SERP 101

Components of a Competitive SERP Program

d. hilton associates inc.

Proprietary Information

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In 1985,
less than 80 credit unions had assets over
$100 million…

Today

- 21 credit unions > $10 billion
- 89 credit unions > $5 billion
- 460 credit unions > $1 billion

Source: December 2025 NCUA Call Report Data

There are 4,286 Total Credit Unions with $2.43 Trillion in Total Assets…

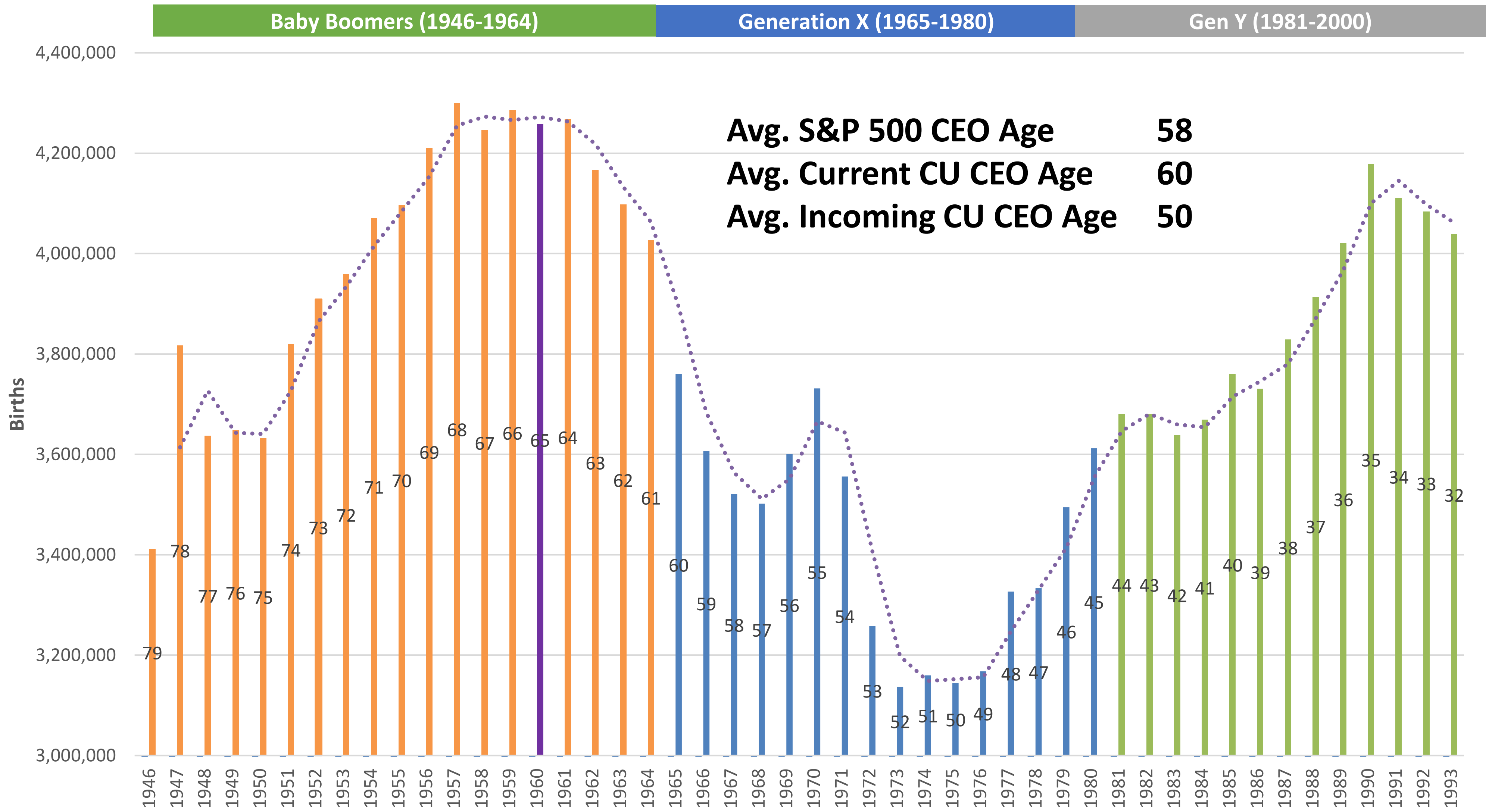
Asset Allocation

- $500M+ = 87.1%
  (739 Total CUs)

- $1.0B+ = 78.8%
  (460Total CUs)

Source: December 2025 NCUA Call Report Data

Birthrates by Year



Source: Census Bureau / Fortune / D. Hilton Associates 2025/2026 SERP Survey

Baby Boomer Retirements in the Credit Union Industry

67 Retirements in 2015

72 Retirements in 2016

74 Retirements in 2017

77 Retirements in 2018

86 Retirements in 2019

103 Retirements in 2020

132 Retirements in 2021

165 Retirements in 2022

152 Retirements in 2023

160 Retirements in 2024

164 Retirements in 2025

168 Retirements in 2026

*Above information reflects CEO retirements among credit unions with $500 million or more in assets.

Source: D. Hilton Executive Recruiting Practice and estimates

What is a SERP?

- A tool used to **attract, reward, and retain** executive talent.

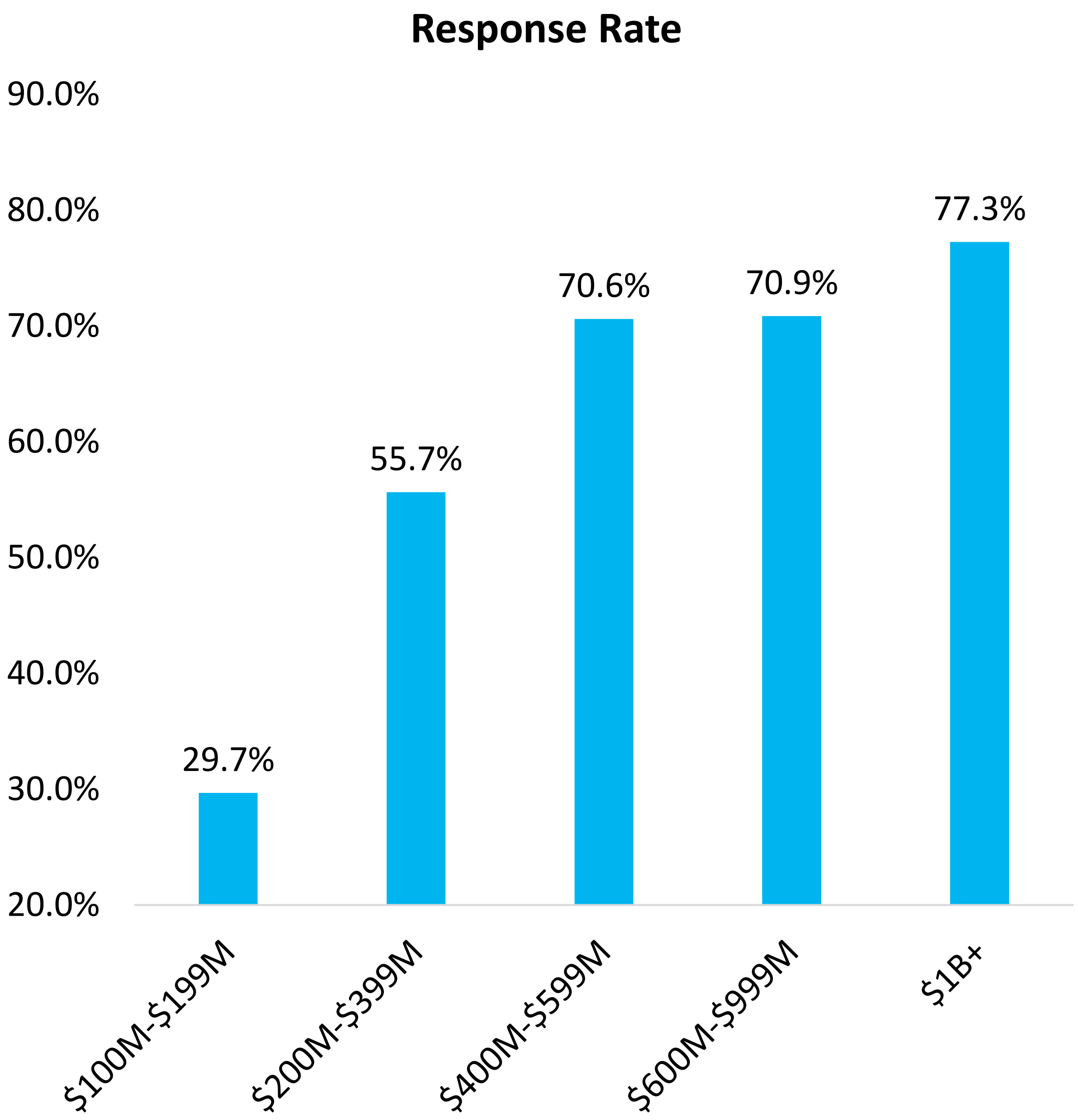
- An agreement between **the credit union and selected executives** to provide supplemental income in return for the attainment of agreed-upon objectives, typically at specified employment anniversaries and/or at retirement.

- SERPs are **selective and non-qualified**, providing the opportunity to reward key executives without restrictions on contribution amounts or income caps.

- If the credit union terminates the Executive’s employment “For Cause” or as a result of the Executive’s voluntary resignation, **the Executive’s benefit is typically forfeited**, and no payment of any kind is made to the Executive or beneficiaries.

Typical SERP Plan Objectives for High-Performing CUs

- **Attract, Retain, and Motivate.**
- Best practice design.
- Competitive with Peers.
- Enhance succession planning.
- Restore retirement plan shortfalls.
- Benchmarked within the CU industry.
- Commitment to a Pay Philosophy.

