

10TH Annual

Total Rewards Symposium 2024



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A Volunteer Master Class

Responsible Executive Compensation in Times of Economic Uncertainty

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BEST BOOK

Irresistible: The Seven Secrets of the World's Most Enduring, Employee-Focused Organizations

Josh Bersin

BEST POD

Song Exploder

Hrishikesh Hirway

BEST BINGE

Slow Horses

Executive Vice President

D. Hilton Associates, Inc. (39 years)

Emerson College

MA, Organizational Communication

University of Tulsa

BS, Communication

SHRM

Senior Professional in Human Resources Designation

World-at-Work

Certified Sales Compensation Professional

Certified Compensation Professional

Where is our program most vulnerable to member and community criticisms?

But What About in Tough Times?

Ex-Citi Bankers Urge Board to Claw Back Hundreds of Bonuses

- Letter to board criticizes slow turnaround, heavy spending
- Citi spokesperson says letter contains 'factual inaccuracies'

By Todd Gillespie

October 31, 2024 at 10:18 AM CDT

Updated on October 31, 2024 at 11:08 AM CDT

- Many credit unions face the fact that their exec earn more than many of their members and volunteers.
- While it's an apple-and-oranges comparison, it's still an emotional and highly-charged issue.
- An exec comp committee must be able to document the value the executive management team's performance.

It's Pay for Performance, Right?

Good Times...Tough Times...Just Times

In a crisis, you channel focus by:

- Creating alignment

- Clarifying objectives

- Setting strategy

- Establishing priorities

- Defining accountabilities

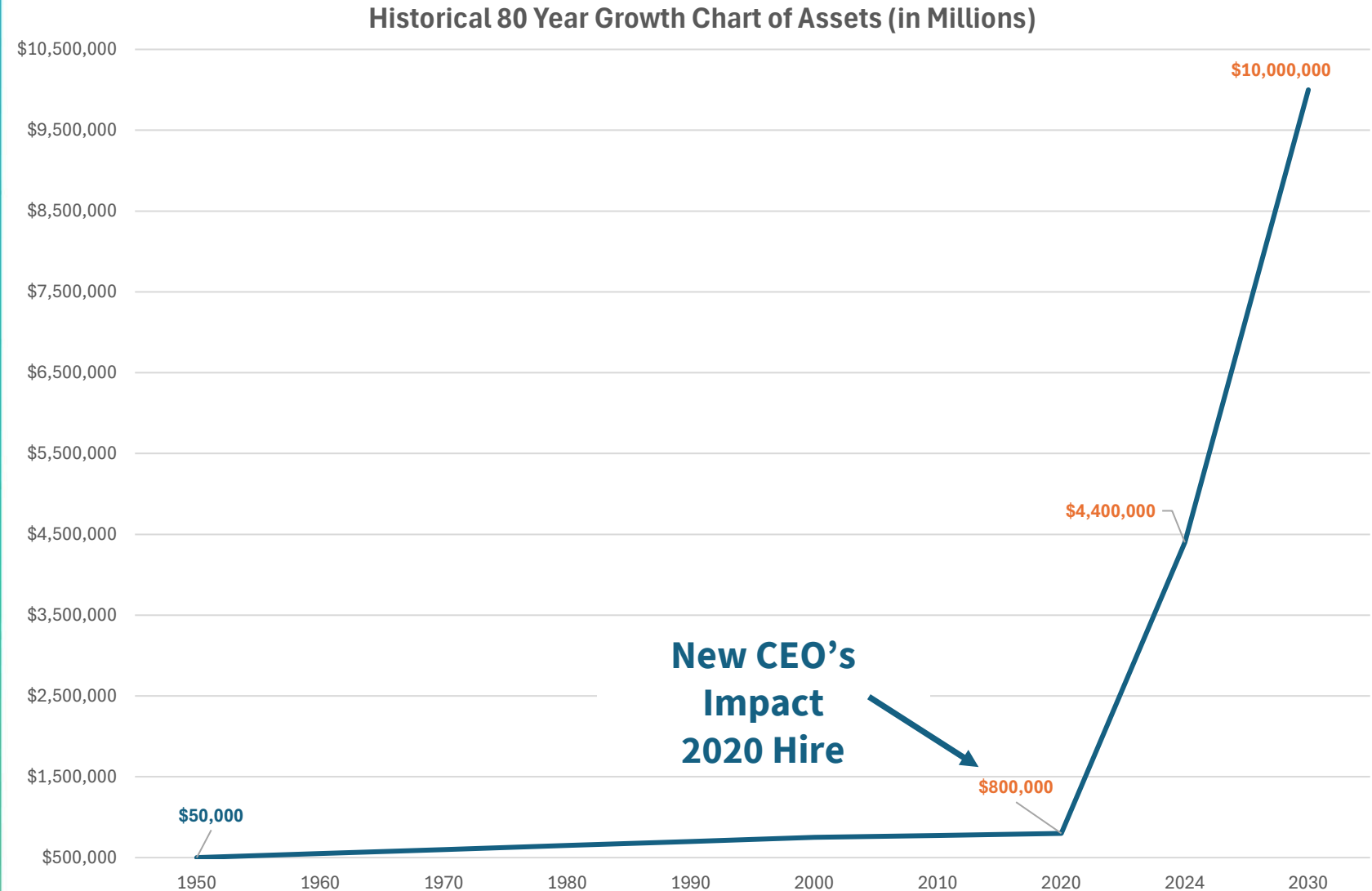
- Motivating performance

- Doubling down on mission and values

**Are we compensating our
leaders as business managers,
or are we expecting them to be
