

National Compensation Forecast 2019



d. hilton associates inc.



National Compensation Forecast 2019 – Contributors

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Section 1: Introduction to D. Hilton's 17th Annual Credit Union Industry Compensation Forecast

The credit union industry continues to make significant progress toward moving away from the stereotype of human resources as a bureaucratic quagmire. Today's human resources practitioners are creative, innovative, and tech savvy. We see clients devoting increasing amounts of time to organizational change (we're getting bigger and more complex), skills shortages (we need to fill a lot of chairs), social recruiting (spreading the gospel) and dealing with disengaged employees (creating a meaningful employee experience). In other words, 2019 is the year of the HR Disruptor – reimagining the work to be done and how to do it.

For volunteers overseeing executive compensation and performance management programs, the landscape is definitely changing. We see more emphasis on succession planning and performance-based retention plans. Now more than ever, credit union boards are focusing not only what they are paying their executives, but how to most efficiently deliver pay. Many elements of the Tax Cuts and Jobs Act of 2017 will be in full force in 2019. Specifically, the new 21% excise tax on nonprofits that pay compensation of \$1 million or more to any of their five highest-paid employees. The increase in the standard deduction, the loss of personal exemptions, the cap of state and local tax deductions, a reduction on the mortgage interest deduction, and the elimination of the home equity loan interest deduction will most certainly impact executive recruiting and compensation as credit unions recruit nationally for the best and brightest talent.

This year marks D. Hilton's 17th Annual Credit Union Industry Compensation Forecast. As part of its ongoing commitment to ensure that its clients' executive and staff salary administration programs remain competitive, D. Hilton gathers annual research to forecast salary range and merit increase budgets for the upcoming year. The following document is designed to assist clients in preparing compensation and benefits budgets for 2019.

Since 2003, D. Hilton gathered HR budget information from national financial services and retail marketplaces. This year's data includes a review of approximately 200 current clients, ranging in asset size from \$50 million to more than \$10 billion to explore how they are facing a shortage of management and technical talent, a shrinking retail labor pool, while addressing increased regulatory compliance and compensation mandates.

As in the past, we provide merit and salary range budget data for three capital positions: Capital Concerns (credit unions with less than 7% capital); Sufficiently Capitalized (credit unions with capital between 7% and 10%); and Well Capitalized (credit unions with capital greater than 10%). The results continue to show that an "overall" industry budget projection can be misleading, and D. Hilton's three categories seem to be more realistic for budgeting purposes.

If you have specific questions, we are here to help. Please call me at 800.367.0433 ext. 124.

All the best in 2019!

John W. Andrews, SPHR, CCP, CSCP
Executive Vice President



Human Resources Trends 2018

It's that time again – time to reflect and revel in the accomplishments we achieved in the past year and then look to the future. We have overcome the uncertainty created in Washington with the FLSA tennis match. We have prepared for the transition in executive leadership we have been predicting as the managerial pool continues to skew younger. The economy has been on an upswing with GDP growth it's highest in four years. Hiring is up 10.5% nationally from last year and there are 6.3 million job openings. What a year!

As always, there is only one thing for certain; change is inevitable and it's not all smooth sailing on the horizon. There is still uncertainty in FLSA rules and if the Department of Labor doesn't finalize a new rule before the 2020 elections, nothing is off the table. CEO pay has moderated as CEOs continue to step into the shoes of the retiring old guard. Medical costs have plateaued but are expected to be around the same 7% trend of the last five years. 78% of Americans are living paycheck to paycheck while collectively carrying \$1.5 trillion in student debt. We've got work to do!

So, let's talk about what we do see on the horizon - in short, HR is being reinvented - again. The shift in the executive mindset and demands of the workforce are both tremendous boons for the agile HR department and your organization. The role of your HR professionals is transitioning from administrators to service providers and this puts us in a great strategic position. We continue to position HR professionals as the necessary thought leaders and solution centers (not cost centers, or "no" centers) from which every credit union can benefit. Let's look at a few of the top trends we have our eyes on.

Half-life of Skills – No degree required?

175 million people need to switch occupations by 2030. In fact, in the first quarter of 2017, 4% of workers changed jobs. That's the highest rate since 2001. In April 2018, 3.4 million Americans quit their jobs which is double the number that were fired according to a 2018 CompAnalyst report, with Millennials leading the job switching at 6.5% of workers under 35 compared to 3.1% of workers ages 35 to 54. And this is understandable, the younger generation is still in the early stages of their careers and with the trend of leaving a company to get an instant bump in their income, they take advantage of it. According to the Federal Reserve Bank of Atlanta, those changing jobs saw close to 30% larger annual pay increases in May than those who remained loyal in the same job over the past 12 months. This is not just a Millennial mentality either, the Department of Labor Statistics shows that from 1983 to 2016, U.S. workers from ages 25-34 years consistently have the shortest tenure. Perhaps there is something fundamentally wrong with how we reward loyalty or recognize and value talent? Regardless, it's something to plan for. According to Madhura Chakrabarti, research leader of people analytics and employee engagement at Bersin, there's almost no long-term, 20-year career, and HR needs to lead that transformation.

With a historically low unemployment rate, it is a war for talent and companies are taking the gloves off. There are a multitude of things to consider as companies are starting to look for different avenues and criteria to find quality talent.



How about education? Degrees open doors is the mantra, however that is changing, too. "When you look at people who don't go to school and make their way in the world, those are exceptional human beings. And we should do everything we can to find those people," said Google's former SVP of People Operations Laszlo Bock in response to dropping degree requirements from many positions. Ernst & Young also removed university degree classification from entry criteria. Maggie Stilwell, EY's managing partner for talent, noted their internal research of over 400 graduates established no correlation of past success in higher education and future success in the professional world. More companies are finding hidden gems in non-traditional hires.

It's certainly time to be strategically creative and reevaluate your selection, retention and development strategies. How it's always been done is, in general, a poor answer and the stakes are increasing every day. SHRM research shows that an employer will need to spend the equivalent of six to nine months of an employee's salary in order to find and train their replacement (much more when you weigh in a few additional variables) and the fact that current skills have a half-life of about five years, it has become increasingly important to not only retain your talent, but provide avenues for their professional growth through training and development. According to Gallup, 87% of millennials rate "professional or career growth and development opportunities" as important to them in a job -- far more than the 69% of non-millennials who say the same. Also, HR professionals and compensation specialist will need to evolve from the linear career progression and incorporate a skills-matching, more flexible career pathing mindset. The skills gap is increasing, and some creative avenues are being tested to retain, train, and grow. If you are not strategically planning for the talent war, you may be left with the casualties.