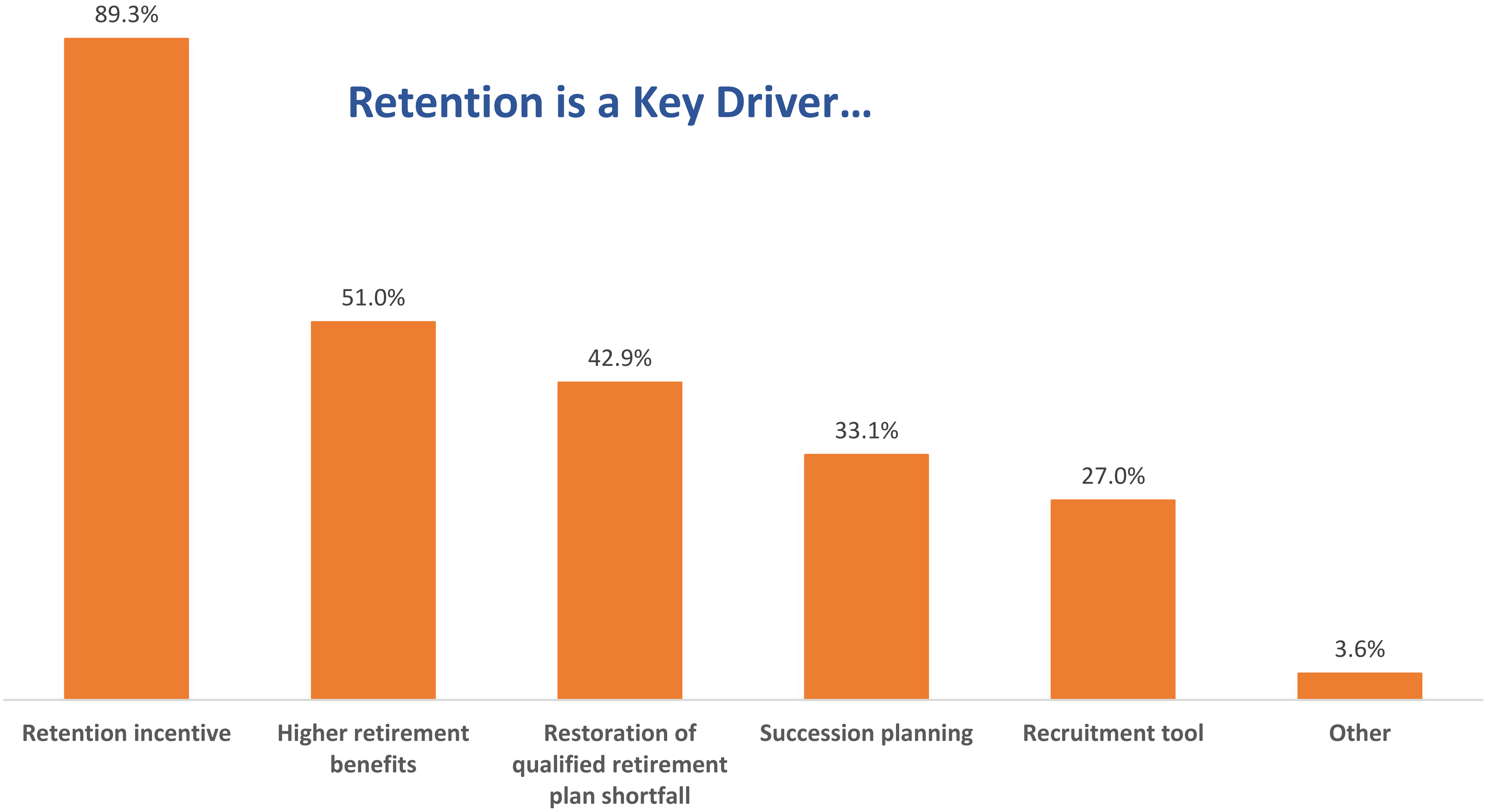


Source: 2025/2026 D. Hilton SERP Survey

2025/2026
SERP Survey Methodology

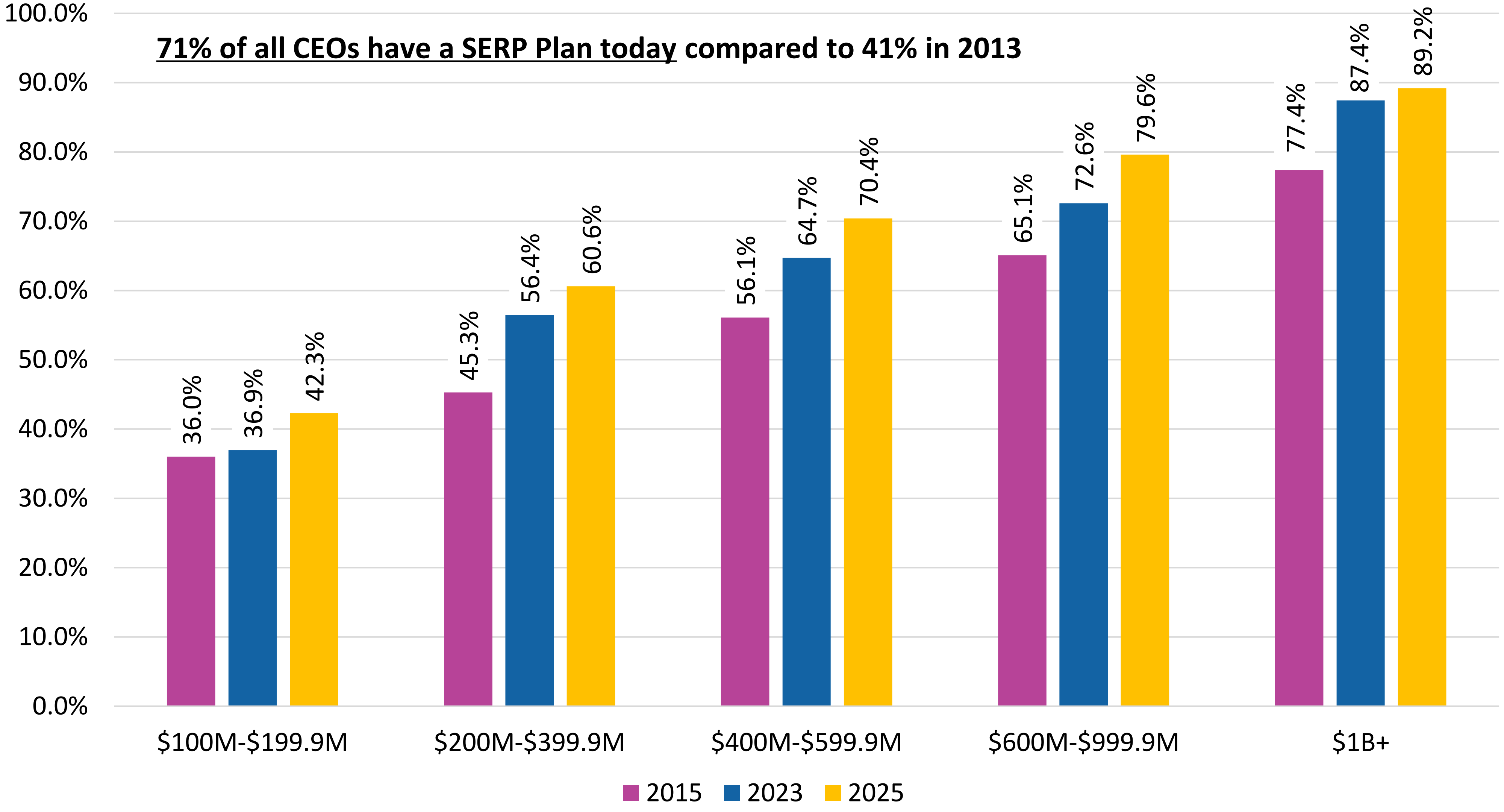
- 22nd Anniversary Study
- Emailed to 1,778 credit unions (> $100M in assets)
- 998 credit unions responded (56% Overall Response Rate)
- 333 credit unions $1.0B+ responded (77% response rate)
- 95% confidence level +/- 2%

