

EXECUTIVE BENEFITS LEARNING SERIES

Servicing and Plan Administration



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Agenda

- Executive Benefits: The Basics
- Executive Benefit Plans
- Due Diligence
- Servicing and Plan Administration
- Trends in Recent Exams
- Q & A



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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)
- Welfare Benefit
 - Split Dollar
- Section 162 Bonus
 - Deferred Compensation and Welfare Benefit



Due Diligence: Overview

Key Concepts

- Credit union should review benefit plan and informal funding investment on an annual basis
- Results should be documented in Board minutes



Due Diligence: Organizing Your Review

What to review

1. Plan design and legal components
2. Informal funding
3. Overall annual plan performance including the plan impact



Due Diligence: Plan Design and Legal Components

The Board should review the benefits provided to key employees including an overview of the type of plan and various payment scenarios:

- Retirement / Payment date
- Death
- Disability
- Involuntary termination
- Termination following change of control
- Termination for “Good Reason”
- Voluntary termination



Due Diligence: Informal Funding

If an investment has been purchased to offset the plan expenses the Board should review the informal funding investment purchased to offset the cost of the benefit plan. This includes:

- Review of the type of investment
- Current values
- Year-to-date performance
- Concentration based on percentage of total equity



Due Diligence: Overall Plan Performance

Compare the annual expense to the earnings of the investment. Is the plan performing as projected? What adjustments should be made? Consider:

- Total expenses, including annual benefit expenses, other employee benefit expenses (healthcare, 401k match, and administration fees)
- Current income from the informal funding investment
- Impact to the Credit Union's bottom line



Servicing and Plan Administration



Key Consideration #1



Does the vendor have the financial strength to provide administrative support services for the long-term? What are their sources of income and expense?



Key Consideration #2



Does the vendor provide this directly or farm it out to a third party?



Key Consideration #3



Does the vendor have sufficiently trained support staff to provide all regulatory and accounting support into the future?



Key Consideration #4



Does the vendor have expertise in working with federal and state regulators?



Key Consideration #5



When and how often will the vendor review and meet with the credit union to report on plan performance? Will the vendor meet with each plan participant?



Key Consideration #6



How is ongoing investment due diligence managed? How are the results tracked and communicated?



Key Consideration #7



How can the credit union and participants access plan documents and statements?



Key Consideration #8



Does the vendor have electronic security and privacy protocols in place?



Examination 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, and lack of ability to help service the product after it is placed



Red Flag #3



Poor accounting practices



Red Flag #4



Lack of knowledge about the plan and the funding



Red Flag #5



Investment policy that is boilerplate language which comes from the vendor



Red Flag #6



No thorough annual review



Red Flag #7



Benefit investments with high surrender charges



Summary

1. Long-term partner
2. Ongoing regulatory due diligence
3. Expertise in investment portfolio management
4. Comprehensive client service management
5. Easy access to plan documents and statements



Questions?

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