



Trend Watch

Credit Union Salaries Keeping Pace

Fall has arrived. Schoolyards are filled with children, the leaves show signs of changing, and at credit unions around the country thoughts are turned to 2006 budgets. With that in mind, and because we regularly get calls from clients seeking guidance to ensure that a competitive human resource budget is maintained, I thought I'd take this opportunity to share some general trend data as well as some findings from DHA's most recent compensation surveys.

Multiple sources are available for general compensation trend information. DHA most frequently consults WorldatWork (formerly the American Compensation Association), a national trade association serving human resource professionals from all industries. For 2005-2006 WorldatWork surveyed 2,720 U.S. firms regarding expectations for 2006 salary budget increases. In general, the organization found salary budget increases of 3.7% in 2005 and projected increases of 3.8% for 2006. More employees will receive raises to base pay this year as well: 92%, up from 87% in 2004. Actual salary structure adjustments for 2005 were 2.2%, and companies are budgeting 2.5% for 2006. In 2005, approximately 76% of all employees, both exempt and nonexempt, participate in some sort of variable pay program.

Often, executive salary increases vary slightly from those of employees overall. For example, a recent report from Mercer Human Resource Consulting indicates an average of 3.9% pay increases for executives in 2005.

DHA's own compensation research shows that credit union compensation parallels compensation trends generally. It also identifies some changes specific to our industry.

Staff Survey Highlights

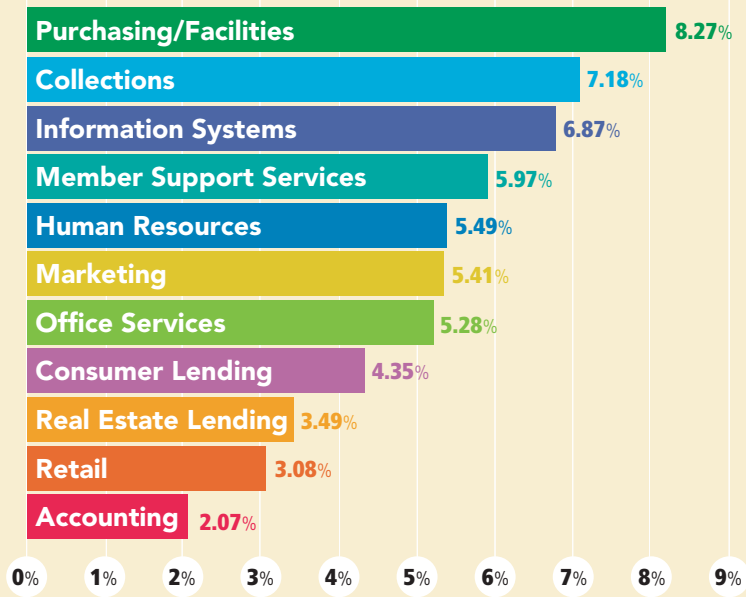
DHA's 2005 Summer Staff Compensation Survey Report tracks the credit union market to March 31, 2005. This survey report investigates total compensation trends and practices for mid-management and staff positions in the credit union industry. Based on survey responses from 425 credit unions, mid-management and staff pay package information is presented from two perspectives: Base Salary and Total Cash (Base plus Variable Pay).

DHA survey results from (spring) 2004 to (spring) 2005 indicate a 3.5% market (median) movement overall, which conforms to WorldatWork national trends noted earlier. The overall base pay median for managers increased by 5% versus 2.6% for staff overall. The DHA survey average base salary increased 4.7% overall from 2004 to 2005. Figure 1 breaks down the average base salary increase from 2004 to 2005 by business unit.

According to DHA's 2005 Staff Survey, 63% of investigated jobs are eligible for variable pay, indicating that the importance of variable pay continues to rise within the credit union industry. The 11% increase from 52% in 2004 is no surprise as organizations shift their compensation mix in favor of pay-for-performance models.

DHA examined variable pay across several families and found that Real Estate Lending staff members have the highest overall average bonus paid as a percentage of base pay, at 10%. The next highest staff variable pay averages 4.7% of base, which is significantly lower. On the other hand, Real Estate Lending managers' variable paid as a percentage of base pay (6.2%) closely follows

Figure 1: Percentage increases to staff base pay by area



Source: D. Hilton Associates Survey

Figure 2: Variable pay as a percentage of staff compensation

Department	Staff	Manager
Accounting	3.3%	5.5%
Audit/Compliance	4.7%	N/A
Collections	3.5%	6.2%
Consumer Lending	3.9%	6.7%
Human Resources	3.9%	6.5%
Information Systems	3.4%	4.9%
Marketing	4.2%	4.0%
Member Support Services	3.1%	4.8%
Office Services	3.6%	N/A
Purchasing/Facilities	3.1%	5.0%
Real Estate Lending	10.0%	6.2%
Retail	4.3%	5.7%

N/A-No Manager Jobs in Survey.

Source: D. Hilton Associates Survey

Figure 3: Pay increases to executive job-changers

Current Position	New Position	Avg. Salary Increase %	Avg. Total Cash Increase %
Top Exec	Top Exec	17%	18%
VP	Top Exec	31%	34%
VP	VP	26%	28%

Source: D. Hilton Associates Survey

Consumer Lending managers (6.7%), as do managerial bonuses for several other departments.(see Figure 2)

Executive Survey Highlights

The credit union industry saw another challenging year in 2004, dealing with a flat market, interest rate pressures and increased competition as the consumer continued to demand more products and delivery channels. For many credit unions that meant an increase in expenses due to building more branches, hiring more staff, increasing IT and other capabilities to compete with retail banking. The 2005 DHA Executive Compensation Survey shows an increase of 3.6% in the Average Base Salary for all credit union executives. This is consistent with executive pay trends generally, and in line with increases for credit union staff and management personnel.

Variable pay continues to comprise a significant part of credit union executives' total cash compensation. There is a considerable range of both variable payments made and variable pay opportunities. The survey indicates that the Top Executive Average Variable Pay Target ranges from 6.5% to 28.1% while the Average Maximum ranges from 9.4% to 41.0%, depending on asset size of the credit union. Year to year, the range of Average Variable Pay received by Top Executives in credit unions with \$50 million or more in assets increased from 9.6% to 24.5% in 2004 to 12.7% to 25.3% in 2005.

Executive placements over the past year have revealed continued high demand for experienced executives across the financial services industry. As a result, executive job changers usually command significant increases in base salary and total cash. Figure 3 shows that executive job-changers have profited in the past year.