Reason for offering a SERP Plan



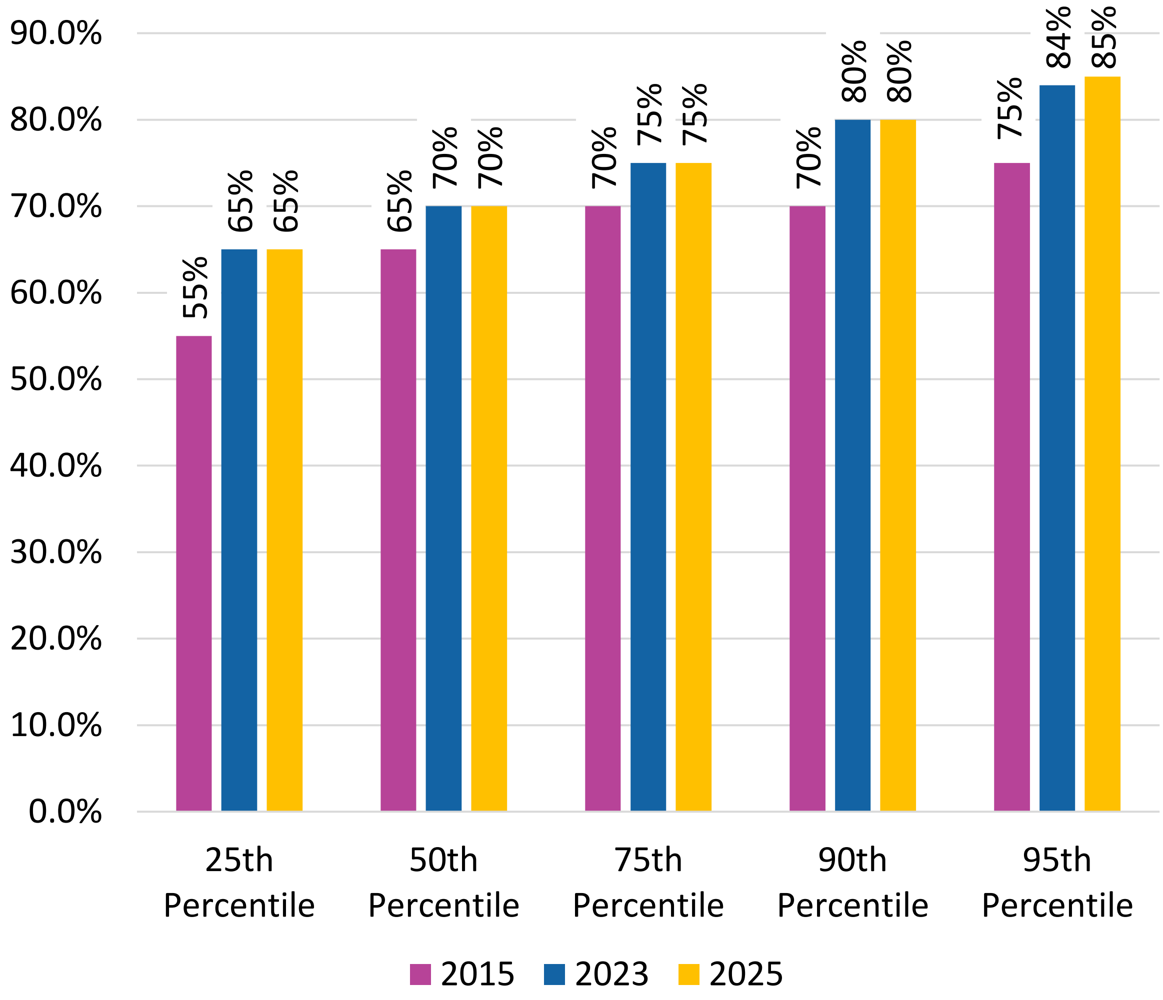
Source: 2025/2026 D. Hilton SERP Survey

SERP Plan Usage for CEOs



Source: 2025/2026 D. Hilton SERP Survey

SERP Target % of Average Total Compensation for CEOs



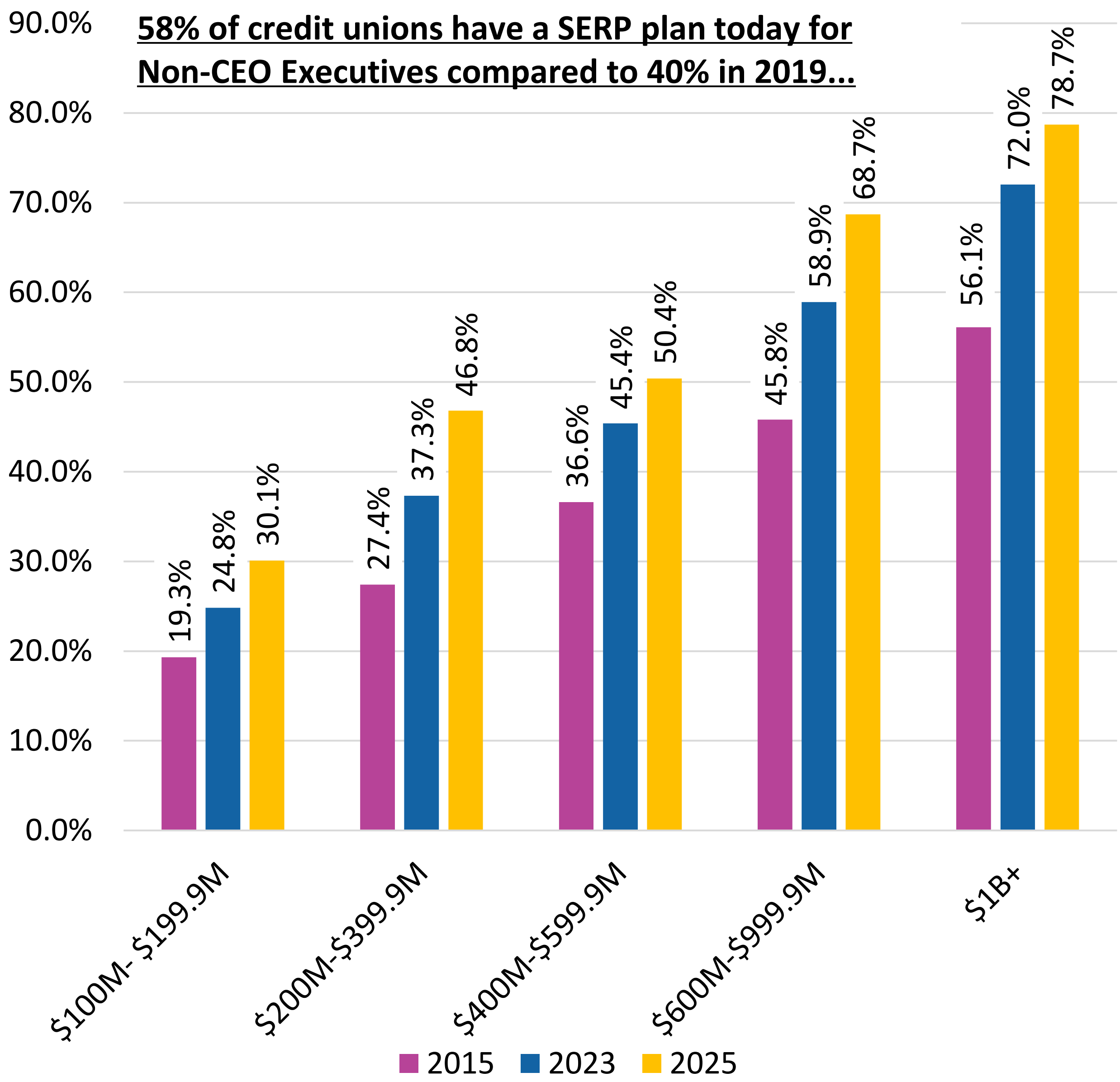
Note: Total Compensation = Base Salary + Variable (Bonus) Pay
Target % includes SERP + qualified plan ER balances + projected SS
Source: 2025/2026 D. Hilton SERP Survey

Total Compensation

Base Salary
+
Variable (Bonus) Pay

Note: Target Benefit is typically a percentage of the previous three to five-year final average total compensation (base salary + variable pay). The Benefit Target is pretax, uses a compensation replacement formula, and is offset by other qualified and non-qualified income sources (e.g., projected social security benefits, projected 457(f) and split dollar distributions, 401(k), etc.).

SERP Plans for Non-CEO Executives



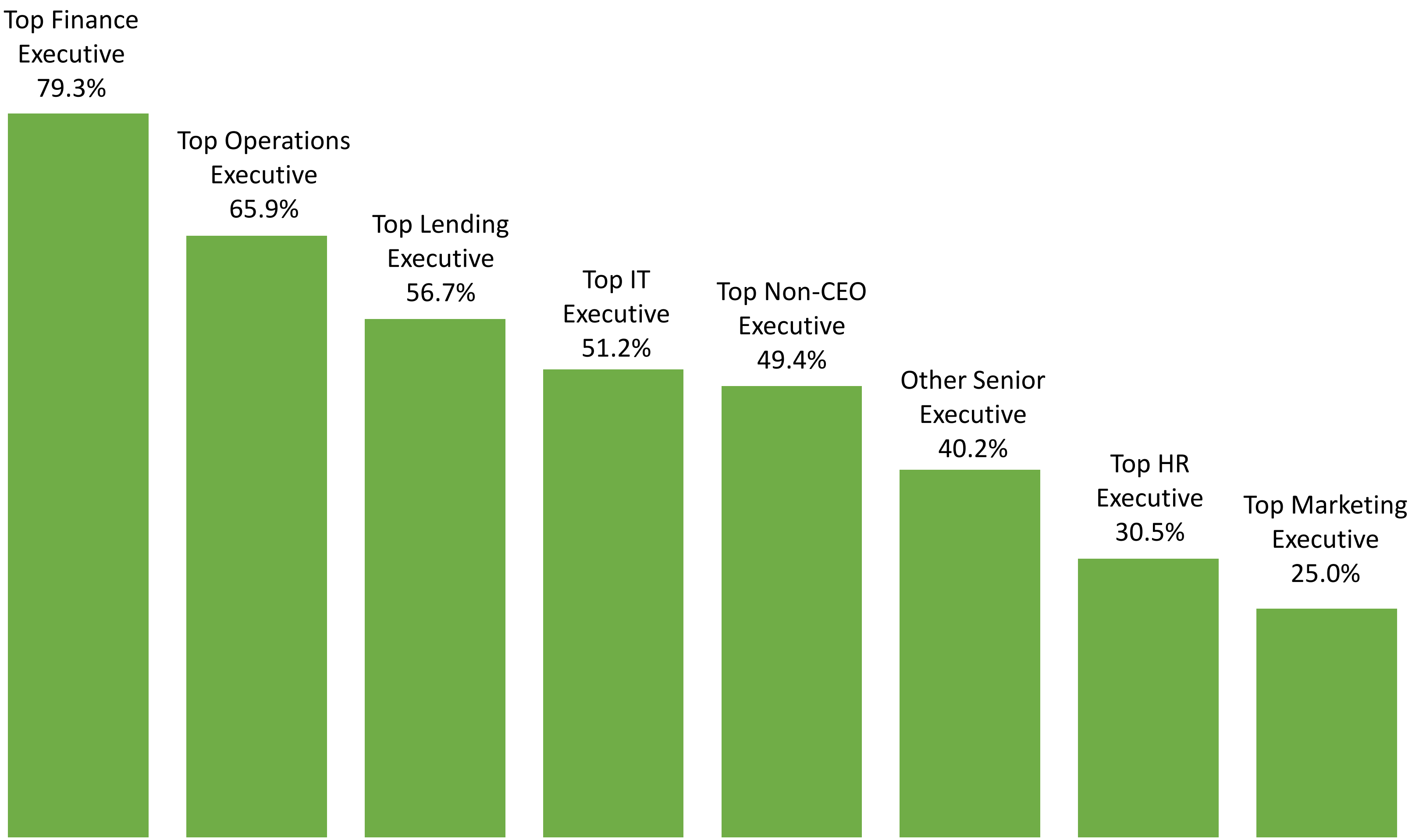
Source: 2025/2026 D. Hilton SERP Survey

SERP Plan growth among Non-CEOs is <u>rising substantially</u>

Typical Roles Include:

