options for the SERP plan, the SERP Investment Committee shall amend Appendix A, in order to maintain the accuracy of the document.



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IN WITNESS WHEREOF, this SERP investment policy statement, as approved by the SERP Investment Committee, has been adopted as of this _____ day of _____, 20_____.

For the SERP Investment Committee: _____

Print name: _____

Title: _____

** This sample is provided for informational purposes only. It is not intended to provide authoritative guidance or legal advice. You should consult your own attorney for guidance on your particular situation.



**Sample RFP Questions
457(f)
Supplement Executive Retirement Plan (SERP)
Parameters, Investments, and Executive Information**

- I. Overall Experience
 - a. Provide a brief history of your company, its structure and the location of your corporate headquarters and offices.
 - b. Provide the names and bios, including related experience, for the principle individuals responsible for the development, implementation, and administration of the new plan assets plan.
 - c. Provide a list of current industry licenses held by the individuals who will be directly responsible for this project.
 - d. Provide copies of U-4's for all individuals working with investments related to the SERP.
 - e. Provide copies of Form ADV—Parts 1 and 2 and brochure supplements (Part 2B) for all individuals working with investments related to the SERP.
 - f. Describe your firm's experience with executive retirement and retention plans.
 - g. Describe what differentiates your firm from your competitors.

- II. Not-For-Profit Experience
 - a. Describe your experience with nonqualified deferred compensation plans in general and 457(f) plans in particular.
 - b. How long have you worked with not-for-profits and credit unions?
 - c. How many SERPs do you administer for not-for-profit entities?
 - d. How many credit union clients do you work with that have assets comparable to our organization?
 - e. Describe your direct working experience with credit union regulators, auditors & attorneys.



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III. SERP Design

- a. Describe your methodology for designing the 457(f) SERP plans.
- b. Does your design methodology take into account individual executives and their unique situation or need (e.g., age, tenure, etc.)?
- c. How do you benchmark your SERP design against what is peer competitive?
- d. Please describe how you would define peers. Can the credit union customize the peer group? What primary and secondary sources are used to benchmark peer competitive?
- e. What are the costs to conduct 457(f) SERP design? Do these costs require the credit union to use your firm for investment management?
- f. How many onsite visits are included and/or expected as part of your design methodology? Are those onsite visits included in the costs quoted?

IV. Plan Assets

- a. What investment options can you offer?
- b. What financial services providers would you recommend working with on this plan?
- c. Please provide a sample proposal using a moderate investment allocation.
- d. Will you provide an investment policy statement? How often is it updated?

V. Compensation

- a. Describe your firm's experience with executive compensation plans.
- b. Provide an overview of your executive compensation and evaluation programs.
- c. How can your firm help our credit union validate and verify compensation and retirement benefits for our peer group, inside and outside of the industry? How often do you do this and is there an additional fee for doing so?
- d. How many not-for-profits and credit unions do you work with on compensation and benefit design annually?



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VI. Plan Administration

- a. How often are you available for on-site meetings with the credit union to review the plan performance and options? Who from your firm is responsible for these on-site meetings and are there any fees associated with these reviews?
- b. How is oversight and administration handled? How will you ensure that our plan is competitive and compliant with all IRS, NCUA, OFIR regulations as well as any other applicable regulations?
- c. Describe your methodology for conducting ongoing SERP plan administration.
- d. Describe your methodology for conducting ongoing investment due diligence.
- e. Describe your methodology for tracking and communicating investment performance.
- f. Discuss your firm's fee schedule and compensation, including commissions, both direct and indirect. Fees should include annual (ongoing) fees, set-up fees, administration fees and fees related to initial analysis and recommendations and any other fees applicable for this type of plan.
- g. Describe your firm's electronic security protocol.
- h. Describe your firm's disaster recovery plan.

VII. References

- a. Provide references for the following clients:
- b. Three largest clients
- c. Three recent clients
- d. Three longest client relationships



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Section 6: **Glossary of Terms**



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A **457(f) plan**, also known as a SERP (Supplemental Executive Retirement Plan), is a non-qualified deferred compensation plan offered by credit unions and is designed to supplement the retirement income of a select group of executives or highly compensated employees. Unlike qualified plans, non-qualified plans do not have contribution limits or use discrimination testing. A SERP can be structured as a Defined Contribution Plan, a Defined Benefit Plan, or a combination of the two.

Split-Dollar Life Insurance is an arrangement between a credit union and an employee to share the costs and/or benefits of a life insurance policy. Under an **Endorsement Split-Dollar Plan**, the credit union is formally designated as the owner of the life insurance contract and endorses the contract to specify the portion of the benefit payable to the employee and/or beneficiary. Under a **Collateral Assignment Split-Dollar Plan**, the employee is formally designated as the owner of the contract, and the credit union premium advances are secured by a collateral assignment of the policy.