visionary heroes?**

The Right CEO at the Right Time

Impact vs. Activity



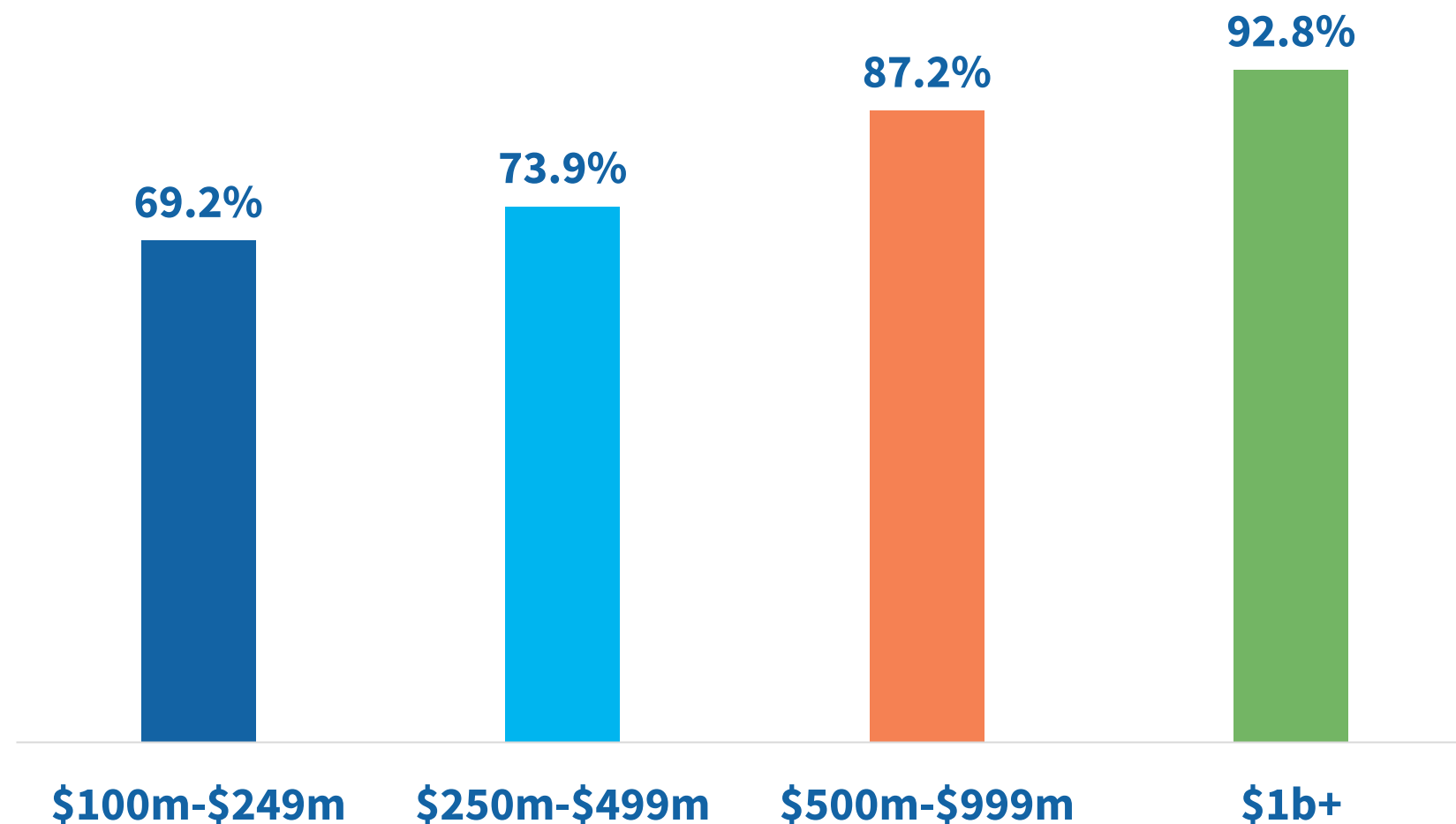
BEST PRACTiCE

**more than a formula
to pay a bonus**



Use of Incentive Plans

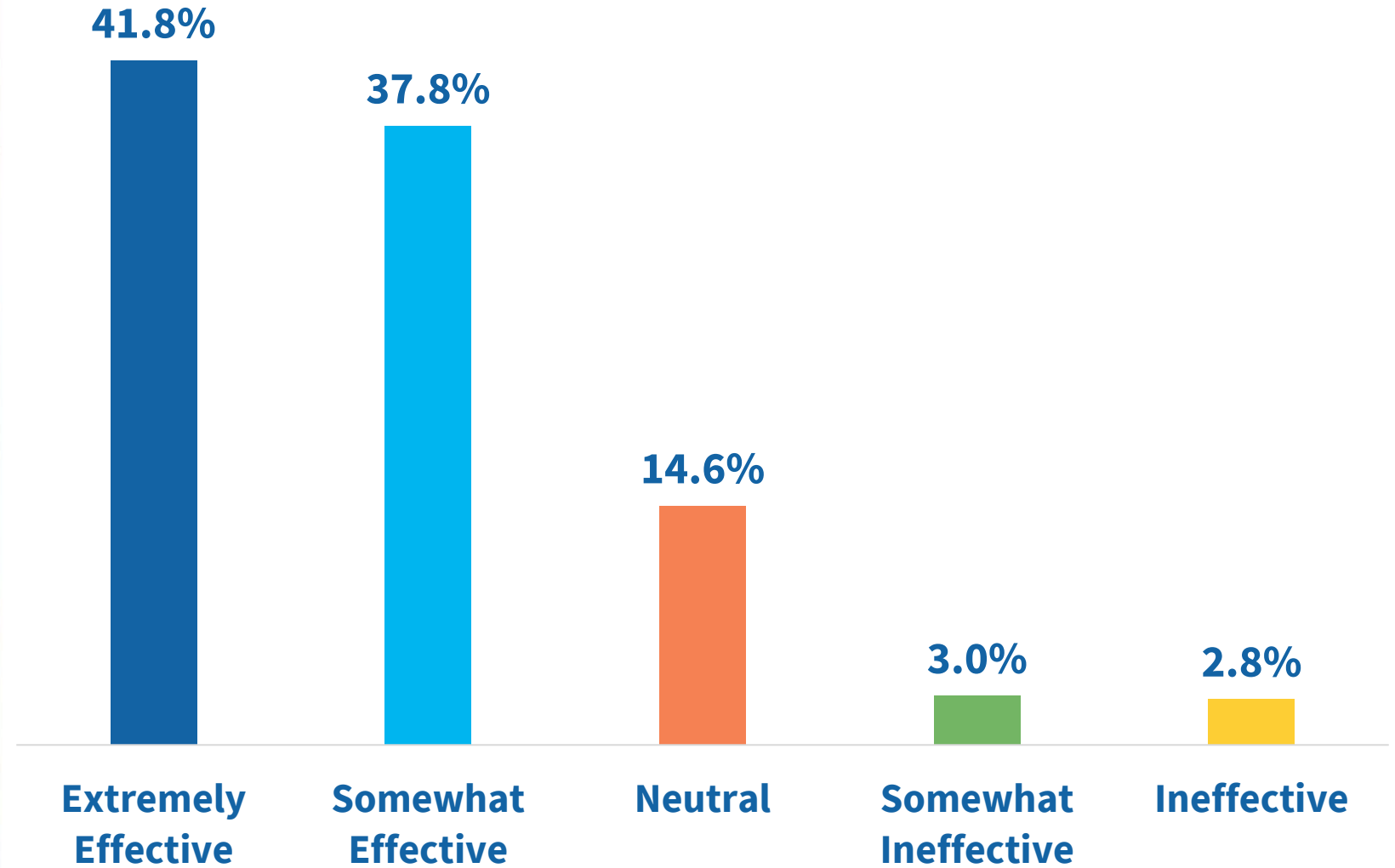
CEOs with an annual bonus/incentive plan by assets