- CFO
- CLO
- COO
- CIO

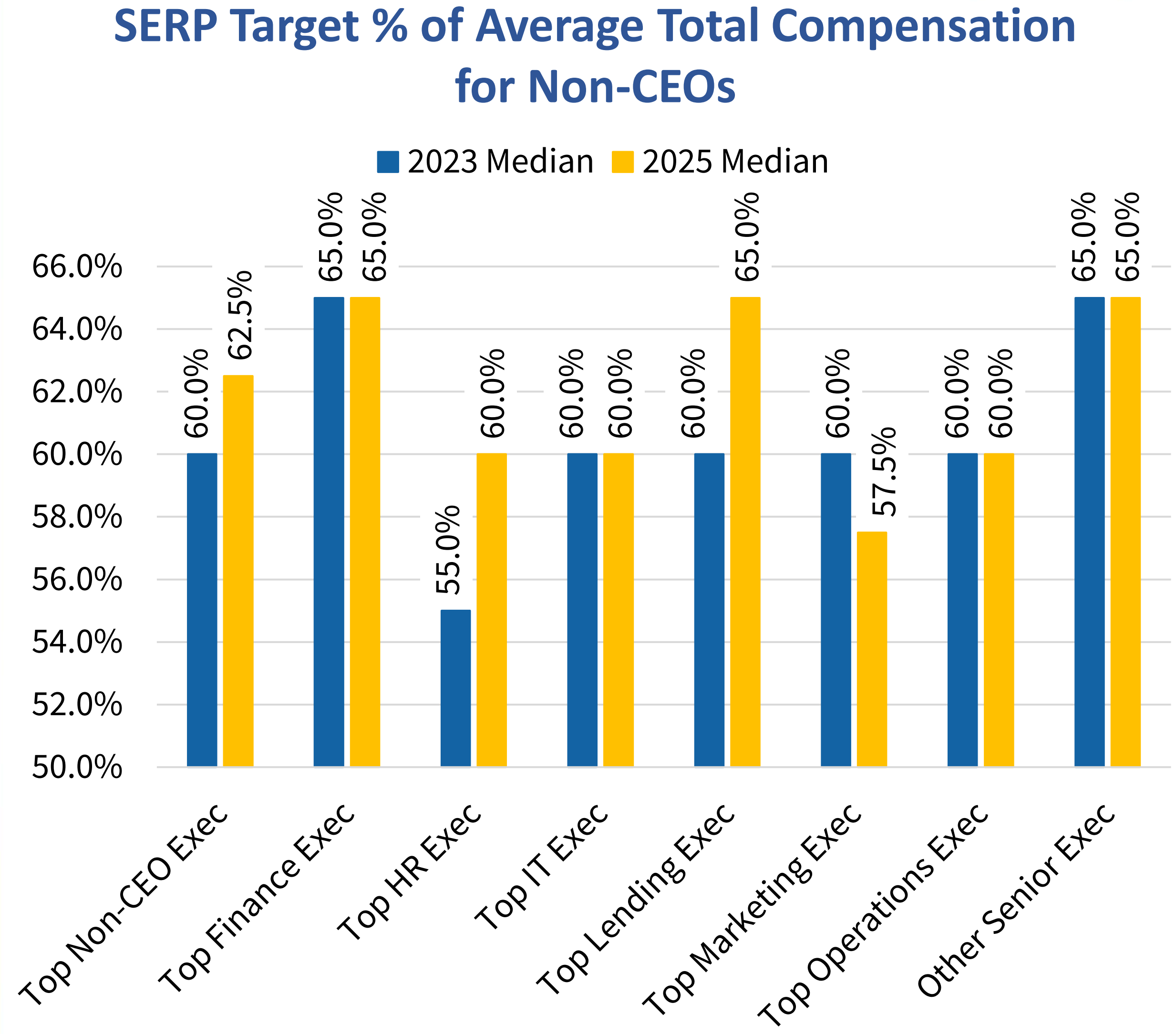
SERP Plans for Non-CEO Executives



Source: 2025/2026 D. Hilton SERP Survey

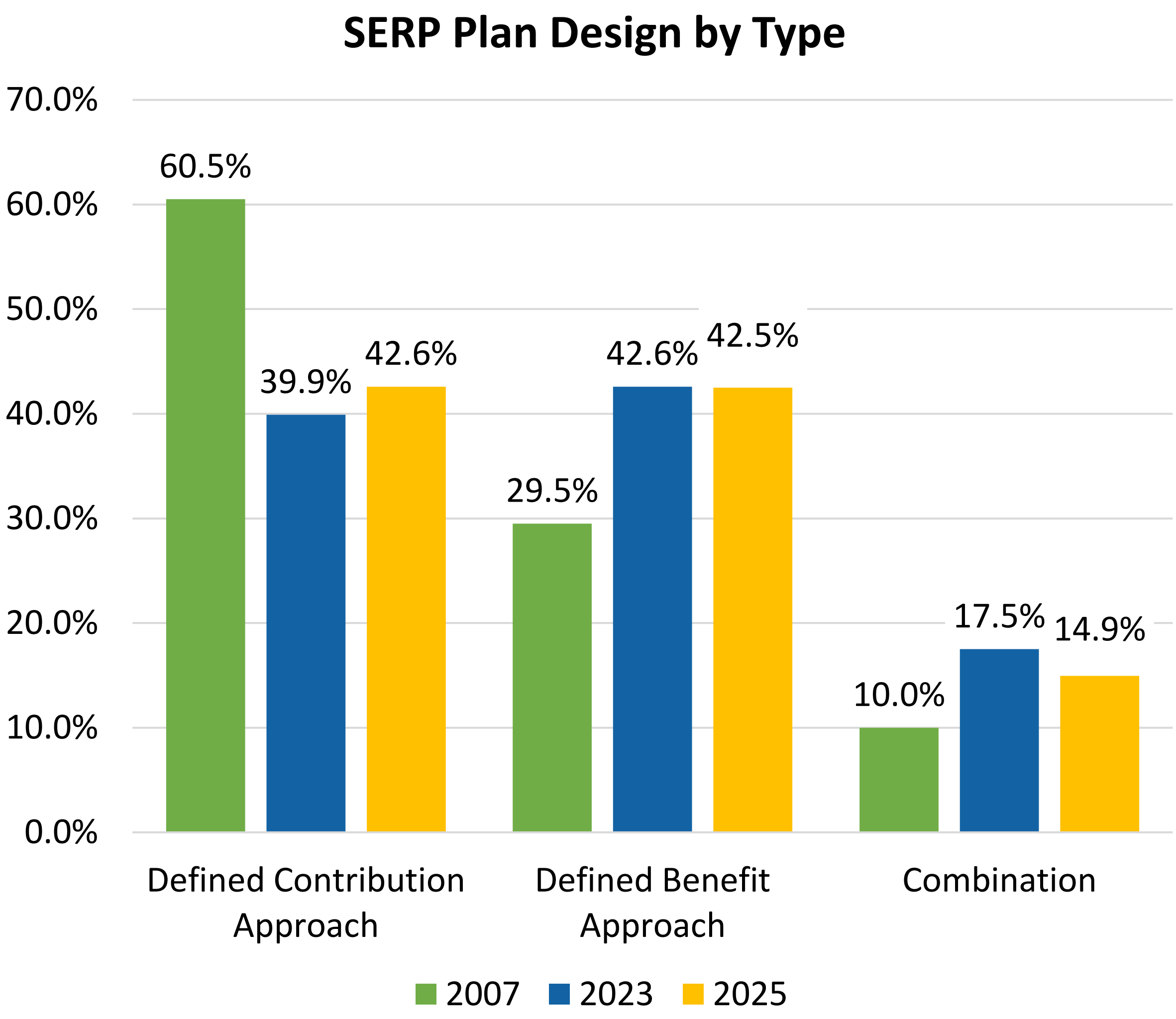
Note. Data represents the percentage of survey respondents who offer a plan to a non-CEO executive.

Target % for Non-CEO plans will continue to rise, especially for successors



Source: 2025/2026 D. Hilton SERP Survey
Note: Total Compensation = Base Salary + Variable (Bonus) Pay

A focus on a Pay-for-Performance Approach will continue to accelerate



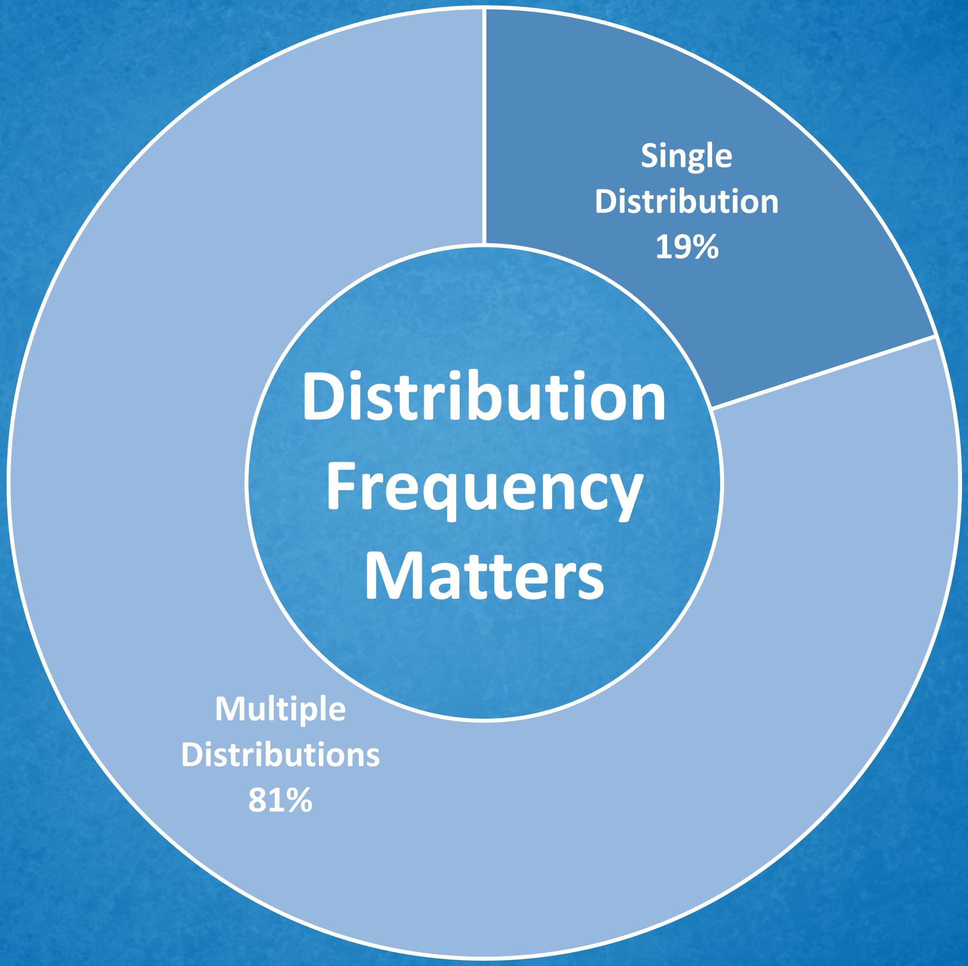
Source: 2025/2026 D. Hilton SERP Survey

- A **Defined Benefit Plan** guarantees a pre-determined dollar amount or a percentage of final average total compensation (base salary + variable pay). The majority of these plans use a compensation replacement formula and are usually offset by other qualified and non-qualified income sources (e.g., projected social security benefit, projected spilt dollar distributions, 401(k), etc.).

