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National 2008 Compensation Forecast

As part of its ongoing commitment to ensure its clients' salary administration programs remain competitive, D. Hilton conducts an annual research study to forecast salary range and merit increase budgets for the upcoming year. The following memo is intended to assist clients in preparing for compensation and benefits budgets for 2008.

D. Hilton's primary source for general compensation trend information is *WorldatWork* (formerly known as the American Compensation Association), a national trade association serving human resource professionals from all industries. The 2007-2008 Total Salary Increase Budget Survey is in its 34th year and includes data from 2,218 U.S. firms.

WorldatWork Survey Highlights – 2007 Summary

- **Salary Budgets:** The average total salary budget increase was 3.9% for 2007, and companies are budgeting an average 3.9% for 2008.
- **Base Salary Increases:** Respondents reported that 92% of all employees will receive a base pay increase for 2007. In the Financial Services Sector the national average salary increase for non-exempt employees was 3.8%, 3.9% for exempt employees, and 4.0% for executives.
- **Salary Range Increases:** Salary structure adjustments in the Financial Services Sector were 2.6% for all employee categories: non-exempt employees, exempt employees and executives.
- **Variable Pay:** Approximately 80% of all nonexempt and exempt employees participated in some form of variable pay in 2007.

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WorldatWork Financial Services and Credit Union Trends

Salary Increase Projections	Nonexempt	Exempt	Executives
National '07 (actual)	3.8%	3.9%	4.0%
National '08 (budget)	3.9%	3.9%	3.9%
Eastern Region '07 (actual)	3.8%	3.9%	3.8%
Eastern Region '08 (budget)	3.8%	3.9%	3.8%
Central Region '07 (actual)	3.8%	3.9%	4.0%
Central Region '08 (budget)	3.8%	3.9%	3.9%
Southern Region '07 (actual)	3.8%	3.9%	4.0%
Southern Region '08 (budget)	3.9%	3.9%	4.0%
Western Region '07 (actual)	3.8%	3.9%	4.1%
Western Region '08 (budget)	3.9%	3.9%	3.9%

Salary Range Adjustments	Nonexempt	Exempt	Executives
National '07 (actual)	2.5%	2.6%	2.6%
National '08 (budget)	2.6%	2.7%	2.8%
Eastern Region '07 (actual)	2.6%	2.5%	2.6%
Eastern Region '08 (budget)	2.8%	2.8%	2.8%
Central Region '07 (actual)	2.4%	2.3%	2.6%
Central Region '08 (budget)	2.7%	2.7%	2.7%
Southern Region '07 (actual)	2.5%	2.4%	2.6%
Southern Region '08 (budget)	2.7%	2.7%	2.7%
Western Region '07 (actual)	2.3%	2.3%	2.4%
Western Region '08 (budget)	2.8%	2.7%	2.8%

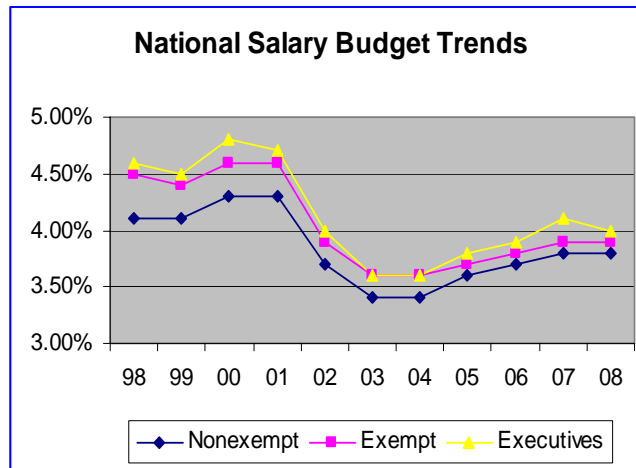
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Salary Budget Trends - National

The following table illustrates the salary budget increases witnessed in the last 10 years and the projected salary budget increase for 2008:



Year	Nonexempt	Exempt	Executives
1998	4.1%	4.5%	4.6%
1999	4.1%	4.4%	4.5%
2000	4.3%	4.6%	4.8%
2001	4.3%	4.6%	4.7%
2002	3.7%	3.9%	4.0%
2003	3.5%	3.6%	3.6%
2004	3.5%	3.6%	3.6%
2005	3.6%	3.7%	3.8%
2006	3.7%	3.8%	3.9%
2007	3.8%	3.9%	4.1%
'08 (projected)	3.8%	3.9%	4.0%

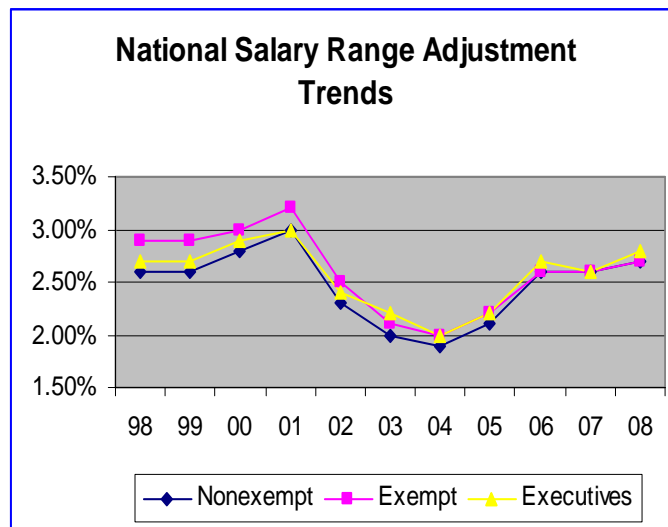
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Salary Range Adjustment Trends - National

The following table illustrates the salary structure increases witnessed in the last 10 years and the projected salary range adjustment for 2008:



Year	Nonexempt	Exempt	Executives
1998	2.6%	2.9%	2.7%
1999	2.6%	2.9%	2.7%
2000	2.8%	3.0%	2.9%
2001	3.0%	3.2%	3.0%
2002	2.3%	2.5%	2.4%
2003	2.0%	2.1%	2.2%
2004	1.9%	2.0%	2.0%
2005	2.1%	2.2%	2.2%
2006	2.5%	2.6%	2.7%
2007	2.5%	2.6%	2.6%
'08 (projected)	2.6%	2.7%	2.8%

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2008 Trends in Total Rewards Strategy

Total Reward Strategy Components	
Individual Growth	Compelling Future
<ul style="list-style-type: none">Development/TrainingPerformance managementCoaching/Mentoring	<ul style="list-style-type: none">Credit union growth and successVision, mission, values and goalsCredit union community image/reputation
Total Pay	Work Climate
<ul style="list-style-type: none">Base salaryVariable PayBenefitsRecognition	<ul style="list-style-type: none">Challenging/Stimulating work environmentOpen communicationLeadershipTrust and commitment

Many factors affect your ability to create a successful total rewards strategy. First, your credit union's overall business strategy must generate excitement among your employees in order for individuals to believe they have a **Compelling Future** with your organization. We call it the "Polo Test," where employees are proud to wear their credit union shirts in public.

A credit union reinforces its vision by committing resources to employee development, training and providing feedback through performance management, coaching and mentoring. Ultimately business strategy drives your human resource strategy and organization design, which in turn drives your total reward strategy. A compelling future means there is opportunity for **Individual Growth**, which allows employees to continue adding value to the credit union through lateral career paths while dispelling the myth that "up or out" is the only career path available to credit union employees.

But these concepts pale in comparison to what employees really care about — a fair wage at a job that provides intrinsic value! **Total Pay** and **Work Climate** are the foundation of this model because how employees are rewarded and recognized, and the climate in which they work are essential to retaining top performers. A total reward philosophy is a critical piece in aligning rewards with the credit union's direction and values. Most total reward strategies offer a strong link between pay and performance.

