STRATEGIC INSIGHTS FOR POLICY MAKERS

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Get Up to Speed on Executive Compensation

Know the market and your options to improve retention and recruitment.

A credit union board that isn't prepared to talk compensation risks losing good employees or top job candidates.

Unfortunately, most credit union boards aren't fully up to speed on the latest developments in this crucial area, says James This, president/CEO of the executive recruiting and compensation consulting firm James L. This and Associates.

Instead, CEO salary discussions often happen only at pivotal moments, such as during the hiring process or when another institution tries to lure a CEO away.

When boards do find themselves with executive vacancies, they might be unaware of what top candidates will expect, and about their credit union's capacity to meet those expectations. This uncertainty can damage relationships, prompt CEOs to consider options elsewhere, or cause good candidates to bow out.

"Some credit unions have had a CEO for 15 or 20 years," This says. "They might be a bit out of touch with what the marketplace is commanding right now."

Fortunately, credit union boards can turn to a wealth of resources to educate themselves about executive compensation.

'GIVE YOUR EMPLOYEES EVERY REASON TO STAY.'
MARCUS COTTON

Consultants such as This gather industry information for clients and advise them on every facet of recruitment and retention. And CUNA offers publications that board members can use to glean data points and guide discussions, such as executive compensation surveys that allow credit unions to see how they compare in the marketplace.

Changing demographics

While he might not be able to convince every credit union board to revisit executive compensation when there's no immediate need, This expects changing workforce demographics will force the issue.

Marcus Cotton, vice president of executive recruiting for Credit Union Resources, a wholly owned subsidiary of the Cornerstone Credit Union League, says the exodus of the last baby boomers during the next decade and a half will increase the already stiff competition for qualified leaders.

We're not quite there yet, says Jon Haller, CUNA's director of market and corporate research. He expects a 7% credit union CEO turnover rate during the next two years, a tick lower than the average of 9% to 11%.

This might just be a calm before the storm, as experts are bracing for a widespread transfer of credit union leadership. Boards, they say, are wise to prepare for it.

Importance of succession planning

Two-thirds of credit unions engage in succession planning to prepare future executives for leadership roles or to identify outside candidates, according to 2017 CUNA data. Another 13% expect to establish a succession plan this year.

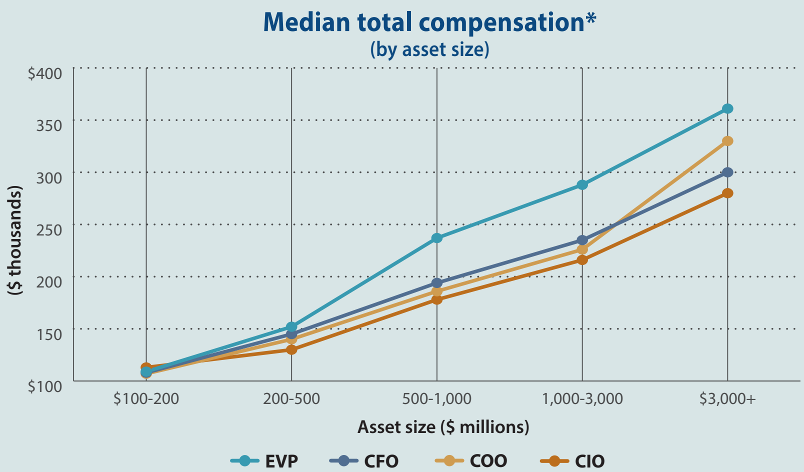
Haller believes a healthier percentage would be somewhere between 85% and 95%. "There is room for improvement," he says.

Cotton recommends building succession plans into larger retention plans that establish and implement rotational programs to groom current managers. Growing their knowledge of credit union operations beyond their

QUICK TAKE FOR YOUR NEXT BOARD MEETING

Comparisons for Senior Executive Compensation

For each of the top four senior executive positions in credit unions—executive vice presidents, chief information officers, chief operating officers, and chief financial officers—median total compensation levels increase noticeably with asset size.



*among CUs with at least $100 million in assets

Source: *CUNA's 2017-2018 Senior Executive Total Compensation Report* (cuna.org/compensation)

- CUNA board and volunteer resources: *cuna.org/volunteer*
- CUNA salary and compensation research: *cuna.org/compensation*

functional areas prepares these future leaders for the increasing complexity of the CEO job.

The best succession plans, Cotton says, include timelines and benchmarks for revisiting compensation for valuable high-level management and executives.

"Give your employees every reason to stay," he says.

Boards often miss the mark in this respect, Cotton adds. They invest time and money into developing the skill sets of future leaders, but don't simultaneously offer the right incentives to keep those leaders committed and patient.

With awareness of the current marketplace, credit unions must guard against making insufficient compensation offers.