- A **Defined Contribution Plan** does not guarantee a specific level of payout. Instead, the contribution accumulates tax-deferred to provide a benefit to the executive based upon SERP investment performance. The retirement liability resides with the executive.

- A **Combination approach** utilizes a guaranteed benefit floor, with the opportunity for a greater benefit amount connected to SERP investment performance.

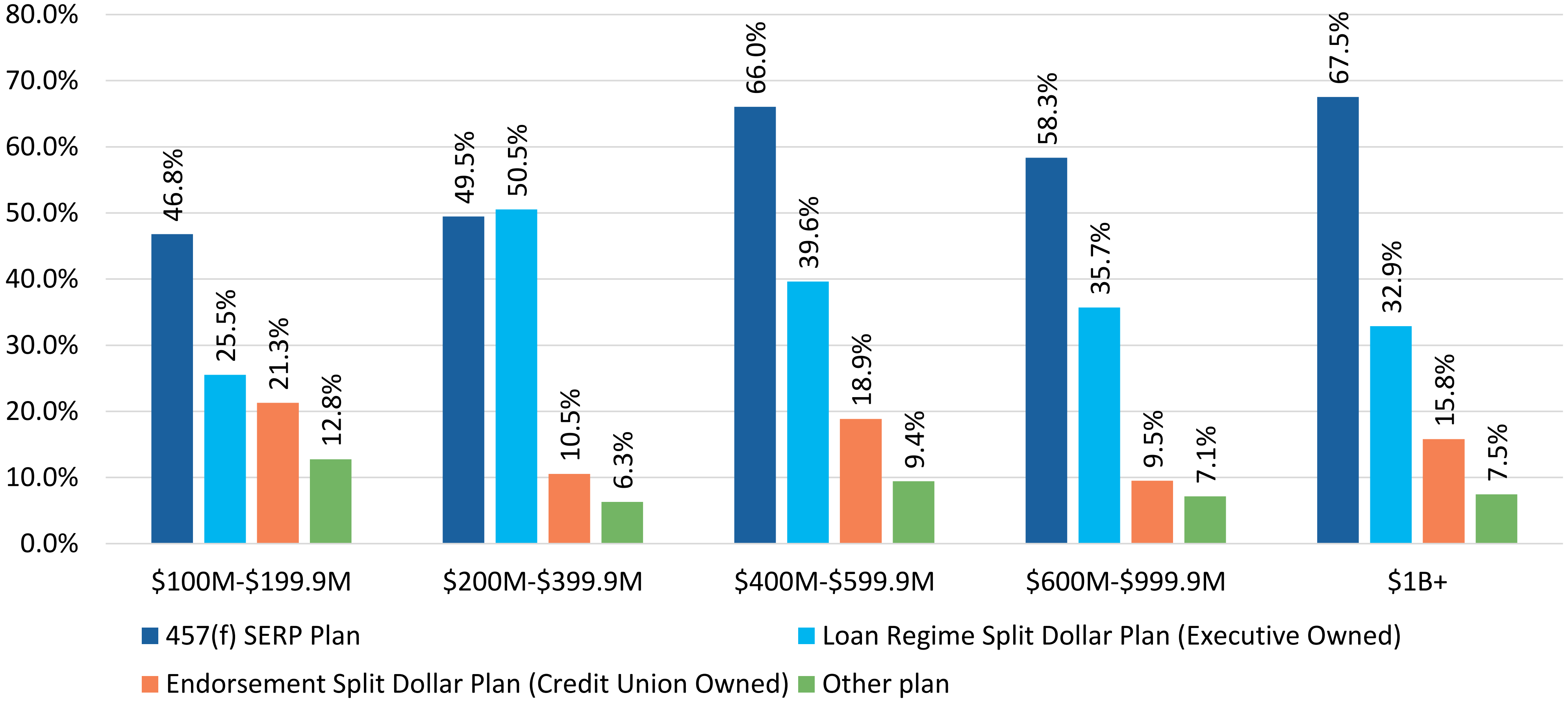
Single Distribution vs.
Multiple Distribution Strategies



Source: 2025/2026 D. Hilton SERP Survey

457(f) SERP Plans are the leading design approach

Plan Type by Asset Size



Source: 2025/2026 D. Hilton SERP Survey

4 Strategic Insights from our 2025/2026 Study

1 **Qualified Plans Do Not Fulfill the Retirement Benefit Gap**

The Impact of 415 Limits on Qualified Plans

Year	Age	Total CEO Comp (Base + Bonus)	IRC 415 Limit	Proj. 401(k) WITHOUT IRC 415 Limit (5.0% Match)	Proj. 401(k) WITH IRC 415 Limit (5.0% of Proj. Limit)	Percentage of Total Comp WITH IRC 415 Limit	Proj. Difference With and Without IRC 415 Limit
2026	48	$700,000	$360,000	$35,000	$18,000	2.57%	**$17,000**
2027	49	$735,000	$365,000	$36,750	$18,250	2.48%	**$18,500**
2028	50	$771,750	$370,000	$38,588	$18,500	2.40%	**$20,088**
2029	51	$810,338	$375,000	$40,517	$18,750	2.31%	**$21,767**
2030	52	$850,854	$380,000	$42,543	$19,000	2.23%	**$23,543**
2031	53	$893,397	$385,000	$44,670	$19,250	2.15%	**$25,420**
2032	54	$938,067	$390,000	$46,903	$19,500	2.08%	**$27,403**
2033	55	$984,970	$395,000	$49,249	$19,750	2.01%	**$29,499**
2034	56	$1,034,219	$400,000	$51,711	$20,000	1.93%	**$31,711**
2035	57	$1,085,930	$405,000	$54,297	$20,250	1.86%	**$34,047**
2036	58	$1,140,226	$410,000	$57,011	$20,500	1.80%	**$36,511**
2037	59	$1,197,238	$415,000	$59,862	$20,750	1.73%	**$39,112**
2038	60	$1,257,099	$420,000	$62,855	$21,000	1.67%	**$41,855**
2039	61	$1,319,954	$425,000	$65,998	$21,250	1.61%	**$44,748**
2040	62	$1,385,952	$430,000	$69,298	$21,500	1.55%	**$47,798**
2041	63	$1,455,250	$435,000	$72,763	$21,750	1.49%	**$51,013**
2042	64	$1,528,012	$440,000	$76,401	$22,000	1.44%	**$54,401**
2043	65	$1,604,413	$445,000	$80,221	$22,250	1.39%	**$57,971**
2044	66	$1,684,633	$450,000	$84,232	$22,500	1.34%	**$61,732**
2045	67	$1,768,865	$455,000	$88,443	$22,750	1.29%	**$65,693**
Projected Total Forfeited due to IRC 415 Limit from 2026 - 2045							**$749,808**

4 Strategic Insights from our 2025/2026 Study

1 **Qualified Plans Do Not Fulfill the Retirement Benefit Gap**

2 **Prime Earning Years Are a Critical Window**

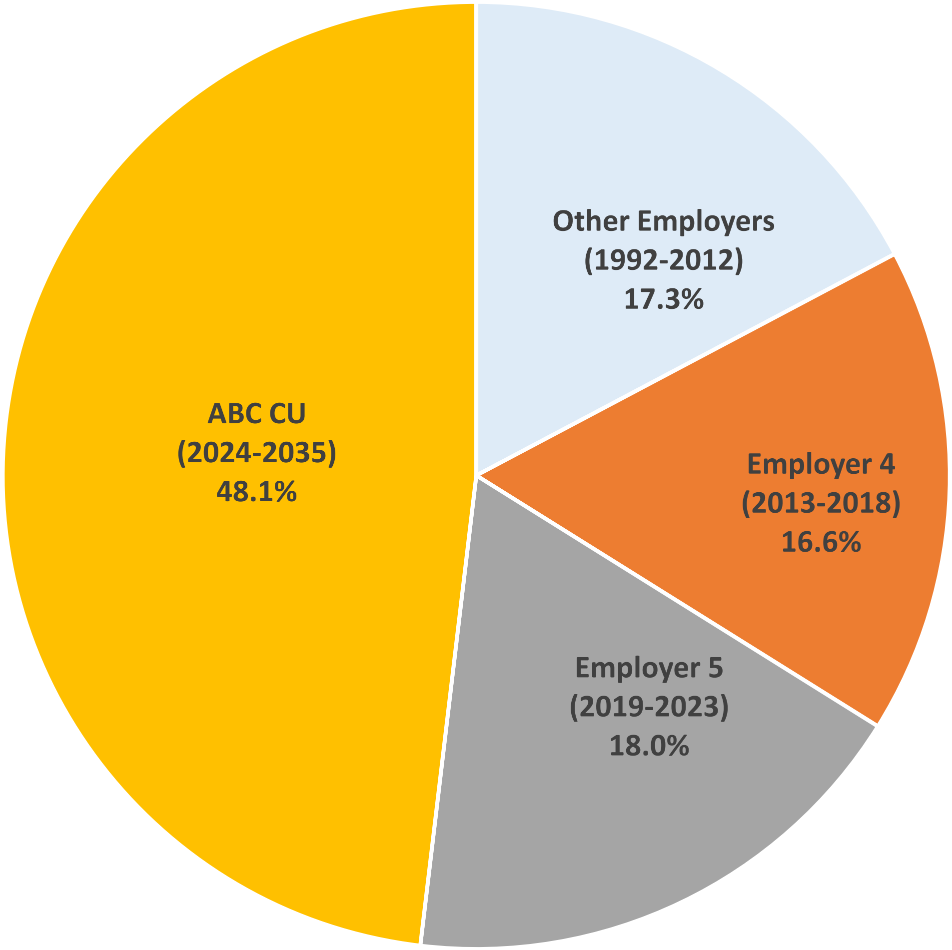
President/CEO

Previous Employers' contributions to Executives' 401(k)