AI – Artificial Intelligence Takeover?

If you aren't preparing your workforce for AI, here is the confirmation that you should do so. AI is met with equal parts of trepidation and fascination but the potential for AI is undeniable and it will only continue to grow more relevant. Employee skills such as creativity, complex problem-solving, and critical thinking will become even more crucial than they are today as technologies work to complement humans. Complement – not replace. AI and humans are at their most efficient and effective when working together.

A common concern is that AI will take jobs and automate everything. Research by James Bessen from Boston University School of Law into how computer automation affects occupations found that occupations with greater levels of computerization enjoyed higher employment growth rates. In fact, 40% of companies are using AI to fill in an existing talent gap. Understanding the different skillsets that humans and machines bring to the table is an important factor to plan for. Strategically planning your workforce for the future will require a focus on individuals that are at home in a more service oriented, social environment. Thankfully, this plays to the innate strengths of humans. AI can deal with the data aspect while humans focus on the human aspect. Intelligent machines will free up time to allow humans to do more human things.

The trouble comes from the fact that companies are still struggling to develop and recruit for these human skills, or soft-skills. This is something of an irony. Invariable, we agree with Deloitte's analysis and we also see this as an urgent human capital challenge. It will require top executive support to light a fire under the needed organizational, culture, and performance management practice changes that must occur.



Talent Management/Performance Management – The only thing worse than Performance Management is not having Performance Management.

A hot topic for many years running and again we face another transition in conventional thinking about performance reviews. The amount of time invested in doing yearly reviews was thought to be a necessary time sink and a hole in the ground we throw money into. A lot of money. Often to the tune of millions. The average cost of a performance appraisal is \$2,500 per employee. Per year.

The traditional methodology of annual reviews is fraught with recency effects, bias, and overall neglect. The effectiveness of most performance management programs provides not much more than a nightmare of administrative quicksand. Add to that the fact that yearly reviews put the employee on the defensive and scared for their livelihood - they spend so much time defending themselves they miss the constructive bits which should be the whole point of the meeting. The large lump sum of yearly performance and activities is difficult to manage causing many managers to fail to give clear feedback or neglect to give feedback altogether. This leaves employees confused on where they stand... right until it comes time for merit increases.

The shift to providing continuous, forward-looking feedback more often will become the new normal. Using frequent, short, and informal meetings scheduled by the employee (yes, the employee) promotes open dialogue between the employee and manager. These meetings are the opportunity to provide real-time feedback and provide a forward look at near-term goals. These meetings become a two-way street of valuable communication; as much as managers value being able to provide productive feedback, more junior employees value being able to provide bottom-up feedback. Additionally, it keeps the list of action points small and concise as opposed to a laundry list of items to do over the course of a year in a world of fast paced offices where plans and strategies are changed on the daily. This keeps both the employee and manager focused on what they can do today, and tomorrow - not what they should have done last year.

From weekly meetings to quarterly, shorter meetings with more frequency are already in effect and the results have been positive. The insights these shorter, more informal meetings give managers and employees are instantaneous, effective, clear, and actionable. By providing digestible, focused, forward looking feedback on a frequent timetable, the administrative burden on managers is significantly reduced and employees are given guidance that enhances engagement, productivity, and the overall experience. Who doesn't like a win-win situation?

Employee Engagement vs. Employee Experience

Employee engagement has been a metric that many companies hang their hats on. Percentages are waved around like the flags of a conquering nation and photos of the "undefeated" CEO playing ping-pong against employees are displayed proudly. We all know the benefits of strong employee engagement and, even more so, we know the dangers of disengagement all too well. However, engagement is only part of the equation.



Our goal is to produce as many actively engaged employees as possible and reinforce the culture that produces it. Enter the “Employee Experience” mindset. Employee Experience goes beyond feel good tactics like parties, gym memberships, and so on. Workplace perks are great, and Employee Experience can include those items, but it is much more of a big-picture, strategic initiative. Employee Experience is, at its core, engagement, performance management, and culture all strategically considered as a whole – not as separate entities. This allows companies to map the employee journey much in the way you map the client journey. While the goal of an Employee Experience program is engagement, many companies only pay attention to the results of their surveys and neglect proactively designing a strategic program to produce increased employee engagement. The great thing? Many successful tactics of Employee Experience can be completely free.

For example - Dr. Adam Grant, an I/O Psychologist, believes the desire to help others is the greatest untapped source of human motivation. His research demonstrated that with a simple change of perspective, dramatic increases in effort, engagement, and productivity were easily achieved. In his research, Dr. Grant attached signs above a hand-washing stations in a hospital. One sign read “Hand hygiene prevents you from catching diseases” and the other read “Hand hygiene prevents your patients from catching diseases.” When Dr. Grant measured the amount of soap used at each station, he found that nurses and doctors used 45% more soap where the sign referred to the patients. The desire to help others is an innate human characteristic that is deep within us even if we don’t recognize it overtly. In another study, a group of call center employees met with one recipient of their services for five minutes. The individual spoke of the impact the service had on them. The group that met the recipient spent 2.5x longer on the phones, nearly doubled the calls made per hour, and brought in 5x more money. Per week. For an entire month!

Just being aware of the impact your job has on others can help with motivation and productivity. Giving employees the opportunity to meet people that have been assisted by the services they provide pays massive dividends in engagement and productivity. Employees who know how their work has a meaningful, positive impact on others are not just happier than those who don’t; they are vastly more productive. But they can’t just be told by the CEO – it needs to come from the actual recipients.

Little things can make a big impact. To produce lasting engagement scores in the future, leaders will need to focus on being a proponent of employee experience design as a more scientific and data-based process overall. Your employees will forget what you say but remember how you make them feel. They want to know the impact of the efforts they make as well as make a direct impact on their community. The age old “searching for meaning” is alive and well. Invariably, employees are increasingly wanting the opportunity to do good, and do it well.

Wellness programs vs Well-being Programs – Healthy Mind, Body, and Soul = Productivity

Wellness programs have been a large strategic initiative for some time now. The increasing demands and expectations of the workforce have willed it into existence and, for the most part, employers have listened. The focus has been on items that appear to have a more direct relation to the business case of healthier workforce, less time sick or away from work and lower insurance costs. It’s been a win-win for employee and employer. However, there has been a gap or disconnect over benefits that employees deem as very important and what employers offer. The costs of that gap are increasing rapidly. Mental health is often talked about and exceedingly neglected. The impact is substantial - 29% of millennials found working challenging due to mental health issues. This added up to 217 million in lost days, and \$80-105 billion in indirect costs.