Explore contemporary options

A compensation package for the next CEO will likely look quite different from compensation for the previous CEO, Cotton says. And it will definitely look different from CEO compensation in most other industries familiar to board members.

"Sometimes when we go into an education credit union, the board thinks the compensation package should look like it does for the education system. Or when we go to a postal credit union, they think the package should look like it does in the postal industry," Cotton says. "It won't."

Scott Albraccio, sales manager for executive benefits and retirement at CUNA Mutual Group, recognizes there is both comfort in the familiar and a natural apprehension about adopting new practices.

These options include CUNA Mutual Group products such as supplemental executive retirement plans (SERPs) and total benefits prefunding, which address executives' growing desire to draw retirement income that more closely approximates their current salaries ("SERPs continue to evolve," p. 3).

Flexibility works in credit unions' favor, says David Hilton, founder/president of D. Hilton Associates, because they have more options for deferred compensation and innovative revenue streams to fund those future obligations.

Communication is paramount

Albraccio notes that candidates' desires differ depending on their circumstances, including years from retirement. That's why he encourages boards to gain a complete understanding of their options but wait until they have a candidate in mind before composing a specific offer.

"We promote open dialogue to find out what's important to the executive," he says. "Why guess? This is a partnership that you—the board—have with the executive. It should be an open discussion. The more open the conversation, the more meaningful that benefit will be."

CUNA Environmental Scan resources: *cuna.org/escan*

Three Trends That Should Steer Strategy

Review card strategies, aim for growth, and prepare for 'omnidigital' consumers.

Pay particular attention to three key trends shaping the credit union industry, strategic planning expert Jeff Rendel advises board members.

Citing CUNA's 2017-2018 Environmental Scan, Rendel—who recently moderated the CUNA National Credit Union Roundtable for Board Leadership—recommends that directors prioritize these topics when plotting their credit union's strategic course:

1. The battle for top-of-card status. The use of debit and credit cards is growing exponentially, he says.

In response, board members should consider:

- **Do** we offer impressive credit and debit cards?
- **Do** we offer an impressive mobile app?
- **What** products are members using, and how many?
- **How** are members engaging with the credit union?
- **How** does our credit union define loyalty? Debit first or credit first?

2. Digital business transformation. Consumers from all generations are comfortable with mobile devices, Rendel says. This has led to the rise of the "omnidigital consumer," replacing the "omnichannel" consumer.

"This is more about the member experience than anything else," Rendel says.

In response, board members should address:

- **How** is our credit union using member data: Service, channel use, product development, and marketing?
- **Is** our credit union increasing its level of digital marketing? What methods are most successful?
- **How** is our credit union connecting digitally with members? What are we learning?

3. The need to adopt a growth mindset. Overall, credit unions have experienced strong membership and loan growth, Rendel says.

Boards should explore:

- **Where** are our most obvious paths for growth? What actions and strategies are we executing?
- **What** risks should we take to continue serving our members? How can we manage risk and reward?
- **Are** we seeking out and telling our members' stories?

SERPs Evolve to Address Retention, Too

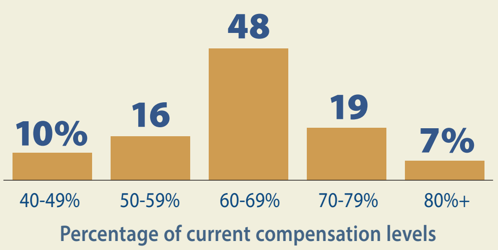
Use of the tool expands to cover more executives—and earlier in their careers.

As you set your credit union's strategy for supplemental executive retirement plans (SERP) and recruitment plans, consider these statistics:

- **81% of credit unions** offer SERPs designed to target a specific percentage of an executive's annual income after retirement, whereas 19% structure them more like annual bonuses.
- **Nearly 50% of SERPs** are now created for professionals in the C-suite other than the CEO.
- **The adoption of 457(f)** and collateral-assignment split dollar (CASD) plans has grown over the past four years.

These statistics can help credit union boards determine where their SERP packages stand in relation to those of their peers. At year-end 2016, more than 3,700 executives representing more than 1,240 credit unions had one or more 457(f) or CASD plans, according to CUNA Mutual Group data.

CUs' Retirement Income Target for CEOs



Source: *CUNA Mutual Retirement Solutions*

Because this data represents actual buying behavior, it can add another level of insight to augment comprehensive annual survey results such as those found in CUNA's salary and compensation research.

A more meaningful benefit

For the 19% of credit unions that provide SERPs that mirror bonus plans, the most common plan contribution is 25% of annual salary for CEOs and 20% for non-CEOs.