A **Defined Contribution Plan** does not guarantee a specific level of payout. Instead, the contribution accumulates tax-deferred to provide whatever amount of benefit it can purchase at the executive's retirement. The retirement liability resides with the executive.

A **Defined Benefit Plan** guarantees a predetermined benefit to the executive at retirement. It typically is either a specific dollar amount or a percentage of income. The retirement liability resides with the credit union.

A **Combination of Defined Contribution and Defined Benefit Plans** blends the funding arrangement of a Defined Contribution Plan with a guaranteed minimum payout.

Retention – The SERP improves retention by rewarding executives employed for a specific number of years or until retirement. This is often referred to as Golden Handcuffs.

Retirement – The plan enables the credit union to follow its succession plan in a timely manner by allowing its executives to retire at an appropriate age.



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Recruitment – The SERP is an excellent recruitment tool for the credit union in a competitive employment market, attracting and retaining key executives. Negotiation of retirement benefits are now a significant part of executive recruiting at the President/CEO level.

Restoration – SERPs are frequently used as “make whole” depositories for qualified plan shortfalls.

Special Needs – SERP design may be structured to provide financial security for the executive’s retirement or in the event of a pre-retirement death or disability. It may also be keyed to funding specific needs such as retiree health insurance and out-of-pocket healthcare costs.

Internal Revenue Code 457(f) addresses the use of SERPs in the not-for-profit sector. Because these plans are non-qualified, they allow for select employees to receive SERPs. There are no contribution limits to these plans as long as the contributions are deemed “reasonable.” The earnings in the plan grow tax deferred until distribution, then they are taxed as ordinary income to the executive. To grow tax deferred, the IRS requires that the design of the plan include “a substantial risk of forfeiture” (the executive leaves and they forfeit the SERP) and that the employer be the fiduciary in the plan administration and oversight the employer controls SERP plan with no constructive receipt by the executive.

Internal Revenue Code 409A establishes clearly defined trigger points at which SERP distributions should be made to an executive. Examples of these payment events might include separation from service, disability, death, change in control or a specified date(s). The executive must be prohibited from participating in the oversight and/or administration of the SERP to avoid a taxable event.

NCUA Rule 750 provides the NCUA broader authority to indemnify a SERP contract in the event that a change of control is the result of poor executive judgment (i.e., conservatorships). While the NCUA recognizes the need for SERPs in the credit union industry, the NCUA can “claw back” SERP payments from executives in the case of extraordinary circumstances to protect the National Credit Union Share Insurance Fund. Fiduciary responsibility of the employer as defined by the Pension Protection Act.



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Section 7: About D. Hilton Associates



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Since 1985, D. Hilton Associates has offered consulting and outsourcing services exclusively to the credit union industry. The firm employs experienced thought leaders in four major practice areas: compensation consulting, executive recruiting, retention and retirement plan design, and strategic services. The D. Hilton goal has always been to provide our credit union clients with a thorough knowledge of the issues and best practices in the financial services industry, as well as practical solutions to client-specific concerns and challenges.

In 1999, D. Hilton Financial Services was established to assist credit unions with the implementation of Supplemental Executive Retirement Plan (SERP) investment choices, in addition to ongoing maintenance and oversight. Because of state licensing requirements and the regulatory oversight of the Financial Industry Regulatory Authority (formerly the NASD), D. Hilton Financial Services is a separate company from D. Hilton Associates and wholly owned by Debra Hilton. Since establishing D. Hilton Financial Services, Debra Hilton has worked with credit unions and other not-for-profits as a registered investment advisor and representative, maintaining securities and insurance licensing and continuing education requirements.

The benefit of working with both D. Hilton and D. Hilton Financial Services is the depth of knowledge and expertise both companies bring to SERP design, implementation, and ongoing management. D. Hilton and D. Hilton Financial Services are the only entities in the credit union industry with expertise in executive recruiting, executive compensation, and SERP design and implementation. For more information, please contact Debra Hilton at 800.367.0433, extension 121, or email debbie@dhilton.com.



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David M. Hilton, Ph.D., Founder and President, D. Hilton Associates, is renowned for his insight on industry trends and his company's ability to offer innovative solutions to help credit unions stay competitive in the market's constantly changing conditions. Hilton began his career in banking and then joined a large Long Island, New York credit union during a time when the industry was known for its plain vanilla approach to financial services.