The trend is ticking to a more holistic approach and the concept of a well-being program which takes into consideration not only physical health, but mental, financial, and more. Deloitte Insights from July 2018 notes that only 23% of respondents reported that their well-being program was designed to reduce insurance costs. The reality is that 43% believed their program reinforced the company's mission, vision, and values, 60% reported it improves retention and 61% said it improves employee productivity and bottom line results.

Well-being programs are progressing from just a health perspective and gaining additional ground quickly as employers are getting a better grasp on the holistic perspective of what employees deem as important - which translates directly into recruitment, retention, culture, and the employee experience.

There is still a lot of room to grow. Research shows that student loan support is among the most highly regarded well-being benefits with the most common programs offering \$100 a month toward student loans. The catch? Only 4% of employers are offering it. In a time of difficulty attracting top talent, this benefit makes employers more attractive to talented, educated young professionals which is a tremendous competitive advantage. Combined with offering a 401k, this demonstrates that the company is invested in the financial security of their workforce from a holistic perspective.

There are many sizable gaps in what employees find extremely valuable benefits and what employers are offering. This illustrates the importance of a well-rounded well-being program. Aetna CEO Mark Bertolini explains, "If people can't make ends meet at home with food, benefits, health, and health care in particular, how can they be present, engaged knowledge workers when they come to work?" According to PwC's 2018 Health Research Institute report, from 2011 to 2016 the average health premium for family coverage purchased through an employer rose 20% - in that same period, wages increased just 11%.

Well-being programs consider much more than just the health benefits and vacation days that have become standard. Employees are looking for a flexible schedule, telecommuting options, backup-up daycare, and mental health counseling to name a few. Rounding out your wellness programs to become well-being programs is a great strategic initiative and will directly impact your bottom line.

Transparency – Branding the Employee Experience

It's easy to communicate too early, it's extremely easy to communicate too late – it's hard to over communicate. Rest assured, if you don't communicate, others will do it for you. A disengaged employee spends 90 minutes a day telling others just how disengaged they are. Not the best narrative.

With social media as a platform, everyone has the attention of anyone who will listen. The world is truly our stage. To put it another way, every single one of your employees is your company's PR and marketing department - and they are exceptionally "good" at it. Increasingly, the narrative of a company's mission, vision, and values is being written by the employees. If their version is in alignment with the actual mission, vision, and values is up to you.



With the world of instant news and the constant devouring of information, people have become accustomed to open lines of communication even more so than in the past. Here at D. Hilton we get the question quite often – Should I tell the board/SLT/management/employees about...? While there are many factors to take into consideration, in general, communication is almost always the right answer. Communication signifies trust, and trust is a dramatic driver of retention. Across all generations, trust is a key driver for being a strong brand ambassador as well – in high-trust organizations, Millennials are 59 times more likely to strongly endorse their company to friends and family.

The trick in communication remains in the timing. If you communicate a change before you have achieved buy-in, it leads to disengagement. If you communicate after a change has already been decided... again, disengagement. Communication is the third step in a seven-step change management process. Have a guess where “take action” lands? If you neglect communication, you have lost all control of the narrative because someone else is communicating for you and they have their own interpretation and agenda. Either way, poor communication or mis-timed communication will take exponentially longer to attempt to rectify.

Transparency is a big topic to tackle, especially in compensation, and this is a great time to plan and establish a communication strategy. We are seeing an increasing trend in compensation toward the desire for more transparency. Have you communicated your pay philosophy? How about pay ranges? The most successful job listings displayed salary info along with the job description. These can be tools your employees use to plan career progression and make good career decisions.

Don't lose sight on guiding the narrative within your company. Your marketing and PR department has never had more power than today. Different company cultures will look for different levels of communication but be confident in the fact that if you are not living and breathing your mission, vision, and values, you are communicating much more than you realize and you may not like what you've said.

The Shadow Generation – Marcia, Marcia, Marcia!

The Millennials. The Millennials. The Millennials. It seems like all we hear about is how the millennials are this, that, and the other. Biggest topic being, how do we deal with them? One answer? Gen X – the Shadow Generation.

Gen X was over shadowed by the Boomers and now often forgotten about to focus on the Millennials. They are now your seasoned managers, subject matter experts, and your secret weapon in the battle of the Millennial. Yet little seems to be known about the middle-child.

A new study by DDI shows that Gen X now holds more than half (51%) of the leadership roles globally. They bring tremendous value to a company; not only are they digitally savvy as Millennials, they are loyal. Although most Gen X leaders are not looking outside for a new job, they prefer external development rather than internal coaching from managers. They also bridge the gap to Millennials and manage the friction between generations, which is a secret weapon we do not see enough companies developing and leveraging.



In general, Gen X managers are independent. After all, they were left on their own to manage their time at a young age. They don't require the close workplace relationships as the younger generations, but they place a high value on mentoring and helping others develop. They are excellent communicators, especially the group born between 1960 and 1970. They utilize social media and leverage technology. Are you seeing a pattern here?

If you are looking to attract and retain these seasoned managers, you need to take into consideration some of the traits of Gen X that are often overlooked. Even though they are loyal, if they feel bored or stuck, they will move on. With over 20 years on the job under their belts, they may have hit the mid-career itch. Boomers have been slow to leave the workforce, so the advancement of Gen Xers has been slower than other generations. That does not mean they are not as hungry for advancement.

When developing your performance management and employee experience programs, do not forget about your loyal workhorse generation and you will see a sizable return on your investment and the gap of the Millennial mentality decrease.

Closing Thoughts –

We have more tools and technology at our disposal than ever before. However, just like any strength, if overused it can become a weakness. Even Elon Musk from Tesla admitted that their overreliance on automation was a mistake. People - your people - matter. Technology is isolating, and loneliness is an epidemic. Sometimes we don't realize that one conversation can take the place of 34 emails. The camaradery and sense of belonging that a workplace can and should provide cannot be understated.

The pendulum swings again and even the younger generations want the "in-person" experience. Being together, working toward a clearly defined common goal is powerful. A group is smarter than an individual and a face-to-face group is smarter than a group that communicates electronically because 90 percent of our communication is non-verbal. As David Brooks of the New York Times points out; we are social animals, not rational animals.