Source: Proprietary D. Hilton Board Survey Database

Effectiveness of incentive plans

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Source: Proprietary D. Hilton Board Survey Database

It's not so much what a credit union pays its executives, it's what the credit union pays for

A credit union that links executives' pay to performance is executing the strongest governance principles.

1 out of 5

CEOs did not accept/receive a
payout due to voluntary action or
plan-designed circuit-breakers

51%

CEOs received **lower**
Board Evaluation Scores

How CEOs fared in 2023

2023 Scorecard Results
68% CUs were
Below Target

The biggest challenges:

- Mortgage revenue fell off
- Liquidity issues increased borrowing
- Allowance for Loan Loss was a wild card
- New member growth momentum slowed
- Mbr engagement vs. Brand (mbrs were tougher critics)

Return on Assets
44% Below Target

Capital
63% Below Target

Misery Index
92% Below Target

Current Design Trends

Measuring success in three dimensions

(past, present and future)

Examining guiding principles

(mission, alignment, accountability, engagement)

How much responsibility should the C-Suite accept for poor performance?

(exploring circuit breakers and clawbacks)

Why do we start over every year?

(Incorporating EVA principles into your program)

80% of CEOs agree that financial indicators alone do not fully capture their company's strengths and weaknesses—in part because they reflect only past performance

Source: Deloitte Touche Tohmatsu



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The Heavy Lifting is Done During Planning

- Board oversight is the primary responsibility.
- Spend more time assessing strategic options that were considered and rejected – not just the path that was taken.
- Monitoring from the perspective as to whether the strategy is really working.
- Once-a-year discussion doesn't cut it anymore.
- Use timely metrics that will give early indications when strategy isn't delivering the promised results.
- Be willing to initiate change where necessary – close the loop.

Strategy:
Don't Just
Approve It -
Measure It,
Check It,
Change It.

Workshop Time!



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Measuring success in three dimensions

PAST

PRESENT

FUTURE



How would you approach...



