



Agenda

- This year's survey
- How to use a compensation table
- Bonus Plans – Chief Executive
- Nonqualifying Executive Benefit Plans
- Best compensation practices
- Q & A



Survey Participants

- All Federally-insured Credit Unions - State and Federal Charters - were invited
- 523 Credit Unions
- Includes both NAFCU members and non-members
- Completed Survey from March 23 to April 21, 2017
- 1,551 Executives
 - 523 Chief Executives
 - 389 #2 Executives
 - 285 #3 Executives
 - 213 #4 Executives
 - 141 #5 Executives

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Population vs Sample by Charter Type

	Total Credit Unions	Survey Credit Unions
N =	5,785	523
Federal	62%	71%
State	38%	29%

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Population vs Sample by NCUA Region

	Total Credit Unions	Survey Credit Unions
1	20%	21%
2	20%	18%
3	21%	21%
4	27%	25%
5	12%	15%

50 states represented plus the District of Columbia, Puerto Rico, U.S. Virgin Islands



Population vs Sample by Asset Size

	All Credit Unions = 5,785 *	Survey = 523
< \$10M	29%	8%
\$10M – \$20M	13%	11%
\$20M – \$40M	15%	15%
\$40M – \$75M	12%	17%
\$75M – \$150M	11%	13%
\$150M – \$400M	10%	16%
\$400M – \$1B	6%	11%
\$1B +	5%	10%
Average	\$223.6M	\$466.6M
Median	\$28.9M	\$71.5M

* NCUA Call Report, December 2016



Data Adjustment

Weight the data based on

- Type (Federal/State)
- Region
- Total Assets

Result: Sample is representative of
Federally-insured State & Federal CUs


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Purpose

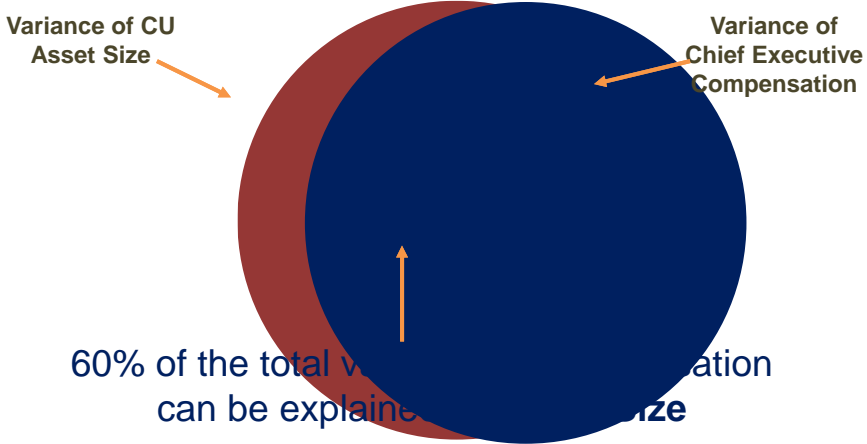
- Show what CUs, *similar* to yours in size, pay top five executives
- Assist your decision-making process
- Important to understand the information you are being given

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Relationship between Asset Size and Total Compensation




Relationship Between Asset Size and Total Compensation



Variance of CU Asset Size

Variance of Chief Executive Compensation

60% of the total variance in compensation can be explained by asset size



Sample Table – Chief Executive

Credit Unions with Total Assets of \$150 Million to Less Than \$400 Million

2017 Potential Total Compensation Percentile (Base + Bonus)	2017 Base Salary	Target Bonus		Comparison Credit Unions					
		% of Base	\$ Dollar Amount	Total Assets (M)	Loans/ Leases (M)	Number of			
						Members	Employees	Branches	
10th	\$157,248	\$155,000	0	\$0	\$158	\$101	11,117	37	3
25th	\$184,000	\$175,000	3	\$5,550	\$175	\$111	15,779	50	4
40th	\$203,500	\$185,000	6	\$10,230	\$204	\$133	17,464	56	5
50th	\$214,830	\$195,574	10	\$17,510	\$228	\$139	20,394	64	6
60th	\$229,000	\$205,701	10	\$23,870	\$248	\$155	22,792	71	6
75th	\$263,350	\$235,500	16	\$30,454	\$300	\$220	27,419	88	8
90th	\$317,788	\$283,060	20	\$48,600	\$345	\$267	35,636	128	10

Results based upon surveying 83 top executives in this asset group



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Focus on Interquartile Range



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Each Column Is Independent



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How does your CU compare to this peer group?



