SERP use soars
Executive Rewards

At the end of 2005, 42% of large credit unions offered their CEOs a 457(f) Supplemental Executive Retirement Plan (SERP) according to a survey recently completed by D. Hilton Associates. That percentage is up from just 32% a year earlier. DHA's survey results reflect plan adoption and characteristics among larger credit unions—those with at least $50 million in assets.

SERPs are frequently provided as a reward for leadership success. In all, 85% of survey respondents indicated their plan was a result of their successes as CEO. On average, the plans for 2005 respondents began when they had been established in the CEO role for slightly more than 10 years.

However, CEO candidates today are asking for or being offered a SERP more frequently as a benefit of a new position. DHA's executive recruiting practice has noted this trend over the past two years, and survey statistics confirm that more SERPs are now included in executive compensation packages at hiring. In fact, the incidence of negotiated SERP benefits has climbed 6% since 2003.

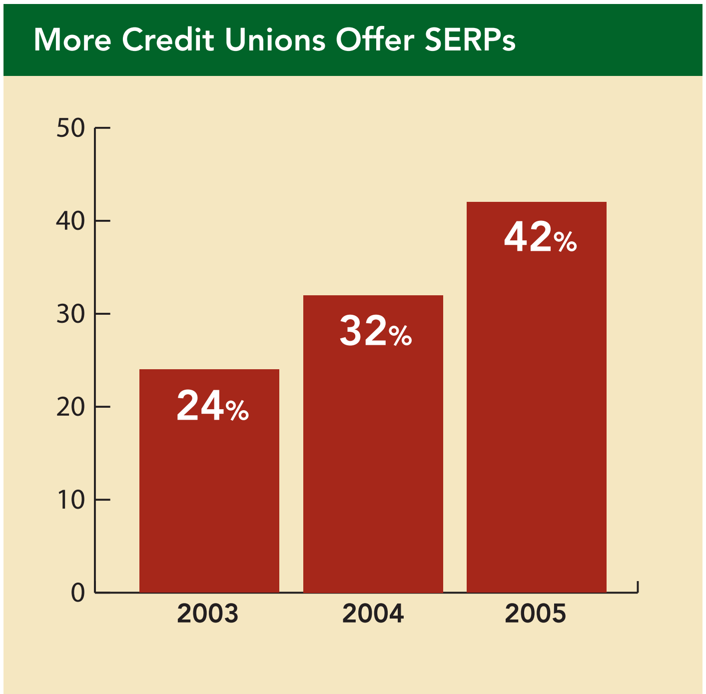
Well over half of the CEOs (56%) who responded to this survey said their SERP was a factor in accepting or remaining in a position. They also reported being better satisfied with their SERPs than with the variable pay programs included in their compensation packages. More than two-thirds of respondents to the current survey (69%) reported that they were satisfied to very satisfied with their 457(f) plan.

As a key element in succession planning, SERPs are offered by boards of directors to ensure a planned exit strategy for executives approaching retirement. For younger CEOs and other senior executives, the promise of a significant financial payoff at a set future date serves to deter or delay unanticipated departures.

Retirements Increasing

The average age of respondents to the current survey was 52. Consequently, for many of the CEOs retirement looms near. One in every 10 of the CEOs represented in the current survey is 62 or older. Of this group, one-third of the executives have already reached age 65. In addition, among respondents age 55-59, 49% report that they anticipate retiring no later than age 62. Retirement funding is a consideration even among younger CEOs. One in five respondents younger than 50 currently expects to retire before reaching 60 years of age.

Retirements will significantly affect credit unions for years to



come. For those now approaching traditional retirement age, SERPs provide a means of ensuring a current lifestyle not adequately funded by qualified plans with benefit caps. Their time grows short.

For younger executives intent on early retirement, the promise of a significant financial payoff at a set future date may provide incentive to delay their target departure dates. These younger executives will need substantial money to fund retirements which, for many, are likely to last until they are well into their 90s. A delay that better positions an executive to meet these costs can also provide his or her credit union additional time to develop other executives for top leadership.

Plan Options and Features

In the credit union industry, defined contribution designs remain the most popular SERP option. Of the plans reflected in this year's survey, 62% were defined contribution plans, 34% were defined benefit plans, and 4% were a combination of the two types. Defined contribution plans do not guarantee a specific level of payout, while defined benefit plans do guarantee some predetermined benefit to the executive, whether as a specific dollar amount or as a percentage of income.

Of respondents with defined benefit plans, 55% indicated the plan design was targeted to replace a set percentage of their income at retirement. For respondents with defined contribution plans, 45% said plan design included an income replacement target. The median replacement percentage goal for both plan types was 60% of income at retirement.

Big Benefits Without Big Costs

The payout from a SERP plan can significantly boost a retirement nest egg. For example, among executives with defined benefit plans, the benefit target when the plan was established averaged \$1.1 million. Most executives (79%) plan to withdraw their benefit in a lump sum rather than taking it in increments over time, mainly due to IRS and Treasury restrictions.

While a SERP benefit is especially valuable to the recipient, it need not be a huge expense for the credit union. In the majority of cases (64%), the credit union recovers the investment made to fund the plan prior to its payout to the beneficiary.

Credit union leaders have recognized the impact of changing economic conditions on the value of their SERP benefits, leading to more frequent review. Most plans (55%) are now reviewed annually, up from only 40% a year ago. Nearly one-third of the respondents with plans (30%) said changes had been made since the benefit was introduced. The most frequent updates were increasing target benefit amounts and changing projected payout schedules. In addition, respondents indicated alterations were made to comply with regulatory changes.

In 2003, D. Hilton Associates began tracking the adoption of Supplemental Executive Retirement Plans in the credit union industry. This has since become an annual effort. This research complements the firm's consulting work in the area of retention and retirement.

DHA has consulted with credit unions on compensation issues for more than 20 years. In addition, since 1999 the firm has also assisted credit unions with the design and implementation of new plans and the evaluation and maintenance of existing programs.