Tapping into the employee experience and enhancing your culture is critical. It can't be said enough, engagement has a powerful and profound impact on the bottom line of any company. Being actively engaged means being both rationally engaged and emotionally engaged (having your head and your heart in the game); emotions are not separate from reason, but they are the foundation of reason because they tell us what to value.

Remember that culture will eat strategy for breakfast. All of these new tools should be used and leveraged with the employee experience in mind. Health and happiness can be caused by many things and with a well-balanced employee experience and well-being plan in place, you can help continue to grow your company to be a reason for that happiness. Much happiness comes from helping other people become better. Your credit union is preeminently qualified to provide that experience.



For Additional Assistance

D. Hilton Compensation and SERP clients have access to our compensation consultants throughout the coming year to assist with budget planning, performance management issues, market pricing of new or reconfigured jobs and general human resources issues.

If you are not a current compensation client, D. Hilton Compensation Services can create and implement compensation and incentive plans that allow you to attract and retain high performers. Should you, your fellow executives or your volunteers have any questions related to D. Hilton's salary administration programs, please contact John Andrews at (800) 367-0433 ext. 124.

We wish you all the best in 2019!



Section 2: D. Hilton's Credit Union Industry Compensation Forecast

Capital Concerns (<7% capital): Currently, 2.7% (153) of credit unions fall into this category. Credit unions with capital positions that fell below 7% remain in expense control mode with compensation and benefits programs being eliminated or modified. These credit unions remain less concerned about employee retention as they once may have been. Anticipated 2019 budget actions:

- 2019 staff compensation budget adjustments: 0.0% — 3.0%
- 2019 executive compensation budget adjustments: 0.0% — 4.25%

Sufficiently Capitalized (7% to 10% capital): Currently, 32.3% (1,823) of credit unions fall into this category. They have sufficient capital and exhibit a strong desire to preserve their capital positions through modifying compensation and benefits programs and exploring ways to mitigate HR-related expenses. These credit unions are still concerned about employee retention and see this year as an opportunity to address some below-market actions of the past few years. Anticipated 2019 budget actions:

- 2019 staff compensation budget adjustments: 3.2% — 3.80%
- 2019 executive compensation budget adjustments: 6.0% — 8.00%

Well Capitalized (>10% capital): Currently, 65.0% (3,670) of credit unions fall into this category. Credit unions with sufficient capital continue to view the current economic expansion as an opportunity for growth. These organizations are treating compensation and benefits programs as a means to reward, recognize and retain existing talent but also see an opportunity to upgrade and bring on new technical specialists. They continue to use pay-for-performance tools to ensure sufficient compensation gets into the hands of their top performers. Anticipated 2019 budget actions:

- 2019 staff compensation budget adjustments: 3.9% — 5.5%
- 2019 executive compensation budget adjustments: 6.75% — 9.50%



Section 3: WorldatWork Survey Highlights

D. Hilton's primary source for credit union industry trends is its compensation practice and industry network, while the primary source for general U.S. trend information is *WorldatWork*, a national trade association serving human resource professionals from all industries. The *2018–2019 Salary Budget Survey* is in its 45th year and includes data from 1,908 U.S. firms, of which 14.7% is represented by the Financial and Insurance sector.

Salary Budgets: The total salary budget increase was 3.2% for 2018 and companies are budgeting on average a 3.3% increase for 2019 in the Finance Sector.

Base Salary Increases: Respondents reported 87.1% of all employees received a base pay increase in 2018 (same as 2017). In the Finance Sector, the average salary increase in 2018 was 3.2% for all employee groups (nonexempt, exempt, and executive employees). An increase to 3.3% for exempt and executive employees and 3.2% for nonexempt employees in the Finance Sector for base salary increase budgets are projected for 2019.

Salary Range Increases: Salary structures adjustments in the Finance Sector were 2.2% for nonexempt employees and 2.1% for exempt and executive employees in 2018. Forecasts for 2019 show salary range adjustments for all employees are projected to be 2.1%.

Variable Pay: 85% of U.S. firms reported offering a variable pay program in 2018 which was the same as 2017.



WorldatWork Financial Sector Trends

Salary Increase Projections	Nonexempt	Exempt	Executives
National '18 (actual)	3.20%	3.20%	3.20%
National '19 (budget)	3.20%	3.30%	3.30%
Eastern Region '18 (actual)	3.10%	3.10%	3.00%
Eastern Region '19 (budget)	3.10%	3.20%	3.10%
Central Region '18 (actual)	3.20%	3.10%	3.00%
Central Region '19 (budget)	3.20%	3.20%	3.10%
Southern Region '18 (actual)	3.10%	3.20%	3.00%
Southern Region '19 (budget)	3.10%	3.20%	3.10%
Western Region '18 (actual)	3.10%	3.20%	3.00%
Western Region '19 (budget)	3.10%	3.20%	3.10%

Salary Range Adjustments	Nonexempt	Exempt	Executives
National '18 (actual)	2.20%	2.10%	2.10%
National '19 (budget)	2.10%	2.10%	2.10%
Eastern Region '18 (actual)	2.00%	2.00%	1.90%
Eastern Region '19 (budget)	2.00%	2.00%	2.00%
Central Region '18 (actual)	2.00%	2.00%	2.00%
Central Region '19 (budget)	2.10%	2.10%	2.10%
Southern Region '18 (actual)	2.00%	1.90%	1.80%
Southern Region '19 (budget)	2.10%	2.00%	1.90%
Western Region '18 (actual)	2.00%	2.00%	1.90%
Western Region '19 (budget)	2.00%	2.00%	1.90%

Source: 2018-19 United States Salary Budget Survey; WorldatWork



Salary Budget Trends - National

The following table illustrates yearly historic salary budget increases witnessed since 2002 and the projected salary budget increase for 2019:



	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019*
Nonexempt	3.7%	3.4%	3.4%	3.6%	3.7%	3.8%	3.8%	2.6%	2.5%	2.7%	2.8%	2.9%	3.0%	3.2%	3.1%	3.3%	3.2%	3.2%
Exempt	3.9%	3.6%	3.6%	3.7%	3.8%	3.9%	3.9%	2.5%	2.7%	2.8%	2.8%	2.9%	3.1%	3.2%	3.1%	3.2%	3.2%	3.3%
Executives	4.0%	3.6%	3.6%	3.8%	3.9%	4.1%	4.0%	2.1%	2.6%	2.8%	2.7%	2.9%	2.9%	3.2%	3.2%	3.1%	3.2%	3.3%