Comparing Compensation Surveys

More information is good but

- Tables related to your credit union may be based on very different asset ranges

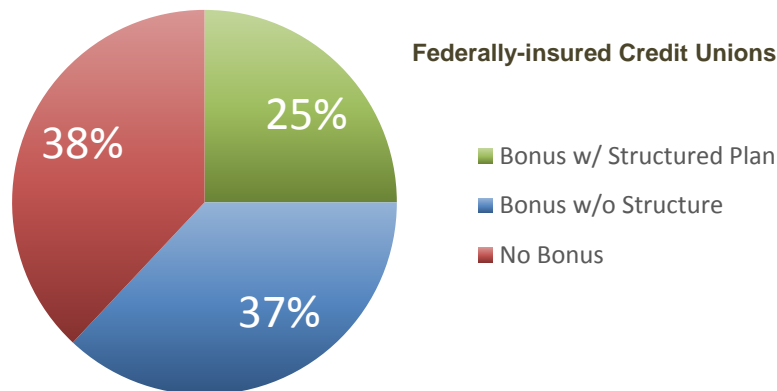


Other Factors Affecting Compensation

- Performance – Return on assets, net income growth, loan growth, net worth
- Efficiency
- Member/Employee Satisfaction
- Products/Services
- Market Characteristics
- Tenure at Position
- Other

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Credit Union CEO: Bonus and Bonus Plans



Source: 2017 NAFCU-BFB Gallagher Executive Compensation and Benefits Survey

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Chief Executive: Bonus and Bonus Plans

CU Total Assets:	<\$10M	\$10M- <\$20M	\$20M- <\$40M	\$40M- <\$75M	\$75M- <\$150M	\$150M- <\$400M	\$400M <\$1B	\$1B+
# Fed-Ins CUs:	<u>1,659</u>	<u>762</u>	<u>817</u>	<u>672</u>	<u>635</u>	<u>574</u>	<u>324</u>	<u>263</u>
Have a Bonus	47%	48%	58%	66%	72%	79%	89%	93%
Have Structured Plan*	4%	11%	23%	35%	29%	46%	57%	76%
No Structured Plan	43%	37%	35%	31%	43%	33%	32%	17%
No Bonus	53%	52%	42%	34%	28%	21%	11%	7%

* "Does the CEO have a structured plan for his or her bonus, incentive, or variable pay that involves achieving certain goals?"

Source: 2017 NAFCU-BFB Gallagher Executive Compensation and Benefits Survey



Chief Executive: Bonus Plan Components

	Total CUs	Under \$75M	\$75M- <\$400M	\$400M+
Have a Formal Structure	<u>191</u>	<u>61</u>	<u>57</u>	<u>73</u>
Loan Growth	55%	54%	57%	54%
Return on Assets (ROA)	52%	44%	69%	46%
Membership Growth	43%	42%	41%	46%
Net Income Growth	39%	42%	41%	33%
Net Worth	37%	42%	39%	26%
Delinquency Measures	33%	37%	29%	33%
Discretionary Board Evaluation	30%	24%	30%	39%
Strategic Initiatives	29%	20%	30%	40%
Asset Growth	24%	24%	20%	27%
Membership Satisfaction	23%	11%	22%	43%
Expense Ratios	23%	16%	23%	32%
Savings/Checking Growth	21%	13%	26%	27%
Products/Services Per Member	13%	9%	12%	20%