Certainly, these plans can help executives save for retirement. But the 81% of credit unions that use retirement income targets are creating a more meaningful benefit for their executives or recruits.

They're giving these executives a powerful tool to solve the retirement income gap that affects highly paid employees. The most common targeted salary replacement level for SERPs is 60% for both CEOs and non-CEO.

457(f) and split-dollar options

A 457(b) plan remains a popular tool for supplementing retirement income for executives. These are generally used as voluntary savings plans for the executives, although credit unions can contribute to them. But 457(b) individual contributions are capped. In 2017, that ceiling is $18,000.

In contrast, 457(f) plans, which the credit union contributes, aren't capped. They can be designed to provide income to executives before retirement at key life stages, such as when their children reach college age.

SERPs containing a CASD life insurance plan can also provide flexibility when executives draw income from them. With a CASD, the employee owns the policy and the employer lends the premium required to pay for it. These are more typically used for an executive nearing retirement age, but they're also purchased for new executives as part of employment agreements.

The increased funding potential and flexibility of 457(f) and CASD plans might be driving their popularity. Between year-end 2013 and 2016, 457(f) plans increased 9.3%, while CASD increased a whopping 48.2%.

Implementation occurring earlier

The perception that SERPs are mainly for rewarding long-term executives appears to be fading.

Certainly, additional benefits are often bestowed late in executives' careers. But data shows that credit unions implement 52% of SERPs within eight years of an executive's hire, and 70% are in place within 15 years.

These statistics show that the composition and timing of SERPs are shifting to provide additional short-term benefits to more levels of executives, who have flexible options for using the plans' proceeds.

This represents a positive trend for the credit union industry in protecting its best talent.

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CUNA Mutual Group: *cunamutual.com/executive-benefits*

Roots of the Retirement Income Gap

When employees who earn modest salaries during their careers retire, they can often replace 60% to 70% of their salaries with Social Security income in addition to proceeds from qualified, tax-deferred retirement plans such as a 401(k), IRA, and defined benefit pension.

But for many executives, these sources of retirement income replace a much smaller percentage of their salaries. In many cases, these standard sources of retirement income are projected to replace less than 40% of final salary.

A well-designed and monitored supplemental executive retirement plan (SERP) and recruitment plan can close the gap.

The law prevents credit unions from offering stock options and many other perks available to commercial financial institutions. So, SERPs are critical for credit unions to recruit and retain top executive talent.

- CUNA legislative and regulatory advocacy: *cuna.org/advocacy*
- CUNA Member Activation Program: *cuna.org/map*

Nussle: Directors Play Crucial Role in Advocacy

Build relationships with legislators and enlist members' support.

The timing is right for credit unions to launch an advocacy offensive, and directors and members will play a crucial role in that fight, CUNA President/CEO Jim Nussle says.

"We have 70,000 board members and 110 million members," says Nussle, who recently addressed the CUNA National Credit Union Roundtable for Board Leadership. "Let's get those numbers working for us. AARP can make the Capitol dome shake by contacting its 60 million members. Think what we could do with 110 million."

Credit unions have grown in size and stature in recent years, Nussle says. But overregulation, lack of credit union awareness among consumers, and other factors could cause credit unions to lose their differentiating qualities. He encourages directors to consider existential questions: What makes credit unions special? What will ensure their future success?

"I celebrate the past, but we need to meet the challenges of the future," Nussle says. "How do we ensure we continue helping members reach their dreams?"

Growth is a crucial element of credit unions' future success. Big banks are increasingly dominant in market share, community banks are losing ground, and credit unions are holding steady.

As the champion for America's credit unions, CUNA has implemented an advocacy offensive to:

- **Lead** an interdependent 360-degree advocacy offensive to remove regulatory barriers.
- **Promote** better awareness of the credit union mission.
- **Ensure** credit unions are relevant in the future. Credit unions are the original marketplace disruptors, and must continue to play that role, Nussle says. "We shouldn't let anyone lay claim that person-to-person or crowdfunding is new or different from what we do," he says. "We have a nearly 100-year history of this."
- **Deliver** an interdependent CUNA/league value proposition. "We need to stick together," Nussle says.
- **Increase** market share. "Growing is winning," he says. "We'll measure success by growth."

Nussle urges board members to take an active role in advocacy by communicating their interests to their state and national legislative representatives, and to involve members in advocacy efforts by enrolling in CUNA's Member Activation Program.

"Sometimes we overcomplicate advocacy," Nussle says. "It's about relationship-building. The purpose is to get to know legislators and for them to get to know you. They'd love to hear how you're helping your members."

Send us your comments: *directors@cuna.coop*

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B3.	Sales through dealers, vendors and counter sales	0	0
B4.	Other classes mailed	0	0
C.	Total paid distribution	2,099	2,088
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