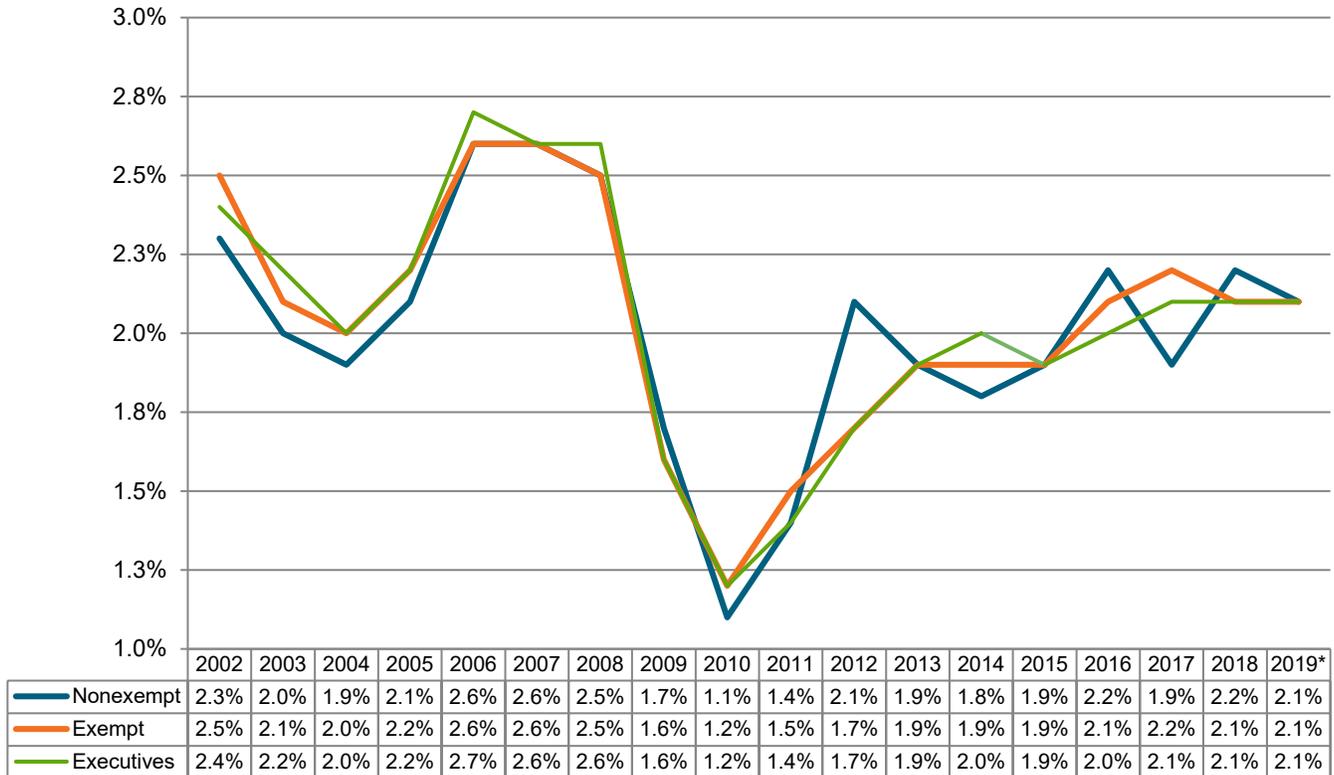
Source: 2018–19 United States Budget Survey; WorldatWork

(*) estimate



Salary Range Adjustment Trends - National

The following table illustrates yearly historic salary range increases witnessed since 2002 and the projected salary budget increase for 2019:



Source: 2018–19 United States Budget Survey; WorldatWork

(*) estimate



Section 4: Variable Pay Trends

Executives – Exactly What Are Boards Paying For?

The concerns over the risks inherent with variable pay plans is not new. For decades, these programs have been used as a catalyst to promote credit union growth and success but everyone has some anecdote of a pay plan gone wrong manipulated by a rogue executive. While we agree there have been some very poorly designed plans over the years, for the most part, credit unions have gotten it right. In fact, variable pay opportunities have allowed credit unions to attract some of the banking industry's best and brightest.

Variable pay programs come in all shapes and sizes and work really well when tailored to the specific needs of each organization. A program that drives one organization, however, does not necessarily drive the next. The key is to align the variable pay program with the credit union's strategic plan and to balance the measurements to ensure sustained success. In other words, *what is a Board willing to pay for?* And the answer to that question lies in their strategic plan – you pay for strategic plan execution.

Most credit unions fall safely below the asset threshold for mandatory clawbacks and increased regulatory scrutiny of their executive variable pay programs. But the assessment criteria used to protect against excessive executive risk-taking actually has merit for credit unions of all sizes. D. Hilton suggests credit unions operate their executive variable pay programs using similar assessment criteria.

D. Hilton suggests a credit union evaluate the effectiveness of its variable pay programs annually. This evaluation starts with a basic four-question assessment...

- 1. To what degree is the plan self-funding?** The goal is to link operational enhancements to economic results. The best plan metrics encourage growth in earnings, loans, members, efficiencies, etc., in order for a credit union to help as many of its members and potential members as reasonably possible without taking unnecessary risks. By creating a self-funding program, the credit union is sharing its success with the executives and employees that executed the strategy.
- 2. Are we measuring the right things?** A key objective is to focus on high-impact measures. Too often, programs measure areas for the sake of measurement, or that are easy to measure, or focus on areas that do not address the strategic plan. The objective is to verify that the metrics within the program align with the direction in which the institution wants to go. In other words, if we accomplish these things, will we be financially stronger and will we reach more members?
- 3. Are we balanced?** Are our metrics weighted appropriately? Is there too much emphasis on one area? For example, if Strategic Plan Achievements is weighted highly and the Board's Evaluation of the CEO is weighted lower, this could create a situation where the credit union is meeting all of their strategic objectives, however, the Board may or may not be pleased with how the objectives were accomplished. The Board approved of "what was accomplished," but not necessarily "how it was accomplished." This illustrates the value of weighting metrics to ensure executives understands the Board's expectations of how things should be done. In governance parlance, a strong variable pay program establishes executive limitations (the how) in addition to goals (the what).