Source: 2017 NAFCU-BFB Gallagher Executive Compensation and Benefits Survey



Chief Executive: Bonus/Bonus Plans

	Total CUs	Under \$75M	\$75M- <\$400M	\$400M+
n=	61	61	57	73
Loans-to-Share Ratio	10%	12%	12%	6%
Employee Satisfaction	10%	5%	11%	16%
Balanced Scorecard	9%	7%	8%	12%
Compliance	8%	13%	5%	4%
Charge-offs (WI)	5%	3%	10%	2%
Efficiency Ratio (WI)	4%	1%	1%	10%
Total Income (WI)	3%	5%	2%	3%
CAMELS Rating (WI)	2%	-	7%	1%
Loan Yield (WI)	1%	1%	3%	-
Business Members (WI)	1%	1%	2%	-
Electronic Services (WI)	1%	-	-	3%
Member Value (WI)	1%	-	-	3%
Community Relations (WI)	1%	-	-	3%

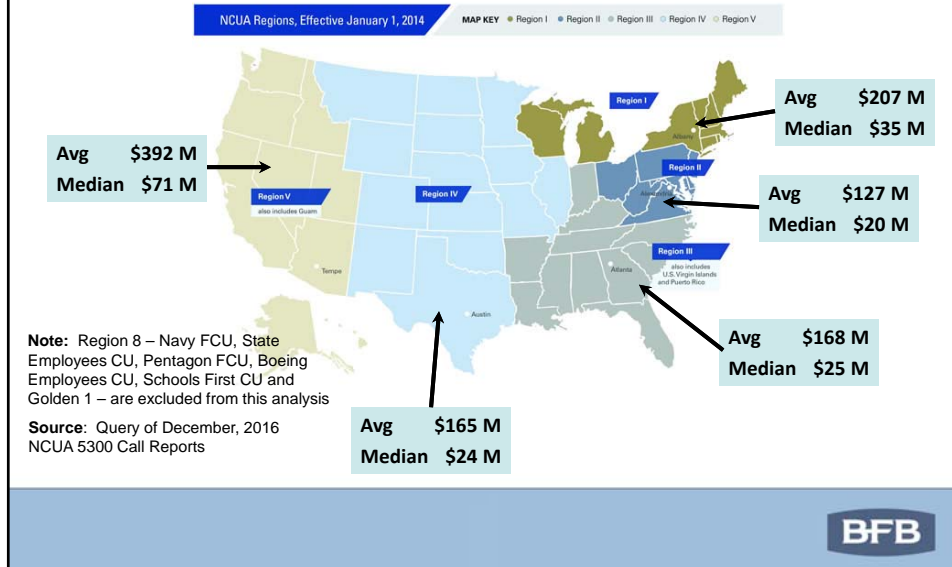
Source: 2017 NAFCU-
 BFB Gallagher Executive
 Compensation and
 Benefits Survey



How valuable is it to compare
 compensation by region?



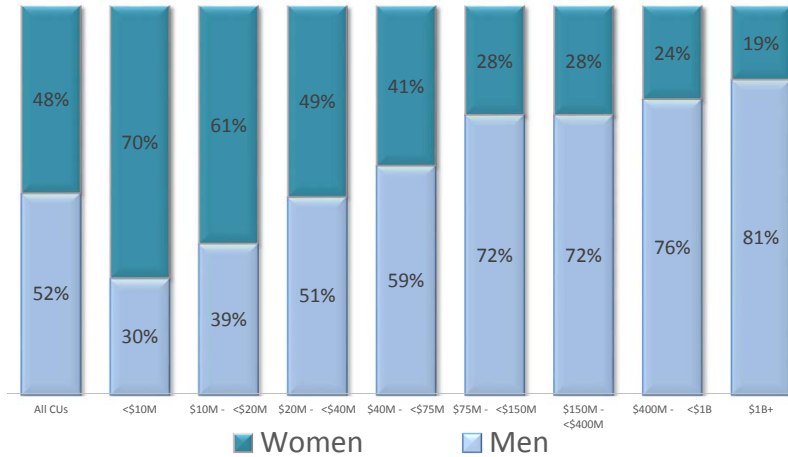
Total Assets by Region



Cost-of-Living Index

www.coli.org – Council for Community and Economic Research (C2ER)

Top Executive: Gender



Source: 2017 NAFCU-BFB Gallagher Executive Compensation and Benefits Survey



Nonqualified Executive Benefit Plans



Usage of Nonqualified Plans



2017
66% of credit unions
(\$75+ million assets)

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Why Is This Happening?