Past Metrics

Three Dimensions



PAST

MARKET DYNAMICS

TECHNOLOGY DISRUPTION

REGULATORY CHANGES

COMPETITIVE LANDSCAPE

MEMBER PREFERENCES

CREDIT QUALITY

OPERATIONAL EFFICIENCY

EXTERNAL EVENTS

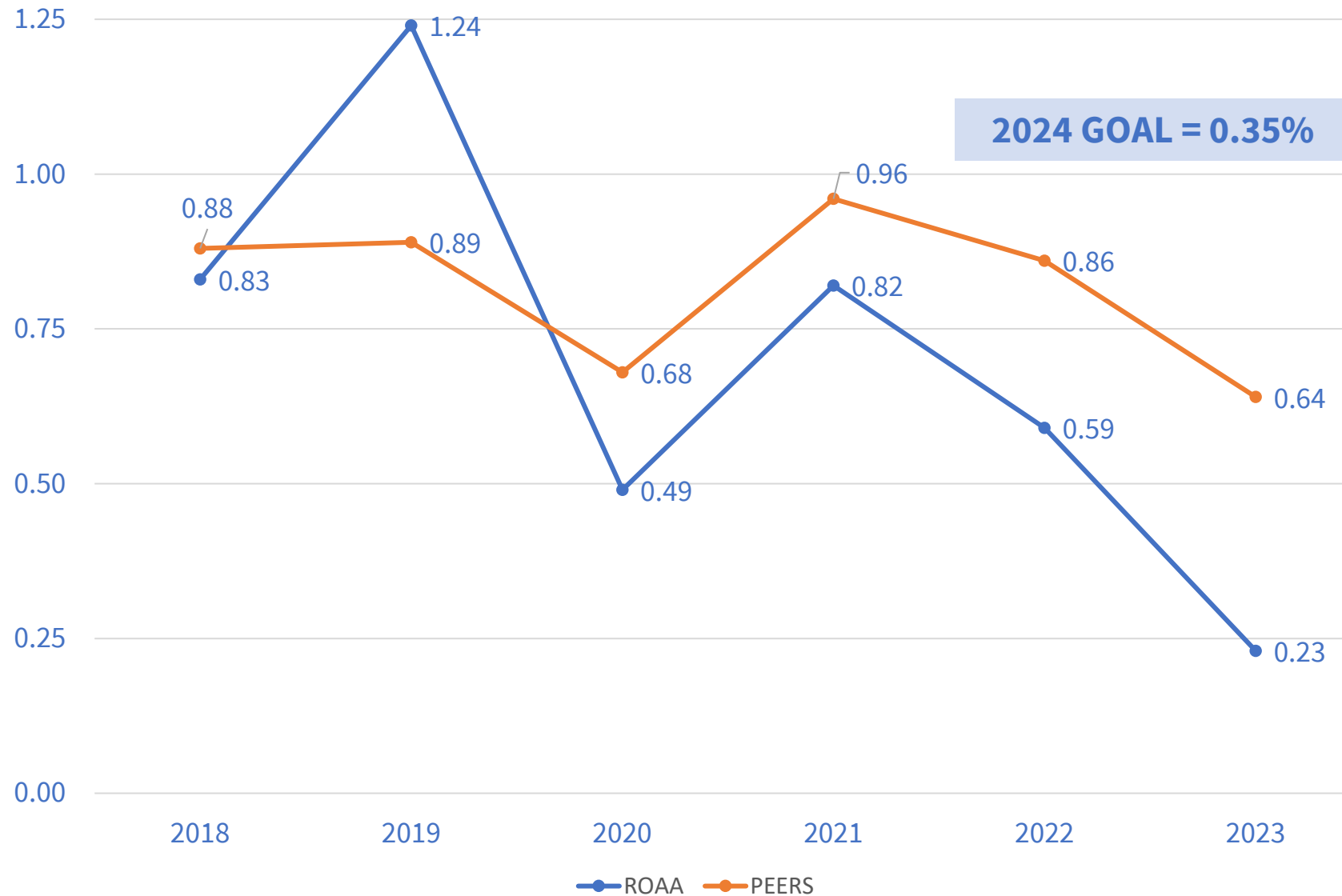


PRESENT



FUTURE ACTIVITY VS. IMPACT

So You Like Historical Comparisons?



So You Like Historical Comparisons?

	ROAA	PEERS	3-YR AVG
2018	0.83%	0.88%	
2019	1.24%	0.89%	
2020	0.49%	0.68%	0.85%
2021	0.82%	0.96%	0.85%
2022	0.59%	0.86%	0.63%
2023	0.23%	0.64%	0.55%
2024 A	0.35%		0.39%
2024 B	0.40%		0.41%

**How would you
approach...**

**Current
Metrics**



Three Dimensions



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PRESENT



FUTURE ACTIVITY VS. IMPACT

ECONOMIC CHANGES
REGULATORY CHANGES
MARKET TRENDS
PERFORMANCE VARIANCES
STRATEGIC INITIATIVES
RISK MANAGEMENT
MERGERS AND ACQUISITIONS
INTERNAL FACTORS
UNEXPECTED EVENTS

A photograph of a rustic wooden plank bridge crossing a small stream. The bridge is made of weathered, greyish-brown wooden planks laid horizontally. The stream is visible through the gaps between the planks, with some green plants growing in the water. The banks of the stream are covered in lush green vegetation, including grasses and small flowers. A blue rectangular box with white text is centered over the middle of the bridge.