4. **Is the design in the best interest of our members?** Do our executives have “skin in the game?” Variable pay creates no entitlements. Unfortunately, we can never rest on past laurels as we must demonstrate our commitment to member service every day. Therefore, our executive pay plans must encourage sustained excellence. Variable pay creates an atmosphere of rewarding and recognizing this commitment to the member experience. The best interest of the membership simply means we create an experience that is noticeably more favorable than other financial services providers. The member experience is defined differently by each credit union but generally focuses on competitive rates, access to funds across multiple delivery channels, and world-class service.

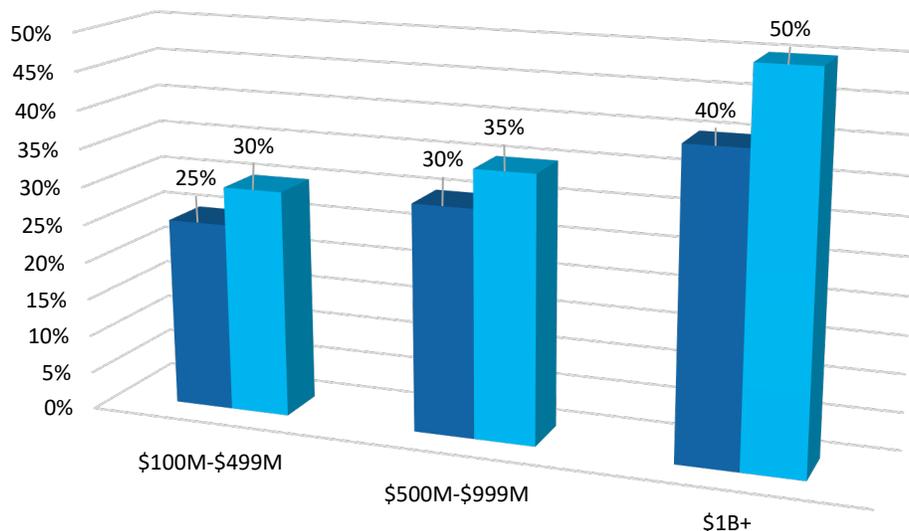
If you can answer these questions with “yes,” then your program is likely aligned with the best interests of not only the members and employees, but the fiduciary responsibilities you hold.

Setting Meaningful Variable Pay Targets for CEOs

Compensation programs and pay philosophies vary across the industry; with many (if not all) being specific to each individual credit union. The chart below shows the Median Target and Percentages for large credit unions. This chart provides a gauge as to where your current program is compared to similar asset sized peers.

It is important to take into account Medians because averages can be skewed by outliers, both high and low. Below are the Median Target and Stretch Percentages for variable pay programs by asset size.

Median Target & Stretch %





Top Executive Scorecard Metrics Used by Year

D. Hilton has annually evaluated the incentive plans of more than 250 credit unions since 2010. The tables below show the most frequently used metrics on variable pay score cards. Table 1 shows the trending metrics for 2018 and Table 2 shows the trends for the last five years.

2018 Top Variable Pay Metrics Trends

Metric	2018	
	Rank	%
Board Satisfaction	1	98%
ROAA	2	69%
Net Worth	3	65%
Strategic Plan Achievements	4	64%
Member Survey	5	62%
Delinquency + Charge-Offs	6	60%
Net New Members	7	48%
Market Share - Loans	8	43%
CPA Audit	9	28%
Operating Expense Ratio	10	26%
Employee Satisfaction	11	25%
3-year Average ROAA	12	18%
Efficiency Ratio	13	16%
Net Checking Growth	14	12%
Return on Equity	15	10%

5 Year Trends

Metric	2014		2015		2016		2017		2018	
	Rank	%								
Board Satisfaction	1	95%	1	95%	1	95%	1	97%	1	98%
ROAA	2	92%	7	60%	5	66%	6	63%	2	69%
Net Worth	3	81%	3	81%	3	75%	2	78%	3	65%
Strategic Plan Achievements	8	61%	5	66%	4	72%	5	63%	4	64%
Member Survey	5	71%	4	75%	6	63%	4	66%	5	62%
Delinquency + Charge-Offs	6	90%	2	88%	2	78%	3	75%	6	60%
Net New Members	7	67%	8	47%	9	44%	8	44%	7	48%
Market Share - Loans	9	52%	5	66%	7	53%	9	41%	8	43%
CPA Audit	4	76%	9	44%	8	44%	7	47%	9	28%
Operating Expense Ratio	11	10%	14	9%	14	13%	12	19%	10	26%
Employee Satisfaction	13	5%	14	9%	13	13%	11	19%	11	25%
3-year Average ROAA	-	-	10	34%	10	28%	10	28%	12	18%
Efficiency Ratio	-	-	11	16%	12	16%	14	13%	13	16%
Net Checking Growth	-	-	-	-	-	3%	---	6%	14	12%
Return on Equity	-	-	-	-	-	3%	-	5%	15	10%



WorldatWork reports that 85% of U.S. companies incorporate some form of variable pay into their total compensation strategies. The following charts show the variable pay payouts in recent years and the potential in pay programs for 2019:

All Financial Services – Nonexempt

Year	Mean Target	Mean Actual Paid
2015	6.50%	6.10%
2016	6.10%	6.50%
2017	5.70%	6.20%
2018	6.00%	6.60%
2019	5.50%	TBD

All Financial Services – Exempt

Year	Mean Target	Mean Actual Paid
2015	11.80%	12.00%
2016	11.80%	11.90%
2017	11.40%	12.40%
2018	11.50%	11.90%
2019	11.30%	TBD

All Financial Services – Executives

Year	Mean Target	Mean Actual Paid
2015	38.20%	41.60%
2016	38.20%	38.20%
2017	36.30%	39.70%
2018	35.60%	37.20%
2019	34.50%	TBD

Source: 2018–19 United States Budget Survey; WorldatWork



Section 5: Executive Benefits Summary

Auto Allowances. 77.2% of credit unions offer auto allowances or a vehicle to the President/CEO role. The average travel allowance in 2018 is \$772 each month (\$9,260 annually). When a vehicle is provided, the average sticker value is worth \$47,908.

For other senior positions, 29.3% of credit unions reported offering an auto allowance, slightly down from 2017 (30.0%). Of these, the average allowance is \$573 each month (\$6,877 annually). When a vehicle is provided, the average sticker value is worth \$31,240.