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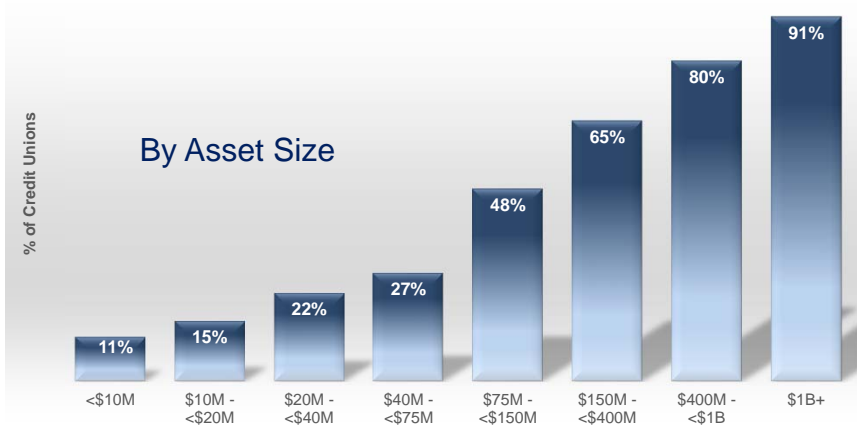
Polling Question

Do you have an executive retiring within the next:

- Yes, less than one year
- Yes, in 1–3 years
- Yes, in 3–5 years
- Yes, in 5+ years
- No, or don't know