Peer Benchmarking Pitfalls

So You Like Peer Comparisons?

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Rank	State	Name	ROA	ROC	EFFICIENCY RATIO	AVG CAP/ASSTS	TTL ASSETS (billions)
1	CA	Bank of America	1.98%	14.73%	47.42%	13.45%	\$8.0
2			1.93%	18.64%	53.86%	10.34%	\$7.4
3			1.55%	13.32%	54.90%	11.61%	\$8.5
4			1.53%	9.17%	48.00%	16.66%	\$8.8
5			1.48%	20.97%	65.29%	7.05%	\$7.5
6			1.47%	30.23%	52.94%	4.87%	\$6.2
7			1.40%	14.99%	60.66%	9.34%	\$7.5
8			1.36%	13.05%	59.18%	10.42%	\$13.4
9			1.31%	11.42%	65.01%	11.46%	\$8.8
10			1.26%	14.12%	61.53%	8.96%	\$18.0
40	TX	JP Morgan Chase	0.37%	5.79%	76.39%	6.39%	\$12.9
41			0.29%	4.25%	88.03%	6.89%	\$9.0
42			0.24%	3.10%	72.14%	7.85%	\$16.8
43			0.18%	3.28%	88.14%	5.50%	\$13.6
44			0.12%	1.27%	81.79%	9.40%	\$10.0
45			0.09%	0.98%	60.83%	9.24%	\$8.2
46			0.06%	0.72%	88.91%	8.81%	\$7.7
47			0.06%	0.76%	91.23%	7.50%	\$11.9
48			0.04%	0.72%	90.09%	5.63%	\$7.1
49			0.00%	0.01%	83.04%	7.85%	\$6.8
50	TX	Wells Fargo	-0.56%	-7.02%	74.09%	7.93%	\$11.4
Top 50 AVG			0.75%	8.34%	68.55%	8.99%	\$10.4



**How would you
approach...**

**Employee
Engagement**

**How would you
approach...**

**Future
Metrics**

Three Dimensions



PAST



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FUTURE ACTIVITY VS. IMPACT

NEW PRODUCT REV AS A % OF REV

NEW MBR GROWTH/NEW MARKETS/NEW PRODUCTS

NEW DELIVERY CHANNEL USAGE AS A % OF OVERALL
DELIVERY CHANNEL USAGE

CONVERSION RATIOS FOR NEW CHANNELS

A group of people are working on a wooden structure outdoors, likely a community project. In the foreground, a person is kneeling and working on a wooden beam. Other people are visible in the background, some standing and some working. The scene is set in a sunny, open area with trees and a clear sky. The text "How would you approach..." is overlaid on the top left, and "Community Involvement" is overlaid on the bottom right.

**How would you
approach...**

**Community
Involvement**

Activity Metrics

The foundation you need to dig before you can start constructing the building the organization wants.

- ✓ Show you have been busy
- ✓ Moved through various milestones
- ✓ Typically non-financial metrics

Impact Metrics

If activity metrics are the foundation, you can think of impact metrics as the building that eventually rises out of that foundation.

- ✓ Tangible results delivered to the organization or its members
- ✓ Usually financial metrics

**How would you
approach...**

**Performance
Management**



Driver	Weight	Threshold 20%	Target 30%	Stretch 40%	2024 Budget / Rationale
Return on Assets	20%	0.12% - 0.14%	0.15% - 0.20%	> 20%	0.18%
Capital Ratio	10%	9.25% - 9.49%	9.50% - 9.75%	> 9.75%	9.65%
Delinq + Charge-Offs	05%	1.35% - 1.01%	1.00% - 0.65%	< 0.65%	1.00%
Net Promoter Score (NPS)	10%	56 – 57	58 - 62	> 62	Goal is 60
Membership Growth	10%	5.00% - 5.49%	5.50% - 6.00%	> 6.00%	‘22 = 5.73%
Strategic Plan Execution	25%	Minimal Expect	Met Expect	Exceed Expect	Meet Expect
eNPS	10%	10 – 29	30 - 45	> 45	Budget = Target
CEO Eval (5 pt scale)	20%	3.50 - 3.99	4.00 - 4.40	> 4.40	4.25 Baseline

A man in a dark suit, white shirt, and dark tie is shown in profile, looking towards the right. He is wearing black-rimmed glasses. On the left side of the image, four hands are visible, each pointing its index finger towards the man. The hands belong to people wearing different clothing: a dark jacket, a white shirt, and a dark jacket. The background is a plain, light-colored wall.

