Inside NAFCU Services

Strategies in executive compensation

By Christine Burns-Fazzi

High-performing people drive the nation's federal credit unions. Despite major differences in asset size, employment size, split of responsibilities and membership criteria, it is the people in the executive offices who are making the decisions that propel their credit unions forward.

And it is effective executive compensation and benefits strategies that help ensure those offices do not have revolving doors.

According to the 2007 NAFCU Survey of Executive Benefits and Compensation, about 70 percent of the nation's federal credit unions provide non-qualified benefit plans (457 plans) for their senior-most executives. As might be expected, nearly half of those executives in credit unions with $100 million or less in assets receive non-qualified benefit plans. About 70 percent of the credit unions with assets between $100 million and $500 million provide some form of these benefits.

These plans vary greatly in design, size and how they are used. The overarching question remains: Is each plan well-designed to effectively hold the executive's interest and loyalty to the credit union?

Non-qualified plans, known specifically as 457(f) or 457(b) or Supplemental Executive Retirement Plans, offer far greater benefits to credit unions then generally acknowledged. In fact, considering the looming competition for executive talent within the financial services sector during the next 10 years, directors are strategically deploying these plans to:

- **Retain executive talent**—Considering that one-third of the credit unions surveyed do not offer non-qualified benefit plans and that one industry forecast anticipates 4,000 CEO posts will need to be filled at credit unions by 2012, deferred compensation plans and other welfare benefit plans, such as post-retirement medical, are essential to maintaining the integrity of succession plans.

Credit unions invest time and money in developing executive talent. The hard and soft—or tangible and intangible costs—associated with losing a single executive is measured in loss of productive momentum, loss of investments in professional development and more. One of the major accounting firms recently estimated that the cost of replacing a senior executive is as much as six times total salary, depending on the importance of the position and corporate influence.

When boards of directors deploy the power of strategically aligned compensation and benefits policies, they are better able to keep key executives engaged in the business.

- **Recruit to fill in talent**—Within business today, competing in the marketplace for members or customers is no longer sufficient to sustain growth and performance. Businesses also compete for talent. Those that fail to compete in recruiting the best and brightest managers eventually lose their competitive advantage.
- **Reward executives with tangible incentives**—There is an abundance of management training experts who point to the power of innovative leadership in creating member value and sustained business performance. When executive performance anchors to key indicators through a clear reward program, human potential is unleashed.

The full 2007 NAFCU Executive Compensation and Benefits Survey provides additional detail on what other leading credit unions provide their executives in the way of benefits. It provides an excellent best practices guide for assessing whether executive compensation and benefits are properly aligned with retention, recruitment and incentive strategies.

Copies are available free of charge to survey participants, and can be obtained from gadams@bfbbenefit.com.

NAFCU Credit Unions with a Non-qualified Plan by Region
Type of Non-qualified Plan for Top Executive

U.S. Region	Total	NE	SE	Mid	W
# NAFCU CUs with NQ Plan	68	19	15	15	19
	100%	**100%**	**100%**	**100%**	**100%**
Plan Provided to CEO					
SERP 457 (f)	52%	35%	51%	55%	70%
SERP 457 (b)	53%	54%	77%	50%	33%
Severence Plan	27%	9%	21%	51%	30%
Split Dollar Plan	21%	21%	21%	28%	15%
None of These*	22%	56%	28%	–	–

** All non-qualified plans will fall into one of the above four types. It is likely this presents those participating in a non-qualified plan with a particular name, but who do not know it is technically a 457(b) or 457(f) plan, referencing the IRS code under which many of these plans are covered. Small sample sizes. Caution should be taken when projecting these results to all NAFCU credit unions in this asset range.*

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