Year	Employer	Positions	Estimated Employer Contributions plus interest
1992-1993	Employer 1	Financial Analyst	$3,262
1994-2003	Employer 2	Sr. Financial Analyst	$60,772
2004-2012	Employer 3	Commercial Bank Analyst Finance Manager VP Finance Manager	$107,934
2013-2018	Employer 4	VP Marketing Strategy SVP Marketing Strategy	$165,832
2019-2023	Employer 5	Chief Marketing and Revenue Officer	$179,440
2024	ABC Credit Union	President/CEO	$25,862
Estimated Total Balances of Employer Contributions plus accrued interest in Executives'401(k)			$543,102

Source: D. Hilton's SERP Practice

Percentage of Career Employer 401(k) Contributions



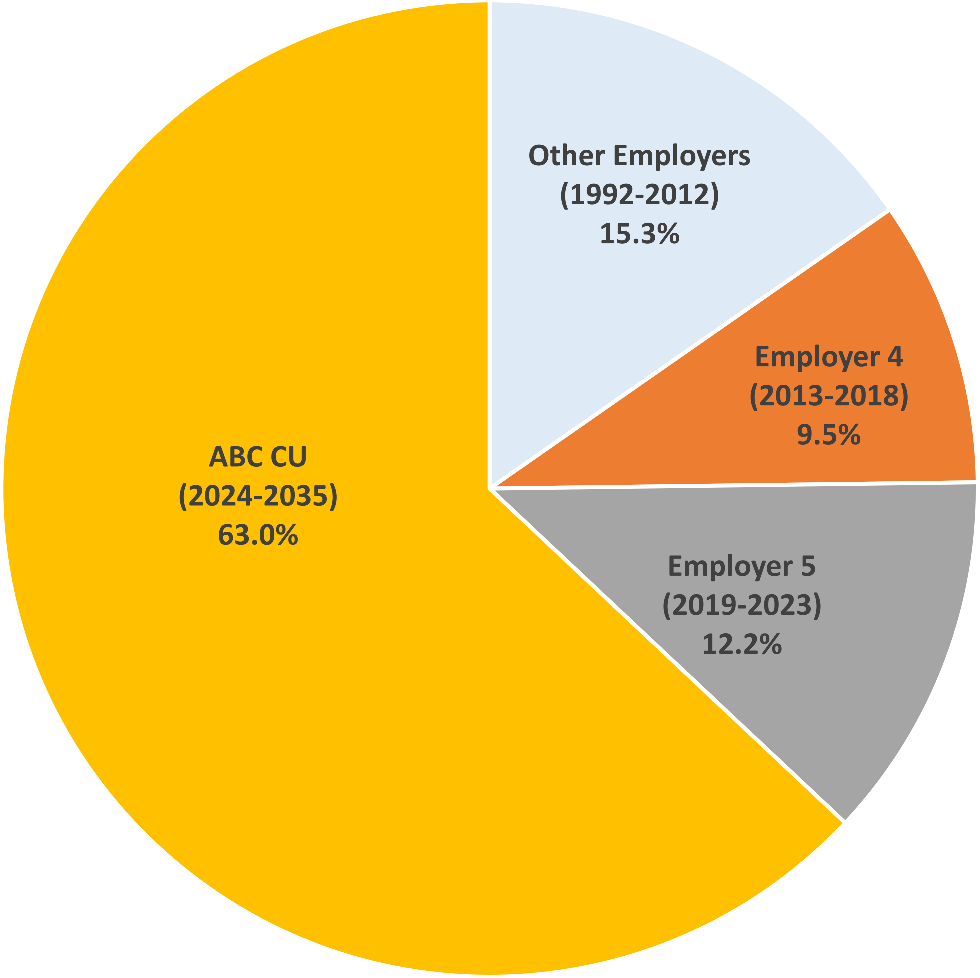
Source: D. Hilton's SERP Practice

D. Hilton Research Findings

Based on the Compensation projections, the Summary Plan Descriptions from each employer, and the projected employer contributions to the executive's 401(k) from 1992 to 2035 (Age 67):

- The first 21 years of their career are estimated to account for 17% of their projected total employer-qualified plan balances.
- The last 23 years of their career are estimated to account for 83% of their projected total employer-qualified balances.

Percentage of Career Total Compensation



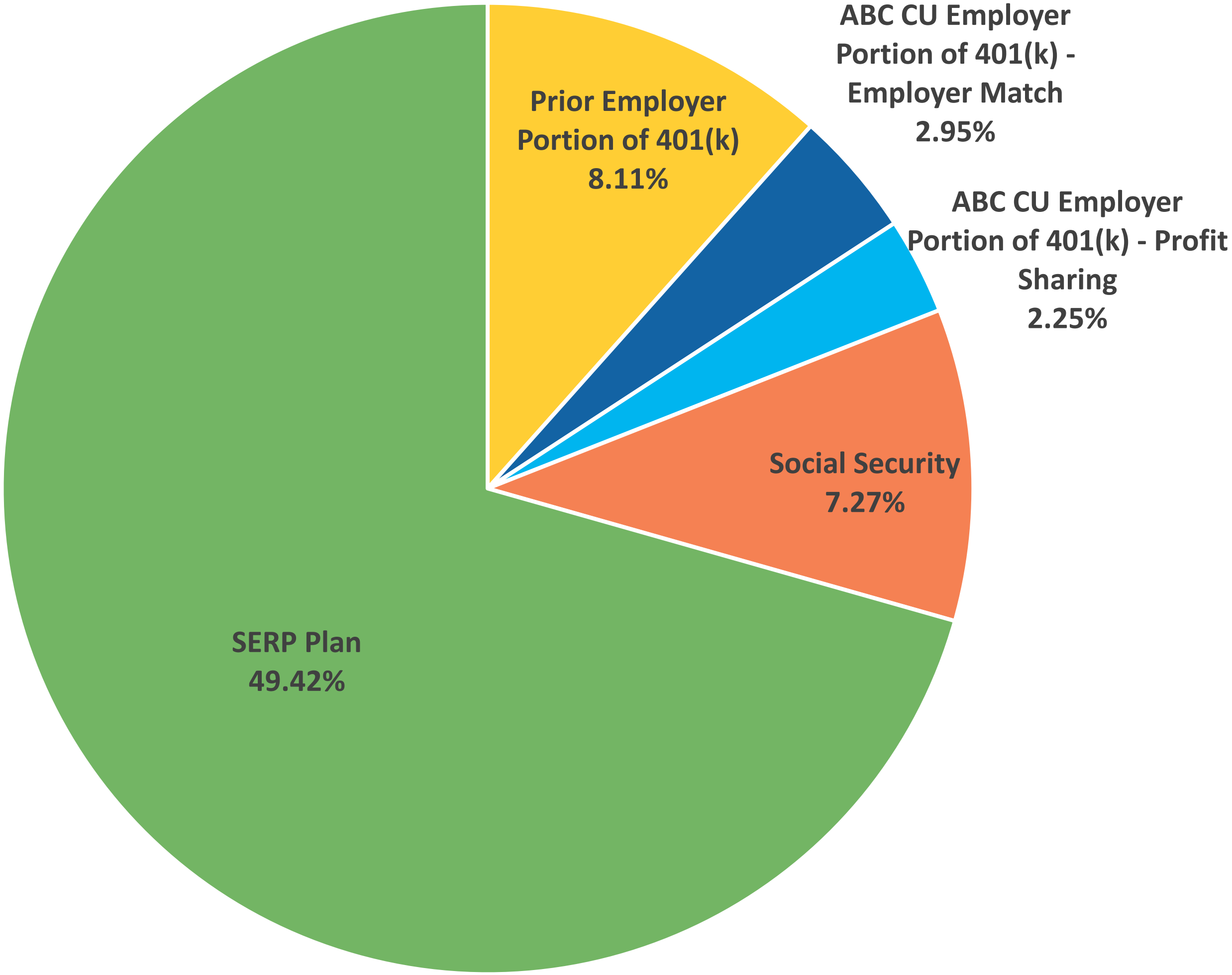
Source: D. Hilton's SERP Practice

D. Hilton Research Findings

Based on the Compensation projections from 1992 through 2035 (Age 67), there is a total of 44 years of salary history:

- The first 21 years of their career is estimated to account for 15% of their projected total earnings.
- The last 23 years of their career is estimated to account for 85% of their projected total earnings.

Components of the ABC CU SERP Plan (70% Target)



Source: D. Hilton's SERP Practice

4 Strategic Insights from our 2025/2026 Study

1 Qualified Plans Do Not Fulfill the Retirement Benefit Gap

2 Prime Earning Years Are a Critical Window

3 SERP Plans Must Be Fluid and Flexible


One Size Does Not Fit All!
4X as many Recruiting Candidates w/ Defined Contribution Plans vs. Defined Benefit Plans.

4 Strategic Insights from our 2025/2026 Study

1 Qualified Plans Do Not Fulfill the Retirement Benefit Gap

2 Prime Earning Years Are a Critical Window

3 SERP Plans Must Be Fluid and Flexible

4 Retention Remains the Core Objective

SERP Program Milestones

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
CEO	64	Age 65 SERP Payment 5 of 6		Age 67 SERP Payment 6 of 6						
CFO	52	53	Age 54 $500k	55	56	Age 57 $2M	58	59	Age 60 60% = $3M	61
CTO	49	50	Age 51 $500k	52	53	54	Age 55 $1.5M	56	57	58
CRO	46	47	Age 48 $500k	49	50	51	Age 52 $750k	53	54	Age 55 50% = $2M

Source: D. Hilton's SERP Practice

SERP Plan Revisions can be Expected

- **Revised target retirement date** (extend an executive commitment to the organization).
- **Growth and mergers** modifying peer group and **growth and sophistication** of the business.
- **Succession plan design**.
- **Promotion or transition** of a key executive.
- **Revision in original design assumptions** (e.g., compensation projections, rate-of-return modifications, longevity increases, social security estimates, etc.).
- **Greater tenure and value** to the organization.
- **Excise tax** minimization.