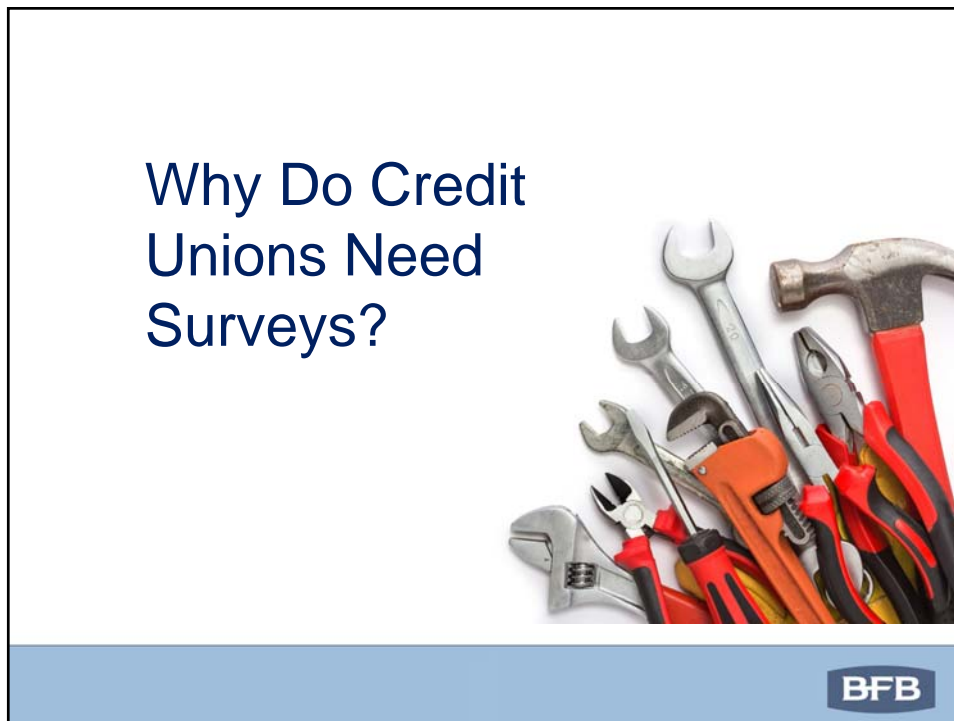
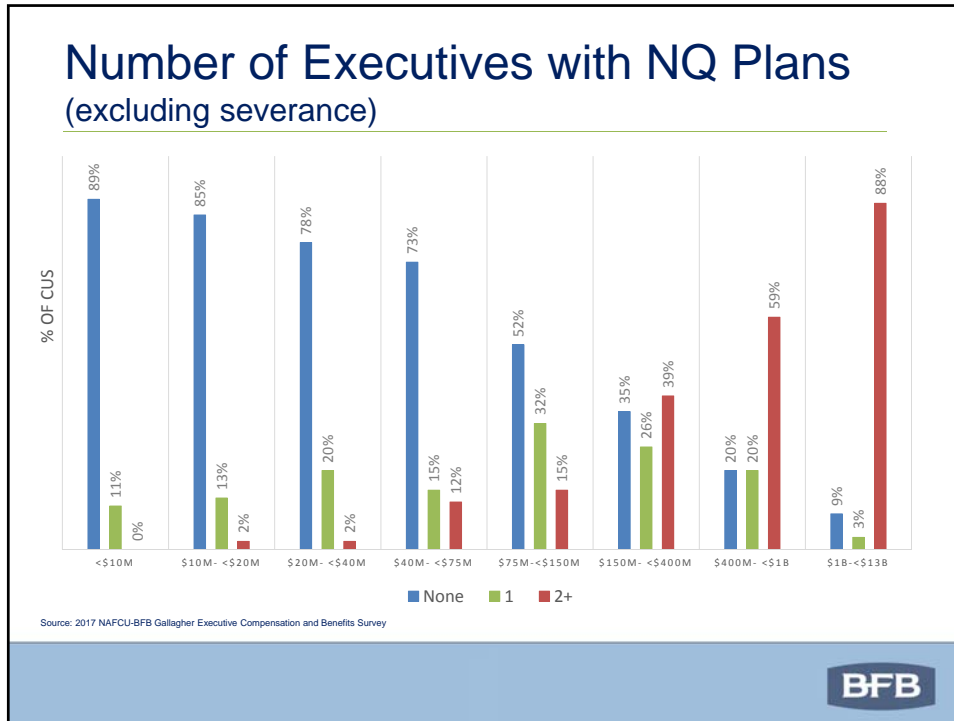
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Credit Unions with Nonqualified Plans (excluding severance)



Source: 2017 NAFCU-BFB Gallagher Executive Compensation and Benefits Survey

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Putting Data into Context

#1 Human Capital Investment

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Human Capital Investment

Executive turnover is costly!

- Delay in achieving strategic goals
- Negative impact on performance
- Negative impact on morale, motivation
- Poor impression on constituents, potential candidates
- Lack of leadership in day-to-day operations

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Putting Data into Context

#2 Attract Talented Individuals

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Attract Talented Individuals

- Competition for the best candidates
- Recruiting: Local vs national
- Background: Credit union vs related industries

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Putting Data into Context

#3 Retain Those with Material Impact

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Retain Those with Material Impact

- Long-term return on investment
- Strategic vision is advanced, uninterrupted
- Stronger connection to constituents
- Institutional knowledge stays in-house
- Vesting schedule

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Putting Data into Context

#4 Reward by Sharing in the Success

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Reward by Sharing in the Success

- Compensation philosophy
- Strategic needs
- Performance measures

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Putting Data into Context

#5 Several Plan Options for Different Goals

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Several Plan Options for Different Goals

- “Meaningful and significant” varies by executive
- Leverage time horizon with vesting schedule
- Cost mitigation

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Next Steps

- Schedule educational session & due diligence
- Perform existing plan reviews
- Assess recruiting and retention needs
- Identify consultants
- Implementation
- Ongoing administration and compliance

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Upcoming Webinars

- August 17
Getting Started with Benefit Liability Management
- August 30
Proper Accounting for BOLI and SERPs

Register at www.nafcu.org/BFB

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Thank you!



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