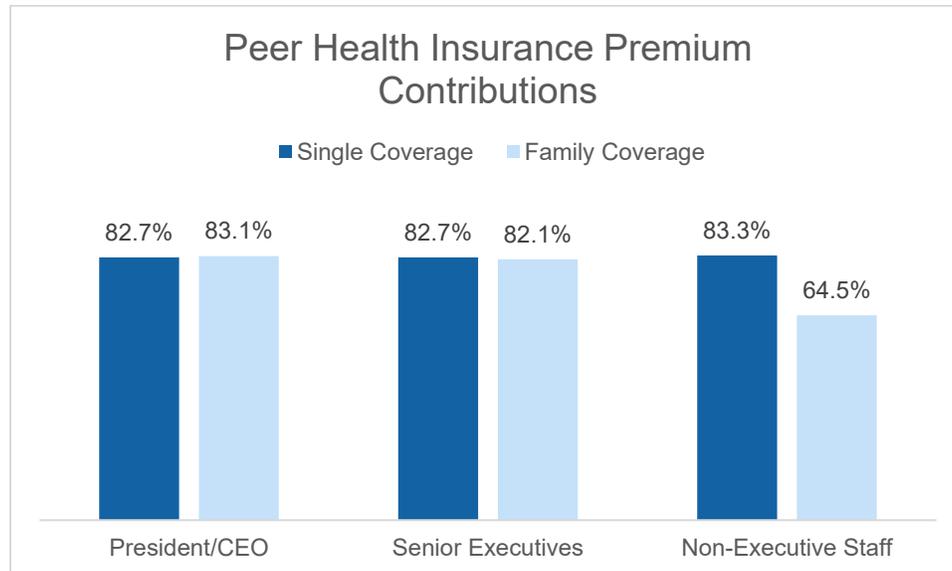
	President/CEO	Senior Executives
Auto Allowance or Vehicle Offered	77.2%	29.3%
Average Yearly Auto Allowance	\$9,260	\$6,877
Average Vehicle Sticker Price	\$47,908	\$31,240

Leave Benefits. Increasing in popularity as a benefit, 43.1% of reporting credit unions offer executives more time off than other staff members. For the President/CEO and senior executives, the average of total leave days is 32.

Other types of leave benefits that may or may not be exclusive to credit union executives include paid maternity/paternity leave beyond federal/state requirements, paid leave for parenting (not subject to FMLA) and/or elder care, and paid military leave beyond federal/state requirements.



Health Insurance. On average, credit unions contribute approximately 82.9% of single coverage health insurance premiums and 76.6% of family coverage for the President/CEO, senior executives, and non-executive staff. 19.7% pay more in health insurance premiums for the President/CEO position than for other staff members (most commonly reported at 100% of premium), whereas only 8.3% reported paying more in premium contributions for other senior executives positions.



20.0% of President/CEOs also receive a paid executive physical examination, during which the executive is given a comprehensive physical examination and provided a forum to discuss his or her health and well-being with a physician. Because executive physical examinations are usually covered by most health insurance policies, this program is usually billed directly. This number has drastically increased since 2014 when it was reported by just under 5.1% of credit unions.

Life and Disability Insurance. Credit union executives (both President/CEO and other senior executive positions) most commonly receive term life insurance policies that cover two times the salary amount. The most commonly reported amount of group term life insurance coverage among credit union staff members is also two times the salary amount. For President/CEO and some executives who receive a SERP, a life insurance policy may be connected to their retirement benefit. 73.1% of credit unions offer the opportunity to purchase supplemental life insurance and 77.5% offer the option to purchase dependent life insurance.

Short- and long-term disability insurance coverage for executives typically does not vary from other employees. The average short-term disability (STD) policy covers approximately 66.0% of base salary and takes effect after an average of 11 days of leave (seven days is most commonly reported). Long-term disability (LTD) policies covers approximately 64.0% of base salary and take effect after 90 days of leave.

D. Hilton continually surveys credit unions for executive and staff benefits practices and publishes results periodically in a separate report.



Section 6: Staff Benefits Summary

Health Insurance

In 2018, credit unions offered an average premium contribution of 83.3% overall for single coverage (i.e., employee-only). The average credit union contribution for family coverage plans is 64.5% overall.

Health Insurance Premium Contributions

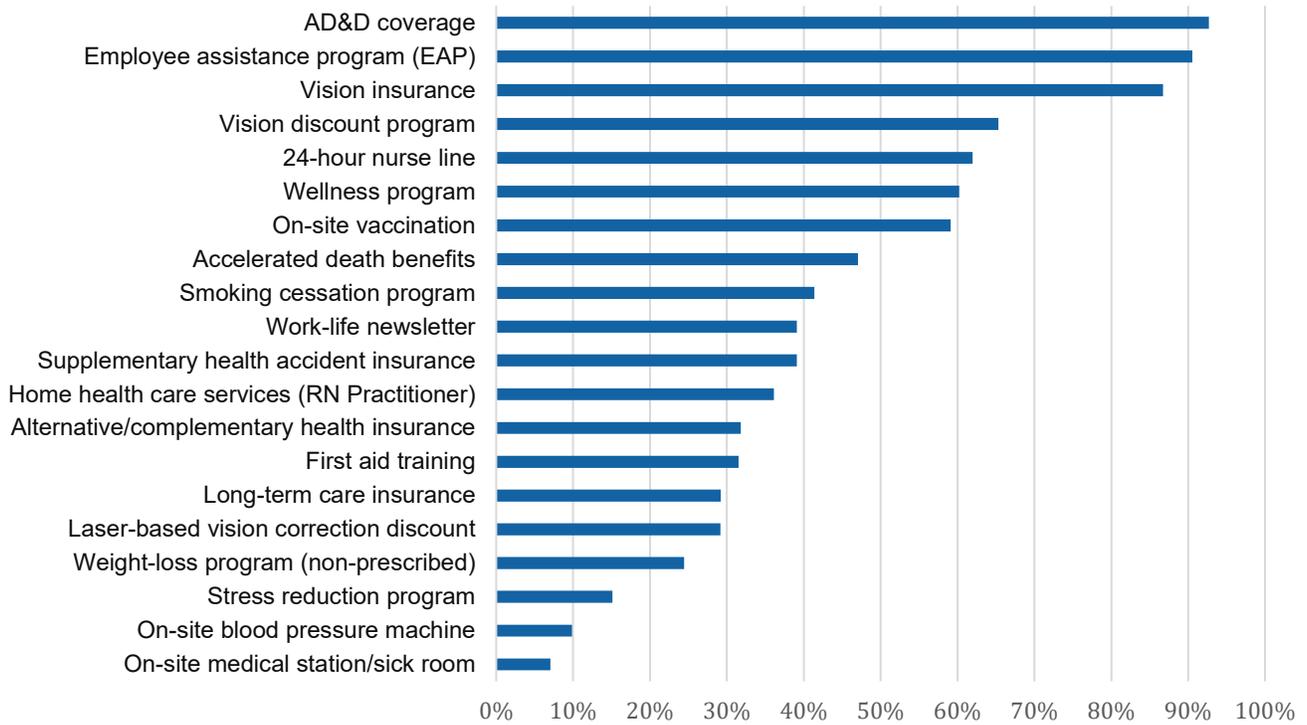
	Single Coverage Average Credit Union Contribution	Family Coverage Average Credit Union Contribution
Total Assets		
\$100 - \$199.9 million	84.55%	48.90%
\$200 - \$499.9 million	84.06%	70.38%
\$500 - \$999.9 million	84.61%	68.10%
\$1 billion or more	81.09%	64.55%