Source: 2025/2026 D. Hilton SERP Survey

SERP Plan Design Elements

Executive Information

- Date of Birth
- Date of Hire
- Date of Promotion
- Current Position/Title
- Anticipated Retirement Date/Age
- Employment Offer/ Contract

Total Cash Compensation

- Current Base Salary
- Proj. Future Base Salary increases
- Most Recent Variable Pay Amount
- Current Variable Pay/ Bonus Target Percentage
- Other Bonus Plans or LTIPs

CU Retirement Benefits

- Existing Qualified Plans: 401(k), Profit Sharing, MPP, DB/ Pension Plan, Employer Balances
- Non-Qualified Plans (457(b), Existing SERP or Split Dollar Benefits)

CU Factors

- Employee Benefit Guide
- Organizational Chart
- Job Descriptions
- Compensation Philosophy
- State or Federal Charter

Other Factors

- IRS Compensation Limitations /Impact to Qualified Plans
- Longevity
- Projected Social Security Benefit
- Existing or Prior Distributions from CASD or
- 457(f) SERP Distributions

Five Steps for a Successful SERP Program

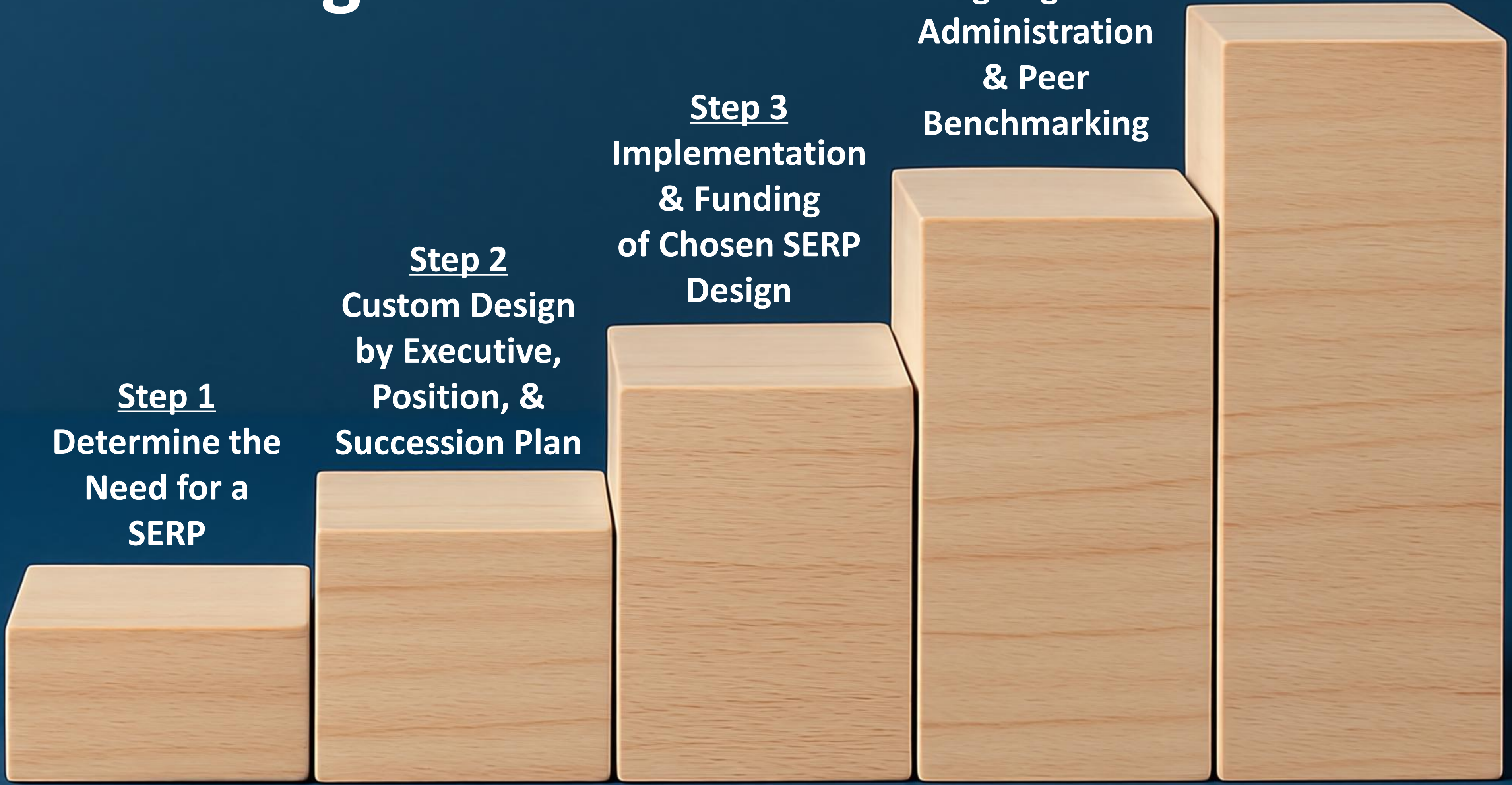
Step 1
Determine the Need for a SERP

Step 2
Custom Design by Executive, Position, & Succession Plan

Step 3
Implementation & Funding of Chosen SERP Design

Step 4
Ongoing SERP Administration & Peer Benchmarking

Step 5
The Board's Regular Review & Involvement



The Best Way to Protect Your Most Valuable Executive Assets?

ONGOING EDUCATION

Ongoing education on the subject of executive compensation and benefits trends.

SUCCESSION

Honest conversations regarding Succession for the CEO and other Senior Executives.

ONBOARDING

Onboarding for new Board members on the plan history, objectives and the Board's intentions.

FREQUENT PLAN REVIEWS

Frequent reviews of the plan against peer benchmarks.

THIRD PARTY VALIDATION

Third party validation that the plan design remains competitive.

EXECUTIVE REVIEWS

Annual reviews with individual executives to review design and reinforce the value the plan provides.

Contact Information

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Addendum:

Definitions, Compliance, Regulatory Oversight, Fiduciary Responsibility
&
Components of a Competitive SERP

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Definitions, Compliance, Regulatory Oversight and Fiduciary Responsibility

- **IRC 457(f) Plans**
  - Internal Revenue Code 457(f) addresses supplemental executive retirement plans (SERP) used in the not-for-profit community sector and are similar to Non-Qualified Deferred Compensation in the corporate (taxable) business sector.
  - Allow discrimination among employees.
  - By design are subject to substantial risk of forfeiture and constructive receipt rules.
  - Have no contribution limits, other than "reasonable" compensation.
  - Distributions are treated as ordinary income.
  - The Board of Directors/Employer is the fiduciary in the plan administration and oversight.

- **IRC 409A**
  - Adopted as part of the American Jobs Creation Act of 2004.
  - Covers many types of compensation arrangements, including traditional deferred compensation plans and employment agreements that provide for severance pay or other post-employment benefits.
  - Under IRC 409A, deferred compensation may be paid only upon certain of the following payment events:
    - Separation from service.
    - Disability.
    - Death.
    - A specified time or fixed schedule.
    - A change in control event.
  - The Executive/beneficiary must be prohibited from participating in the oversight and/or administration of the benefit to prevent triggering a taxable event.
  - The Board of Directors/Employer is the fiduciary in the plan administration and oversight.

Definitions, Compliance, Regulatory Oversight and Fiduciary Responsibility

- **NCUA Rule 750**
  - Created in response to the continuing financial problems facing federally insured credit unions, the National Credit Union Administration Board (the "NCUA") published Rule 750 which prohibits certain federally insured credit unions ("FICU") from making golden parachute payments and indemnification payments to an "institution-affiliated party" or an "IAP".
  - Became effective June 27, 2011, and can be found at this link: http://www.gpo.gov/fdsys/pkg/FR-2011-05-26/pdf/2011-12827.pdf.
  - This final rule is meant to help protect the National Credit Union Share Insurance Fund.
  - Limitations on indemnification payments apply to all federally insured credit unions, including state chartered credit unions, regardless of their financial health.
  - NCUA Rule 750 applies to any SERP that is newly created or amended after June 27, 2011.

- **NCUA regulation 701.19(c)**
  - "A federal credit union investing to fund an employee benefit plan obligation is not subject to the investment limitations…and may purchase an investment that would otherwise be impermissible, if the investment is directly related to the federal credit union's obligation or potential obligation under the employee benefit plan and the federal credit union holds the investment only for as long as it has an actual or potential obligation under the employee benefit plan."
  - When asked to clarify whether prefunding employee benefits is allowed, the NCUA affirmed that federal credit unions could participate in such prefunding for specified future employee benefits obligations. Federal examiners review prefunding programs annually and, as a result, have reaffirmed prefunding compliance with NCUA regulations.
  - Benefits prefunding is most commonly utilized for: 401(k) match contributions; Group life and health insurance expenses; Long-term and short-term disability expenses; Defined benefit (pension) plan contributions; Post retiree health benefit plan funding; 457(f) SERP benefit expenses.

Components of a Competitive SERP

Topic	Peer Competitive Recommendations
Base and Variable Pay Compensation	50th percentile to 75th percentile of peers.
Average Compensation Calculation	Average of last 5 years total cash compensation (base + variable).
Targeted SERP Benefit	XX% to XX% of final average total cash compensation (base + variable).
Targeted Benefit Offsets	Employer contributions (projected balances) to qualified retirement plans Previous SERP Distributions Other NQDC plans Projected Social Security benefits at full retirement age
Targeted Final Benefit Age	65 to 67 years of age.
Distribution Schedule	Multiple distributions at key age milestones (e.g., 55, 60, 62, 65, 67) or career milestones (e.g., 10, 15, 20-year tenure) to encourage retention and enhance credit union's long-term succession planning.
Benefit Structure	Guaranteed minimum SERP benefit with the opportunity for larger payouts through pay-for-performance system tied to total compensation.

