EXAMINING CREDIT UNION EXECUTIVE COMPENSATION

Grant, Hinkle & Jacobs

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Introduction

A credit union is defined by the quality of its executives. The organization's leadership is the single most important factor determining its results. As in any organization, strong leadership can positively transform your credit union, while poor leadership can damage the credit union's prospects.

Because more than half of current credit union CEOs will be eligible for retirement in the coming decade, competition among credit unions for CEOs is expected to be fierce. In addition, levels of turnover for credit union CEOs will be unparalleled. To attract and retain the best leadership for the organization in this highly competitive environment, credit unions must design an attractive executive compensation plan.

The credit union's compensation package should take several issues into consideration. It must be in line with the CEO's experience and abilities. It also needs to be competitive with the compensation plans of other credit unions and other types of financial institutions, such as banks, which typically offer higher compensation. The executive compensation plan should provide options specifically designed for the needs of the individual candidate.

Devising the right plan that benefits the CEO as well as the credit union is not always an easy task. The larger and more complex the organization, the more difficult it is for the board to craft a comprehensive plan that covers all the bases.

1. What Challenges Do Credit Unions Face?

Credit unions face many challenges when developing executive compensation plans. Larger credit unions in particular must deal with unique challenges when designing plans for CEOs.

Smaller Pool for Comparison

As of 2015, there was a total of 7,273 credit unions in the United States, with 549 possessing total assets of $400 million or more. The credit unions in this category make up about 7.5 percent of the total number of credit unions.

Since there are a significantly smaller number of credit unions in this asset range, there's also a smaller pool of executive candidates. Consequently, there are fewer compensation plans to use as a basis for comparison. Because larger credit unions are more likely to search for executive talent at banks and other financial institutions, they need to ensure the compensation information they collect includes these types of organizations.

Tax Considerations

When an executive compensation package is based on performance criteria, as the credit union expands in size, the performance goals may take several years to reach. The board must consider how to design a long-term incentive reward that doesn't expose the CEO to tax liabilities that would negate the reward.

Additional Regulations

When creating certain benefits, such as supplemental retirement programs, boards must contend with additional complex regulations that are changeable, such as the IRS guidelines on tax-deferred retirement plans.

Proportional Coverage

Certain broad-based programs offered to all employees of the credit union, such as 401(k) plans, pension plans, and life and disability insurance may contain restrictions that don't allow the organization to provide proportional coverage of the CEO's salary. The more the executive is paid, the higher the gap. Boards at some larger credit unions are considering supplemental pension and insurance plans to fill the gaps.

2. What Unique Qualities Do Credit Unions Offer Employees?

Just as there are advantages to being a customer of a credit union, there are also advantages to working for one. Of course, all credit unions aren't equal. But there are reasons many employees enjoy working at credit unions instead of banks.

Customers are Owners

Every company is responsible to its owners. Publicly traded banks are beholden to their shareholders, who have one mission: to make money. All decisions are guided by that mission. Whether it's instituting new fees to increase revenues or creating a new policy that saves money for the bank but inconveniences customers, banks exist to make a profit.

Credit unions, on the other hand, are non-profit organizations, and their customers are also the owners. The decisions made by credit union executives ultimately must benefit the customers.

Credit Unions are Non-profit

Many employees enjoy working for nonprofits, as opposed to for-profit entities. While the pay might not be comparable to for-profit organizations, working for a nonprofit company such as a credit union has its own rewards. Employees of nonprofits cited the following reasons why they prefer working at a nonprofit organization:

- Nonprofits care about their employees.
- Nonprofits appreciate broad skill sets.
- Employees can wear many hats and try out new ideas.
- Employees feel they're making a difference.
- Co-workers are like-minded individuals.

3. How Can Credit Unions Compete With Banks for Executives?

Credit unions function like banks but they're also nonprofits. Because a bank's mission is to maximize profit, CEOs are rewarded for the bank's financial performance. A typical nonprofit organization seeks to focus on its mission of serving the community, so CEOs receive incentives for spending on the social mission, reducing costs, and making sure the organization stays financially viable.

As mentioned previously, credit unions are nonprofit organizations charged with serving the needs of their members. They face competition for executives from banks, which operate for profit. Since credit unions must rely completely on the revenue generated from the business, they walk a tightrope between rewarding executives for providing services and incentivizing them for financial performance.

Banks Offer CEOs Higher Compensation Than Credit Unions

The big question is this: How can credit unions attract and keep the best industry executives when banks and other financial institutions offer higher salaries and stock options? Credit union must offer competitive compensation packages to attract the executives the organizations need, and to keep them from being poached by banks offering higher salaries and benefits packages.

Deferred Compensation

One way a credit union can achieve parity with banks is with a deferred compensation plan. A 457(b) Deferred Compensation Plan offers executives the ability to defer pre-tax income like a 401(k) plan. The funds from the 457(b) aren't taxed as income until retirement, when the executive is in a lower tax bracket.

A 457(b) plan isn't only for the credit union's CEO; it can also be used to attract other top management positions, including CFOs, VPs and senior-level managers. A 457(b) plan will help you keep your current leadership team and attract new top executives.

Other Executive Benefits

As mentioned earlier, the benefits package should be tailored to the candidate. In addition to a 457(b) plan, other benefits are available as part of an executive compensation package, including:

- **457(f) Supplemental Retirement Plan**: This is a nonqualified retirement plan which gives a tax-exempt employer the ability to supplement the retirement income of highly compensated employees or a management group by contributing funds to be paid to the executive at retirement.

- **Executive Bonus Plan**: This is a way for companies to deliver supplemental benefits to key employees or executives using tax-deductible company funds. These benefits typically consist of life insurance policy death benefits and cash value accumulations used to supplement retirement income.

- **Executive Disability Plan**: In the event an executive is disabled, disability insurance can offset costs to the executive, as well as the company.

- **Executive Long-Term Care Plan**: This insurance coverage is used to reward specific executives. The company purchases a long-term care insurance policy for each member of the executive group.

- **Split-Dollar Life Insurance**: This is a life insurance policy where the employer pays all or most of the policy premiums. In return, the company receives an interest in the cash value of the policy and death benefit.

- **Key Person Insurance**: This is an insurance plan where the company pays the insurance premiums and is the beneficiary of the plan. This benefits the company in the event of a sudden loss of a key executive, buying time for the company to find a replacement.

Wrapping It Up

The CEO's leadership has a great impact on the credit union's success. With high turnover expected over the next decade, it's important for credit unions to have the resources available to put together a compensation plan that will both attract the best CEO candidates and keep the CEO once he or she is hired.

Among the greatest challenges the credit union will face is competition from banks and other financial institutions, which can typically pay higher salaries. One way credit unions can close this gap is through deferred compensation plans and other benefits tailored to fit the candidate's requirements

If your credit union is seeking to attract, reward and retain key people, the professionals at Grant, Hinkle & Jacobs are available to assist you. We can help with executive compensation services that will allow your credit union to hire and retain the best CEOs. When it comes to benefits planning, we can design retirement plans that will allow you to retain executives, while also incentivizing them to continue to perform at a high level.

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