Health Insurance Coverage Options

Coverage	\$100.0M – \$399.9M	\$400.0M – \$999.9M	\$1B or More	All
Chiropractic	70.83%	92.31%	90.91%	84.68%
Contraceptives	79.17%	90.91%	91.18%	87.09%
Critical illness	73.61%	63.29%	85.71%	74.20%
Infertility treatment	41.52%	43.75%	46.43%	43.90%
Intensive care	79.17%	75.52%	96.97%	83.89%
Mail-order prescription	87.50%	91.61%	97.22%	92.11%
Mental health	87.50%	96.15%	100.00%	94.55%
Nutrition therapy	37.50%	30.30%	33.33%	33.71%
Prescription drug coverage	94.44%	100.00%	100.00%	98.15%
Prescribed weight-loss program	25.76%	51.39%	40.00%	39.05%



Supplement to Healthcare Program



The chart above shows the percentage of each supplements to healthcare programs offered by credit unions in our database.



Leave Benefits

Paid time-off (PTO) programs are continuing among credit unions with 57.3% reporting use, as opposed to 42.7% that report using traditional vacation/sick leave programs.

For PTO programs, 92.5% of credit unions reported that the program allows year-to-year leave accrual, of which 82.5% of credit unions limit. The average limit of leave accrual is 32 days (or 256 hours). 59.5% of credit unions allow unused PTO to be cashed out in a variety of forms upon termination (retirement, voluntary or involuntary resignation, etc.), of which 22.7% cash out at a discounted rate (i.e., up to a certain daily rate).

For traditional vacation leave programs, 78.1% of credit unions allow year-to-year accrual, of which 68.8% of credit unions cap. The average limit of vacation accrual is 31 days (or 248 hours).

For sick leave, 84.8% of credit unions allow accrual. 69.7% of credit unions cap the amount of sick leave that can accrue and the average limit of accrual is 26 days (or 208 hours). 37.5% of credit unions allow employees to cash out unused sick leave days.

Average Days of Leave By Service Years

Average Days of Leave by Service Years	PTO Program		Traditional Vacation/Sick Leave Program			
	Exempt	Nonexempt	Vacation Exempt	Vacation Nonexempt	Sick Exempt	Sick Nonexempt
Less than 1 Year	7	7	3	2	3	3
1 to 4 Years	17	17	11	10	9	9
5 to 9 Years	22	21	15	15	11	10
10 to 19 Years	26	26	18	18	11	10
20 to 24 Years	30	30	22	22	11	11
25 or More Years	31	31	22	22	13	11

Credit unions are currently averaging 10 paid holidays a year. 30.3% of credit unions also offer floating holidays—discretionary days given to employees. The average number of floating holidays provided is two days. These trends have remained stagnant for several years.

All reporting credit unions pay for jury duty leave beyond the federal requirement that releases employees to jury duty without pay. 93.8% of credit unions pay for bereavement leave separately and 31.2% allow employees leave for unpaid volunteerism (34.2% pay for volunteer leave). 9.0% of credit unions pay for maternity leave above and beyond federal/state mandates and the same percentage pay for paternity leave beyond mandated requirements. 19.5% of credit unions pay above and beyond what is required for military leave.



Retirement Plans

From our database the following bullets highlight the current trends for retirement plans in credit unions:

- 89.6% of credit unions offer 401(k) plans.
- The 2018 average employee contribution amount remains at 5.4%, with 78.4% of credit unions imposing a waiting period of some type before participation in the plan can begin.
- The most frequently reported waiting period is 90 days (or first of the month following 90 days of employment service) with 29.3% reporting.
- 90.6% of credit unions allowed employer contributions to the retirement plan. Of these, 92.5% offer matching contributions.
- The most frequent match program reported is a dollar-for-dollar match up to 6.0% of employee contributions.
- The 2018 average effective potential match contribution is 3.8%, which is the same as 2017.
- Graded vestment plans average five years in length with 20.0% vestment each year. The second most popular is immediate vesting (35.3%).

	Average Credit Union Matching Contributions			Average Credit Union Non-Match Contributions
	Match %	Cap %	Effective Match	
Total Assets				
\$100 - \$399.9 million	82.50%	4.70%	3.70%	4.08%
\$400 - \$999.9 million	79.70%	4.30%	3.60%	5.17%
\$1 billion or more	83.40%	5.00%	4.20%	6.10%
Overall	81.9%	4.7%	3.8%	5.1%

With a decrease, 45.1% of credit unions allow a non-matched contribution to the staff retirement plan. 25.0% of those with a non-matching program report that the contributions are part of a separate profit-sharing plan or similar performance plan, while 12.5% reported that the contributions are fixed amounts each year that are determined based on the discretion of the Board of Directors and other involved managers. The average non-matching contribution in 2018 is 5.1%, which is 0.3% less than 2017.

Defined benefit plans, or pension plans, continue among 36.1% of credit unions, of which only 57.1% allow new hires to participate. 59.1% of credit unions with a pension plan opt for five-year cliff vesting and have a life-only annuity form of payout.

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Section 7: About D. Hilton Associates

For more than 30 years, D. Hilton Associates, Inc. has offered consulting and outsourcing services exclusively to the credit union industry. The firm employs 35 full-time employees in four major practices: compensation consulting, executive recruiting, strategic services, and retention and retirement plan design. 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.

For more information on our firm please see our website at www.dhilton.com