

Executive Benefits: Pitfalls to Avoid in Due Diligence

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The Ant Farms



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



Regulation and Executive Benefits



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 #5



Lack of knowledge about the plan and the funding



Red Flag #6



Not looking at other alternatives



Red Flag #7



No updated investment policy



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



Red Flag #12



No thorough annual review



Red Flag #13



Benefit investments with high surrender charges



Questions?


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Next webinar: December 10 at 2:00 pm ET
When Is Enough, Enough?

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