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The Evolution of Total Pay

The Old Deal: 1960s-1980s

Entitlement Era: People owned their jobs – employed with one company for life. Annual pay and benefit increases were expected and received. Base pay was the foundation.

The New Deal: 1980s-1990s

Right-sizing, down-sizing, flat organization structures: Insecurity, distrust, multiple employers, periods of unemployment. More people chasing fewer jobs. Pay and benefits were cut as a way to flatten costs.

The New Reality

Companies recognize that employees are the competitive advantage: More specialist jobs than skilled labor; qualified talent becomes scarce. Variable pay becomes an important tool in linking growth and performance goals with employee focus. Base salary is market driven but not the only component in an emerging total cash strategy.

General Economic and Industry Trends

For more than 20 years, D. Hilton Associates has conducted custom compensation studies for many of the nation's top credit unions. What did we see this year....

- Credit unions endured another challenging year, dealing with flat growth, interest rate pressures and increased competition as the member/consumer continued to demand more products and delivery channels. This was "before" the housing downturn and the subprime market collapse. **The Good News:** you can hand pick from the more than 70,000 mortgage industry workers that have lost their jobs this year. **The Bad News:** The mortgage industry kept their best technical specialists, and according to monsterindex.com, finance and insurance companies are heavily recruiting this market segment.
- For many credit unions, there is continued commitment to build more branches, hire more staff, and increase technology-driven delivery channels to compete in the retail banking environment. **The Reality:** Retail banks are doing the same thing and it has created a **significant shortage of technical specialists and senior-level executives.**

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- As credit unions compete for retail and sales talent, variable pay programs will be a key selling point to prospective candidates. **Pay-for-Performance** continues to be embraced. WorldatWork found that while staff-level merit increases will be below 4% this year, variable pay opportunities will reach 8% to 12% of total pay, a far cry from the holiday turkey give-away that once constituted a credit union employee's only recognition for a job well done.
- D. Hilton's executive placements over the last year have revealed that first-time CEOs as well as **experienced executives continue to be in high demand across the financial services industry**, usually commanding significant increases in base salary and total cash as they accept new positions. Executives accepting a new credit union CEO position earned a **29% increase** in total compensation.
- If you have a child graduating with the class of 2007, chances are it is safe to turn that bedroom into a study – the job search should be relatively short. The unemployment rate for people 25 years of age and older with at least a bachelor's degree is just 1.9%. According to the National Association of Colleges and Employers (NACE), there is a 17.4% increase in available jobs this year over last year, with 26 of 29 undergraduate majors reporting larger starting salary offers. Starting salaries for business or technical majors have grown the most. Marketing graduates saw average initial salary offers increase by 10.3% while liberal arts grads saw only a 1.3% increase. Our take: **Liberal arts students can serve as a great asset to credit unions at a reasonable cost.**

Starting Salary Offers for College Graduates		
Degree	National Average Salary	Change since 2006
Accounting	\$46,718	2.3%
Business Administration	\$43,701	3.9%
Computer Science	\$53,396	4.1%
Computer Engineering	\$56,201	4.8%
Finance	\$47,239	**
IS/computer system	\$50,852	4.6%
Marketing	\$40,161	6.1%
MIS	\$47,648	4.2%