During his tenure at the organization, Hilton rose to the number two position and became known for process improvement and technology innovation. Knowing his ultimate goal was to become a chief executive, however, he began to field offers from credit unions around the country. He was 30 years old when he accepted a CEO position for a troubled New Jersey based credit union, and within 24 months, had returned the organization to profitability.

Realizing that he loved problem solving and working with Boards, he decided to establish D. Hilton Associates Inc. as an executive recruiting firm in 1985. Since its inception, the firm has been involved with many of the high profile executive job placements in the nation.

Today, Hilton leads a team of consultants that provide executive recruiting, executive and staff compensation, variable pay design, succession planning and 457(f) SERP development to credit unions throughout the United States. Clients range from \$50 million in assets to more than \$15 billion.

Hilton is a much sought after speaker on the credit union conference circuit and has authored many articles for the industry in the areas of executive recruitment, executive compensation, and board governance. Hilton holds a bachelor's degree in Accounting from City University of New York, a master's degree in Business Administration from New York Institute of Technology and a doctorate in Organizational Management from Walden University, Minneapolis, Minnesota.



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Debra J. Hilton, SPHR, SHRM-SCP, President, D. Hilton Financial Services & Executive Vice President, D. Hilton Associates, specializes in the design, implementation and management of Supplemental Executive Retirement Plans (SERPs). A professional money manager since 1983, Hilton joined D. Hilton Associates in 1996 after successfully selling her money management practice. While working with credit unions in the recruitment and retention of senior executives, she recognized the important relationship between total compensation, SERP design and investment performance as an integral retention tool.

As an Independent Registered Representative with LPL Financial, Hilton established D. Hilton Financial Services in 1999 for the express purpose of facilitating the implementation and ongoing oversight of executive retirement plans. She has been instrumental in the implementation of more than \$1 billion in retention, retirement and compensation plans for credit union executives. The firm has consulted with more than 900 credit union clients nationwide in the development of SERP solutions.

She has been recognized with numerous professional accolades, including Registered Rep Magazine's "Top 100 Independent Advisors in America" and "Top 50 Independent Broker/Dealer Women Advisors," as well as Top Financial Adviser for LPL Financial for the previous seven years, a Top 400 Advisor by the Financial Times, and as a Five Star Wealth Manager in *The Wall Street Journal* and *Texas Monthly*.

Hilton maintains the FINRA Series 7, Series 24, Series 63, Series 66, and Life and Health Insurance licenses, and The Society for Human Resource management has recognized her as a Senior Professional in Human Resources (SPHR). She holds a bachelor's degree from The University of Houston.



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John W. Andrews, CCP, CSCP, SPHR, Executive Vice President, D. Hilton Associates, joined D. Hilton Associates in 1986, a year after the company's inception. He is considered a thought leader in the credit union industry regarding executive compensation and pay-for performance programs. His extensive knowledge in governance and his passion for working with nonprofit organizations has made him a fundamental part of the D. Hilton team.

Through his leadership, D. Hilton's Compensation Practice has become the industry leader in custom designed salary administration and performance evaluation systems. D. Hilton is renowned for accumulating the most current industry salary and incentive data available on the market. He is also responsible for the development of D. Hilton's Annual SERP Survey and Quarterly Compensation Impact Reports, considered best in industry.

Andrews received a bachelor's degree in Communications from the University of Tulsa, and went on to Emerson College to pursue his master's degree in Business and Organizational Communication. Prior to joining D. Hilton, Andrews worked with KPMG Peat Marwick, the Center for Coastal Studies and the National Association of Insurance Women. Andrews holds the designation of Senior Professional in Human Resources (SPHR) from the Society of Human Resource Professionals, as well as the Certified Compensation Professional (CCP) and Certified Sales Compensation Professional (CSCP) designations from the WorldatWork Association.

Brian J. Kidwell, Executive Vice President, D. Hilton Associates, manages all client research and strategy initiatives for D. Hilton Associates. His specialties include executive succession planning, compensation and benefits analysis, executive recruiting analytics, qualitative and quantitative research, site selection analysis, organizational assessment and strategic planning. Kidwell is responsible for the development of D. Hilton's Member Migration Model—an exclusive research tool used for customer segmentation, behavior analysis and lifetime value. Prior to joining D. Hilton, Kidwell worked as a consultant focusing on consumer behavior business strategy.

Kidwell maintains the FINRA Series 7, Series 66, and Life and Health Insurance licenses. He holds a bachelor's degree in Management from Texas Tech University and a master's degree in Business Administration from Texas State University. Kidwell is also a published author in major consumer research journals and trade publications.



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