# Executive Benefits: Pitfalls to Avoid in Due Diligence

Jeremy DeBruin, SVP Relationship Management, BFB October 2015





### **Agenda**

- Executive Benefits: The Basics
- Trends in Recent Exams
- 13 Red Flags to Avoid





### **Executive Benefits: The Basics**

- Benefit plans are designed to attract, retain and reward senior executives
- Pay for performance and longevity
- The ability to provide supplemental retirement benefits to key executives with minimal impact on the Credit Union's earnings
- NCUA guidelines/benchmarks on "fair and reasonable" and "safety and soundness"





### **Executive Benefit Plans**

- Deferred Compensation
  - 457(b), 457(f), and 409A
- Welfare Benefit
  - Split Dollar
- Section 162 Bonus
  - Deferred Compensation and Welfare Benefit







### Trends in Recent Exams





### **Trends in Recent Exams**

- Pre-implementation due diligence
- Board oversight
- Focus on funding concentration
- Demonstrate understanding of plan details
- Ongoing due diligence / Plan reviews





## Thirteen Red Flags to Avoid





### Red Flag #1



Providing the vendor's compliance manual to the examiner without any due diligence materials produced independently by the credit union





### Red Flag #2



Working with vendors with very little exposure to the credit union industry, lack of experience, lack of ability to help service the product after it is placed





### Red Flag #3

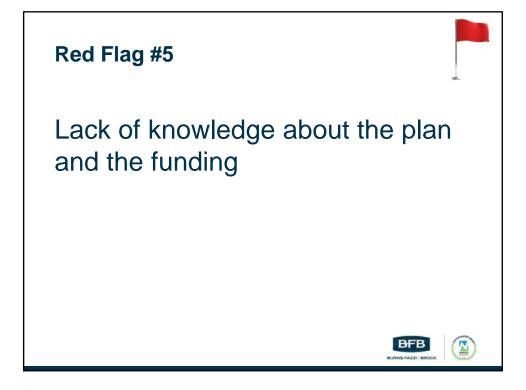


High investment concentration levels

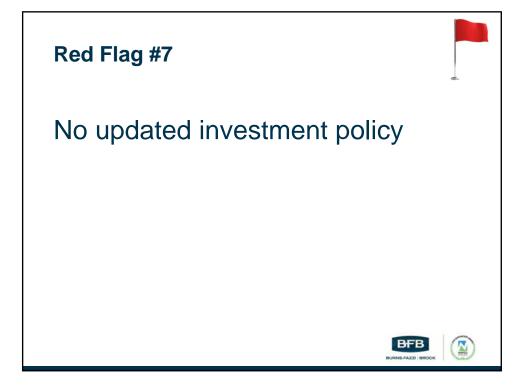




# Red Flag #4 Poor accounting practices







### Red Flag #8



Investment policy that is boilerplate language and comes from the vendor





### Red Flag #9



Too much reliance on a particular senior executive's opinion (often the CEO) about the plan and its funding





### Red Flag #10



Benefit levels that are out of line with similar positions at similar credit unions





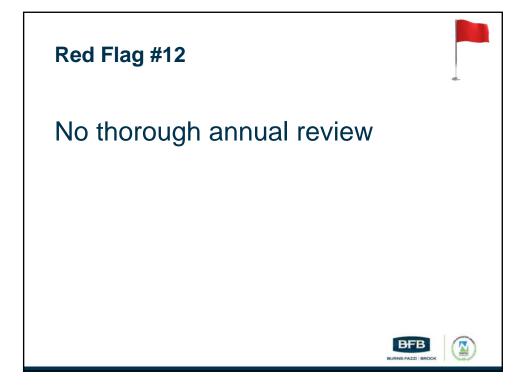
### Red Flag #11

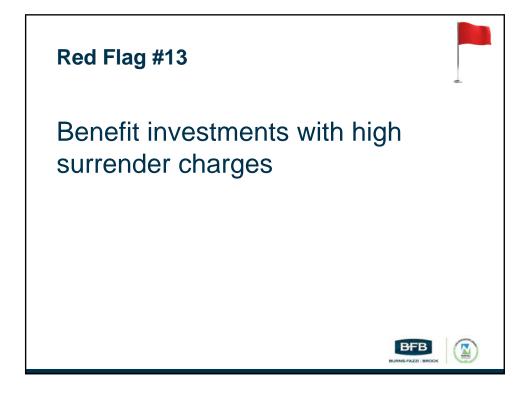


Poor board involvement and/or communication









### **Questions?**

Jeremy DeBruin 877-332-2265 ext. 523 jdebruin@BFBbenefit.com

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Next webinar: December 10 at 2:00 pm ET

When Is Enough, Enough?



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