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Executive Benefits Plans that Attract, Retain and Engage

WHY SHORT-TERM RETENTION PLANS ARE TRENDING WITH CREDIT UNIONS TODAY.

This year, a recurring question asked during annual board reviews is, "What trends are you seeing in the industry?" Boards, particularly those with CEOs who are within 5 to 8 years to retirement, are becoming more familiar with executive benefit plans and want to make sure they are staying competitive with their peers.

For years we have heard the statistics about the Baby Boomer generation approaching retirement and now all of a sudden we are here. It seems like a day doesn't go by without hearing an announcement about a CEO's retirement. Boards have the important job of finding a new CEO, but it doesn't stop there. It is the CEO and leadership team that drive the success of the credit union.

One of the hot trends right now is short-term retention plans to hold the leadership team in place during the CEO's transition.

Boards who have gone through a CEO transition and have had turnover in the leadership team understand the importance of keeping the team together for continuity of business. A new CEO has the task of stepping into a new role or institution, learning the environment and ensuring the ongoing success. On top of that, what if they had to hire a new CFO, COO or CHRO as well? CEOs are not the only Baby Boomers and the talent pool for these leadership positions is shrinking as well.

Furthermore, when a new CEO steps into the role, there is no guarantee the leadership team will stay. This risk only increases if one of them was on the short list to become the next CEO and did not get the position. Boards are trying to mitigate this risk and help create an environment for a new CEO to be successful from the start.

NEW CEO, EXISTING LEADERSHIP TEAM

Another risk factor is locking in the new CEO with the existing leadership team. Long term retention plans may make the CEO or participants feel handcuffed, creating an awkward work environment.

A short term retention plan is a cash payment, typically 1 to 2 times salary, paid a year or year-and-a-half after the CEO's retirement. The plan falls under tax code 457(f) and the credit union books an expense each year, building up a liability balance to pay the benefit at the payment date. If the participant leaves before the payment date, they forfeit the benefit and the liability balance is reversed.

Timeframe is the key: this type of plan is long enough to give the new CEO time to get their feet on the ground, understand the strategic plan and develop ways to move forward; but, short enough to give the entire leadership team time to adjust.

WHEN TO ESTABLISH A SHORT-TERM RETENTION PLAN

The timing of when to establish a short-term retention plan and who is in the plan varies by credit union but usually five years prior to the CEO's retirement. The closer you are to the payment date under the plan, the more expensive the plan becomes. For example, if the benefit payment is $300,000 and the payment is made in six years, the annual expense is $50,000 per year. By waiting one year to implement the plan, the annual expense goes up to $60,000 because now you have five years until the payment date.

From a participation standpoint, the current CEO usually makes a recommendation to the board based on position responsibilities.

- For smaller credit unions, 1-2 people
- For larger credit unions 4-6 people.

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Although this is a new expense to the credit union, there are ways to offset the expense and create a neutral impact to the bottom line.

As boards work with consultants to design the plan, a key part of the discussion is understanding both the risks and rewards.

If you are interested in a complimentary plan review, or if you would like to schedule an educational session for your executives or Board of Directors, please contact me:

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