



## Facing the Retirement Ogre

## SERPs Ease the Climb

**T**he pending mass exodus of the Baby Boomer generation from the workforce and increasingly competitive recruiting environment presents the credit union industry with the taxing challenge of finding qualified executive talent to fill top positions. How are credit unions approaching the task of attracting and retaining top talent? A recent survey conducted by D. Hilton Associates Inc. (DHA) explored the industry's use of one benefit, the Supplemental Executive Retirement Plan (SERP).

As credit unions approach the middle of the decade, more of them are recognizing the value of creating competitive benefit programs as a means of not only rewarding but also recruiting and retaining top executives. Our research found that Supplemental Executive Retirement Plans have become one of the leading tools in this effort.

### Who's Using SERPs?

Roughly one in three credit unions with assets of \$50 million or more currently offers a SERP to its CEO. The number of participants rises among credit unions with assets of \$400 million or more, with nearly half offering a SERP.

#### CU's offering a SERP

Participant Asset Size	2004
\$50 mil.-\$69.9 mil.	20%
\$70 mil.-\$99.9 mil.	30%
\$100 mil.-\$199.9 mil.	29%
\$200 mil.-\$399.9 mil.	39%
\$400 mil.-\$599.9 mil.	42%
\$600 mil.-\$999.9 mil.	47%
\$1 billion or more	62%
<b>Total</b>	<b>32%</b>

As the table above indicates, a positive correlation exists between greater asset size and presence of a SERP. For credit unions that do not already have a SERP in place, CEO age may be a factor impeding implementation. For example, survey response shows gains in SERP availability in the \$70 million to

\$99.9 million-asset division, which also has the youngest reported average CEO age, at 50. At an average age of 55, the CEOs from credit unions with assets of \$400 million or more are older than their peers at smaller credit unions. Costs to set up a plan for a CEO closer to retirement can be significantly higher than costs for a plan that would eventually provide a similar benefit to a younger CEO. This suggests that credit union boards of directors should consider the issue of a SERP early in their CEO's tenure if they expect to offer the benefit.

### How are credit unions investing?

In 71% of the credit unions with a SERP currently in place that responded to DHA's survey, the plan was funded by a lump sum investment, which averaged \$917,308. More than half of all SERPs are defined contribution plans that allow the credit union to set aside money to earn interest towards the CEO's retirement while retirement liability resides with the executive and there is no guarantee of a specific payout. However, 44% of respondents indicated their SERP's design was based on replacing a targeted percentage of their estimated income at retirement. This replacement percentage averages slightly more than half of the executive's estimated income at retirement, often with distributions from qualified plans considered in the calculation.

DHA's Human Resources Practice has seen an increase in pay for performance structures over the past couple of years. Providing a benefit floor for SERPs appears to be a complementary movement, as these plans are often put in place to recognize executives' achievements.

### How are credit unions using SERPs?

Although some CEOs indicated their SERP was a negotiated benefit at the time they assumed the CEO position, the majority of those surveyed said that their SERP was put into place as the result of

their success as a CEO. Based on survey responses, the typical SERP in place today was established about 10 years after the CEO it benefits took the reins of his or her organization. However, it is important to point out that most survey respondents accepted their current positions more than five years ago, so recent hires account for a small segment of responses.

Credit unions should not discount the importance of SERPs as a recruitment tool. Based on the experience of DHA's Executive Recruiting Practice, SERPs are gaining currency as a consideration for candidates making decisions about career moves, and are being negotiated at the time of hiring.

Many times, the SERP acts as a formalized tie between the credit union and the executive. While the majority of CEO respondents do not have contracts with their credit unions, 97% stated that SERP arrangements were outlined in a formal deferred compensation agreement.

### Who's taking notice?

Approximately one in every three credit unions that does not currently have a SERP in place plans to implement one by year-end 2005. Of the CEOs who responded to our survey, 67% said they initiated SERP discussions. This shows that executives are taking an active role in establishing their long-term benefits. With this in mind, it is not surprising that the majority also said their SERP plays an important role in their decision to remain in their current position, again emphasizing the value of a SERP in executive retention.

Although CEOs initiate SERP discussions, board members are also taking an active role in overseeing their executive's long-term benefits. Forty percent of the

plans represented in DHA's survey are reviewed annually by their credit union's board of directors.

As credit unions are faced with the challenges of finding and keeping executive talent, more of them are recognizing the value of creating competitive benefit programs that reward and retain top executives. As a result, Supplemental Executive Retirement Plans (SERPs) are quickly becoming an essential feature in executive compensation packages.

## DHA 2004 SERP Survey Key Findings

SERPs continue to be provided chiefly as recognition for CEO successes, typically after 10 or more years of service. In two-thirds of cases, the CEO initiates the discussion.

Plans designed to replace a set percentage of income, averaging slightly more than half of the CEO's income at retirement, are becoming more common.

Most SERPs are funded by a lump sum investment. The average size of that investment was \$917,308 for credit unions represented in the current survey. In most cases, the credit union will recoup its investment prior the plan's payout to the executive.

Roughly one-third of all plans incorporate a guaranteed minimum payout at retirement, usually payable in a lump sum, which the majority of CEOs prefer if given a choice.

The expected CEO retirement age in 2004 is 63, though almost one-fourth of the respondents report a change to that expectation in the past year, most often a delay.