Components of a Competitive SERP

Topic	Peer Competitive Recommendations
Assumed Base Increases + Variable Targets	Based on historical average increases.
Investment Yield Assumption	XX% to XX% (dependent on age and length of time to retirement).
Longevity	Social Security Administration longevity calculator
Accelerated Distributions	Definitions and formulas to be used in the event of termination resulting from: Pre-retirement death Pre-retirement permanent disability Involuntary termination other than "for cause" Voluntary termination for "good reason" Termination other than "for cause" following change in control/merger Termination other than "for cause" following change in control/board
Forfeiture	Termination "for cause" or voluntary resignation "not for good reason" results in forfeiture.
"Clawback" Provision	Include in SERP agreement as within 24 months of a benefit distribution.

Components of a Competitive SERP

Topic	Peer Competitive Recommendations
Tax Liability	All tax liability can reside with the executive but depends on plan design.
Plan Review	Annual basis at minimum.
NCUA Rule 750	Acknowledged in SERP agreement.
Severance Payments	If relevant, typically used as an offset against any accelerated SERP distribution.
Employment Agreement	If relevant, should be coordinated with SERP agreement to complement and strengthen retention.
Short Term Deferral	Included in the SERP agreement as a strategy to remove the deferred compensation in question from Code Section 409A coverage.

SERP Agreement Trigger Events Summary Definitions:

Trigger Event	Definition
Death	▪ Death of the executive.
Disability	▪ Disability prevents the executive from performing the essential duties of the job by reason of any medically determined physical or mental impairment that can be expected to result in death or last for a continuous period of not less than 12 months.
Change in Control Merger	▪ In the event the executive is involuntarily terminated other than 'for cause' or voluntarily terminates for 'good reason' within 24 months after a merger, conversion or acquisition of the credit union with into or by another financial institution and the credit union is not the surviving entity.
'Good Reason'	▪ The executive voluntarily terminates employment following a significant negative change of job responsibilities, title or compensation, as outlined in Subsection (n) (2) of Treasury Regulations Section 1.409a-1.
'Without Cause'	▪ All other involuntary terminations not 'for cause' or as a result in a Change in Control Merger, as defined above.
Change in Control Board	▪ If involuntarily terminated or terminated for 'good reason' within 24 months of a turnover in the Board of Directors (50% or greater turnover).
'For Cause'	▪ See contract for full list of qualifying details but generally results in the inability of the executive to materially perform assigned duties (e.g., commits a felony).

SERP Financial Impact Example

SERP Plan Design

- Determine SERP amount & timing.
- ***Example:*** Executive to receive $2.0M in 4 years.

Investment

- The credit union can only invest in agency bonds, but under NCUA 701.19 the credit union's investment authority is expanded when proceeds are used to pay for employee benefits.
- ***Example:*** Move $10M of existing credit union assets (cash, bonds, etc.) to Mutual Funds, ETFs, etc. With an assumed 5.00% return, the projected investment earnings equals the $2.0M distribution.

Accounting

- Accrue $2.0M SERP expense over 4 years.
- Book $2.0M investment earnings.
- Resulting net impact is $0.
- There will be market volatility.
- ***Example:*** Executive receives $2.0M in SERP Distributions. $10.0M investment is reallocated and/or used to fund future SERPs or Benefit Expenses.

Excise Tax

- The 2017 Tax Cuts and Jobs Act that passed on December 22, 2017 includes a section (Section 13602) related to executive compensation for all applicable tax-exempt organizations. The Act states that an **excise tax of 21% will be imposed on all applicable tax-exempt organizations for any withholdable compensation greater than $1,000,000 in a single year.**

- On January 19, 2021, the Federal Register published IRS guidance that states that 501(c)(1) organizations are exempt from the excise tax. Federal credit unions are 501(c)(1) organizations.

  https://www.federalregister.gov/documents/2021/01/19/2021-00772/tax-on-excess-tax-exempt-organization-executive-compensation

- State chartered credit unions are 501(c)(14) organizations so technically are not exempt. However, state-chartered credit unions are federal instrumentalities in that they have federal insurance and are regulated by both the state and NCUA. Because there is typically parity between federal and state regulations, there will likely be further revision or elimination all together to provide parity between federal and state charters regarding this issue. Trade associations both in the CU industry and other not-for-profit industries (e.g., public and private universities, etc.) are already lobbying on this lack of parity. Given the administration's intention to further overhaul the 2017 tax regulation, we could see this become a moot point if the entire bill is eliminated or significantly gutted.

- On February 11, 2021, NAFCU flags that while all credit unions are considered applicable tax-exempt organizations under the final rule, federal credit unions exempt under section 501(a) of the IRC are exempt from paying tax owed under section 4960, until further guidance.

- Ogletree Deakins (SERP counsel) agrees that federal credit unions are excluded from the excise tax under Section 4960 of the Internal Revenue Code under the final Treasury Regulations. Further guidance from the IRS regarding state-chartered credit unions will be needed.

- The credit union should consult their audit firm for guidance on reversing excise tax accruals and ceasing any future accruals for excise tax.

457(f) Plan

In a **457(f) Plan,** the credit union has complete ownership and control of the plan. Any returns in excess of the executive's guaranteed benefit typically belongs to the credit union. The plan investments can easily be transferred to another executive or used as "seed money" in the recruitment of another executive. While taxes are typically the responsibility of the executive, the credit union can choose to design a 457(f) Plan where distributions are net of taxes and account for some or all of the tax liability.

457(f) Plan Advantages

- **Diversification –** a 457(f) Plan allows the ability to customize each executive's plan based on their unique situation and the credit union's succession plan design.
- **Greater Executive Retention –** because the executive benefit is tied to performance of the credit union and executive, a 457(f) Plan enhances the retention of the executive while encouraging performance. Multiple interim distributions are also easily achieved, further enhancing the executive retention goal of the plan.
- **CU Owned –** a 457(f) Plan is owned and controlled by the credit union, allowing the Board of Directors the ability to make changes to the plan design and plan participants at its discretion.

457(f) Plan Challenges

- **Taxation –** while funds grow tax deferred until distribution, upon constructive receipt and once distributed to the executive, the benefit is taxed to the executive as ordinary income.
- **Balance Sheet Impact –** a 457(f) Plan gain or loss typically passes to the balance sheet and can fluctuate based on market conditions. Insurance investments may offer a minimum guarantee of returns on premiums or principal.
- **Excise Tax Potential –** the 457(f) benefit is part of ordinary executive income.

Loan Regime Split Dollar

In a **Loan Regime Collateral Assignment Split Dollar (CASD) Plan**, the executive owns the life insurance policy, not the credit union. Therefore, the executive has the authority on the policy once it is in place. To pay the premiums on the policy, the credit union makes one or multiple loans to the executive to cover the total cost of the annual premiums on the life insurance plan. Loan(s) to the executive by the credit union will be charged loan interest. The executive signs an agreement giving the credit union collateral assignment of the life insurance until the loans are repaid. Loan repayment is typically paid out of cash values at retirement or tied to the death of the executive.

Loan Regime Split Dollar Plan Advantages

- **Taxation –** the executive may be able to take policy loans against the life insurance tax free. This is based solely on interpretation of current tax law.
- **Balance Sheet Impact –** because the plan is a collateralized loan, there is no impact to the credit union's balance sheet. The CU's loan policies may need revision to adhere with the plan design.
- **Excise Tax Potential –** there is no income generated to the executive from the plan benefit other than any double bonus provided to the executive as an imputed tax gross up.

Loan Regime Split Dollar Plan Challenges

- **Plan Performance Risk –** the executive benefit is assumed at inception but all risk regarding the competitiveness of the retirement benefit liability and the investment performance falls on the executive, not the credit union.
- **Weak Executive Retention –** the executive can either walk away from the policy at any time or through a negotiated benefit with another employer, repay the credit union their loans.
- **Potential Lack of Liquidity –** terminating this plan can be costly due to surrender charges, legal expenses and limitations imposed by the insurance company.

What is a Hybrid SERP Plan Design?

A **Hybrid SERP Plan** is a nonqualified deferred compensation plan design with two components; an IRC **457(f) plan that is defined benefit in design** and a **loan regime collateral assignment split dollar plan (CASD) that is defined contribution in design**. The 457(f) plan provides the foundation and guarantee for multiple interim distributions throughout the executive's career and if needed, acts as a backstop to any potential shortfall in the Split Dollar distribution (in the example to follow, this is at the 17th Anniversary). Should the loan regime Split Dollar plan meet or exceed the design projections, the 457(f) plan payment at the distribution date would be $0.

It is possible that the future Split Dollar benefit would fall short of projections due to design assumptions changing. Examples of assumption changes could include executive compensation increasing beyond what was projected or the life insurance earnings being lower than projected. In this case, the 457(f) plan would fulfill the balance of the shortfall, keeping the overall SERP defined benefit in design and meaningful to the executive, while supporting the credit union's retention, retirement, and succession plans.

Loan regime Split Dollar plans typically need 10+ years of cash value accumulation to provide a benefit and recover the credit union's premium loan amount. In the case where an executive has less than 10 years until retirement, a 457(f) plan design is the preferred design methodology.

Hybrid SERP Plans (457(f) and Loan Regime Split Dollar) are a Design Option…

<table>
<tr><th colspan="8">Hybrid SERP Plan Sample Illustration</th></tr>
<tr><th>Milestone</th><th>5 Year Anniversary</th><th>10 Year Anniversary</th><th>15 Year Anniversary</th><th colspan="2">17 Year Anniversary</th><th>20 Year Anniversary</th><th>22 Year Anniversary</th></tr>
<tr><td>Age</td><td>50</td><td>55</td><td>60</td><td colspan="2">62</td><td>65</td><td>67</td></tr>
<tr><td rowspan="2">Benefit</td><td rowspan="2">457(f) Interim Distribution

$350,000</td><td rowspan="2">457(f) Interim Distribution

$500,000</td><td rowspan="2">457(f) Interim Distribution

$500,000</td><td>457(f) Interim Distribution</td><td>Loan Regime Split Dollar Benefit</td><td rowspan="2">457(f) True-up Distribution Equal to

70% Total Comp</td><td rowspan="2">457(f) True-up Distribution Equal to

75% Total Comp</td></tr>
<tr><td colspan="2">Equal to 65% Total Comp</td></tr>
</table>

Designing or Redesigning existing plan(s) to ensure they keep up with the success of the credit union and the competitive compensation landscape is key.

40 YEARS

d. hilton associates inc.