**Should plans have
discretion?**

**How much responsibility should the
C-Suite accept for poor performance?**

AND THE WINNER IS...



Current Design Theory

Examining Guiding Principles

(mission, alignment, accountability, engagement)



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Top Metrics Trends

How Boards are
defining/measuring success

KPI

Business

Management

Balanced
scorecard

Strategy

Target

Key
Performance
Indicator

Goals

Decision

Top Drivers



Rank	Driver	%
1	Board Satisfaction	98%
2	Return on Assets	85%
3	Capital Ratio	83%
4	Strategic Plan	78%
5	Misery Ratio	78%
6	Net Promoter Score	76%
7	Member Growth	49%
8	Loan Market Share	44%
9	Operating Efficiency	32%
10	Employee Engagement	22%

New Metric Trends

85% of credit unions use **EARNINGS** as a driver

More **Circuit Breakers**

Asking **Deeper Questions**

(where did growth come from? organic, mergers, indirect)

Employee Sat/Engagement

(particularly useful for new CEO, first-time CEOs & Mergers)

Strategic Plan / Project Execution

(activity vs. impact)

New Metric Trends

EARNINGS

Net Income, 3-Year Rolling ROAA, ROE

GROWTH

Target Market Growth, Net Checking Growth, Net Member Growth, Member Penetration, Loan/Deposit Market Share (Beat)

Member Satisfaction

(New vs. Overall), NPS, Highly Engaged Households, Member Effort, Member Engagement

Operational Efficiencies

OpExp Ratio, Efficiency Ratio, Misery Index

Innovation New product rev as a % of old product rev, new members generated from new markets/new products, new delivery channel usage as a % of overall delivery channel usage, conversion ratios for new channels

It's Pay for Performance, Right?

Guiding Principle 1: Fulfilling our mission

More risks today, but have fundamentals really changed?
Do member fulfillment expectations ever regress?
When should we modify how we measure/success?

Guiding Principle 2: Alignment

We have no problem sharing gain – what about pain?
Exec Compensation must align with member/employee interests

Guiding Principle 3: Accountability

While it may be necessary to reset goals, extend performance ranges, introduce shorter performance periods, change performance measures, exercise discretion and implement new incentives, all of this must be done in ways that hold executives accountable for their actions and results.
Discretionary is dangerous (Only 15% of formula at most).

Guiding Principle 4: Engagement

Exec Compensation must reward and recognize in all climates.
Incentives can adapt to new economic realities and mission-critical goals.
Performance goals, ranges and payout curves can be re-examined.
Key value drivers will need to be re-assessed.

Mission captures why the credit union exists, reaffirms its values with its stakeholders and its strategy & objectives

Mission: Staying true to the credit union's purpose and strategy over the long term, while adjusting in the short term

Well-Being: Health and safety of employees, volunteers, members and contractors

Survival: Ensuring the credit union continues to exist and provide value to stakeholders

Crisis management: Business continuity plans, deliberate and calm decision making

Purpose ensures management is aligned with and acting in the best interest of members and all stakeholders

Governance: Principle-based decision making with stronger board discretion

Members: Discounts and payment terms

Employees: Executives make sacrifices similar to employees in terms of pay decisions

Community and Vendors: Grants and donations and payment commitments

Regulators: Satisfying associated requirements

Accountability
describes
relationship between
pay elements,
performance,
individual actions
and governance
systems

KPIs: Agreeing on strategic priorities, but dynamically target-setting given uncertainties

Financial Goals: ROA, Capital, Cost Containment, Spending Initiatives

Cash Preservation: Employing critical workforce priorities, delaying merit increases, suspending bonuses, hiring freezes

Retention: Special programs for critical talent, hazard pay, increased frequency. Maintaining a healthy, high performing and sustainable workforce.