*** This is the first year that finance was reported in an exclusive category.*

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- According to IBISWorld, Inc., there will be positive employment for both old and new job classifications in the coming years despite the outsourcing trend. The nation's workforce will collectively experience a sense of financial security that we've never seen. IBISWorld forecasts the **nation's unemployment level will be 4.4% for 2007/2008**.
- The nation is experiencing significant growth in **Contract Employment**. "For workers, contract employment used to be employment of last resort," according to Ron Mester, CEO of Staffing Industry Analysts Inc. Mester notes. "Now, a growing segment of the workforce chooses contingent work." The five fastest-growth professions for contingent work are in the IT sector, according to Staffing Industry Analysts. Half of the spending for contingent labor is now for professional skills sets such as accounting and finance, health care, legal professionals and IT. With contingent labor now approaching 20% of the workforce in high-growth industries, the new centralized managed service provider/vendor service management approach will continue to evolve as a best practice for workforce management and cost control.
- **Work-Life Balance**. Lack of work-life balance is a major factor in voluntary employee resignations. Everyone knows that having the right people with the right skills in the right place at the right time improves operational efficiency; however, credit unions struggle with the need to offer work-life balance with the constraints of operating in a retail environment. In a recent study at a large public company, 50% of its workforce admitted to using sick leave as a means of managing family commitments, resulting in an overall attendance rate of 87% percent. When flexible working options were introduced, attendance rose to more than 96%. For employees, flexibility usually means freedom to pursue outside interests (e.g., leisure activities, family commitments), and to schedule work around these activities. In the contact center industry, for example, working mothers are the largest employee group and 70% of agents prefer to work flexible hours.

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- **Bankers Move Analytical Jobs Overseas – A Potential Recruitment Windfall for Credit Unions.** In the last five years, the U.S. banking system has sent nearly 250,000 jobs overseas and it's not just driven by cost savings – it's also about coping with a labor shortage. Deloitte & Touche LLP conducted a study recently that found 6% of the nation's financial industry's jobs have moved offshore. Last year alone, over 75% of major financial institutions moved traditional processes overseas (e.g. payroll, accounting). Credit unions may benefit from unemployed, well-trained professionals whose jobs were moved overseas and who are having trouble finding positions at comparable salaries. D. Hilton witnessed something similar during the "dot.com bust." Once the initial denial wears off that not everyone is going to make six figures, acceptance sets in. **Talented individuals come to credit unions and realize they are surprisingly happy making an actual salary with a stable employer (not unattainable bonus plans or underwater stock options for a troubled business).**
- **Bankers Move Contact Center Jobs Overseas – Customers Revolt.** Banks are slowly coming to the realization that foreign call centers, even those very efficient at the task, are leading to an overall erosion of consumer relationships. The trend seems to be reversing as revenue-making client-contact employees remain stateside while companies look to outsource a broad range of back-office functions from processing wire transfers to creating PowerPoint presentations. Drew Jones, SVP of LendingTree stated in a recent article, "Borrowing money for a home or a car can sometimes be a complicated process and therefore, we can't risk the potential language barrier an overseas operation may create." Research shows U.S. consumers are less likely to purchase credit cards and apply for loans from foreign contact centers. **For customers, at least, local culture still matters – share that tip with your marketing department!**
- **The Retail Sector – A potential labor source?** The nation has lost almost 60,000 retail jobs in the last two years. One article cited David Wyss, chief economist at Standard & Poors, "It's not that we're not shopping. We're doing plenty of it, but we're doing more of it online, we're doing more of it at the big-box stores and they just don't have the number of employees per shopper that the traditional department stores do." **With retail consolidation continuing, there is also a chance to pick up some very good talent at the senior level as well.**

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For Additional Assistance

Should you, your fellow managers or your volunteers have any questions related to D. Hilton's salary administration programs, please feel free to contact John Andrews at (800) 367-0433 ext 124.

We wish you all the best in 2008!

About the D. Hilton Compensation Practice

A credit union's success depends upon its employees. They create solutions, prevent problems and are responsible for delivering the highest level of member satisfaction through the creation of innovative services and products. A credit union's compensation program can either facilitate or derail the credit union's efforts to continue being successful and profitable.

The Compensation Practice at D. Hilton Associates will create and implement a compensation and incentive plan that allows you to attract and retain the right people. Our compensation solutions and our other human resource services allow you to maximize your most important asset - your credit union's human capital.

For more information, please call John Andrews at 800.367.0433, ext. 124, or e-mail john@dhillon.com.

Executive Compensation Plan Design
Staff Compensation Plan Design
Variable Pay & Sales Plan Design
Retention & Retirement Plan (SERP) Design & Implementation

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