Engagement
encapsulates human
behaviors,
motivation and
member focus

Leadership: Instill confidence, deliberate calm and bounded optimism

Communication: Proactive and transparent engagement with members, employees and local communities

Resilience: Document learning from outcomes of crisis to longer-term executive compensation strategies

**Why do we start over every year?
Incorporating Economic Value Added principles
into your variable pay program**

**START
AGAIN**



Why the **soft stuff**
is just as important as
the hard stuff

Circuit Breakers

Serve as a crucial risk management tool, helping reinforce prudent decision-making, accountability, and long-term value creation.

Circuit breakers contribute to a more balanced and sustainable approach to executive compensation.

Performance Thresholds

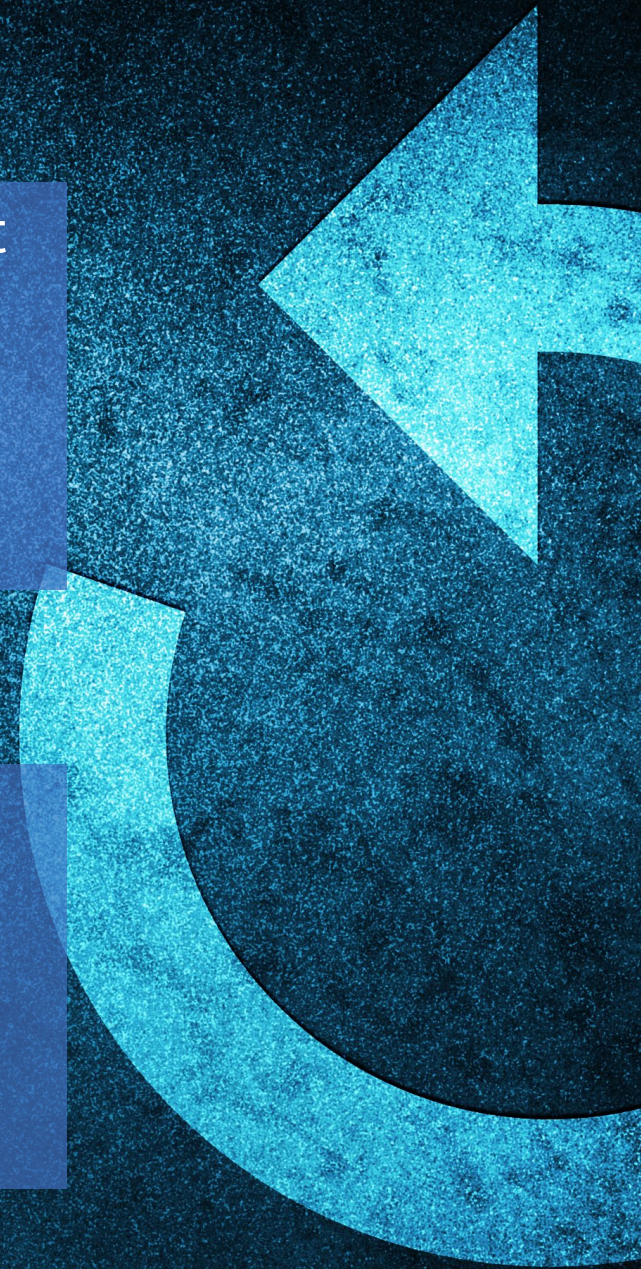
Adjustment Mechanisms

Risk-Adjusted Compensation

Board Discretion

Communication/Transparency

Regulatory Mandates



Clawbacks



Public Company Trends
(beyond financial restatements)

- 20% Inappropriate Conduct (i.e., Hartford's "Misconduct Rule")
- 51% Breaches of Company Policies/Legal Requirements
- 49% Breaches of Fiduciary Duty or Fraud
- 33% Misconduct with Reputational or Financial Harm
- 29% Administrative Enforcement (allow administrators to enforce comp recovery)
- 24% Termination for Criminal Resolutions

Clawbacks



It's important to outline specific triggers, procedures, and processes for initiating clawback actions. These provisions help promote accountability, risk management, and alignment of comp with long-term credit union interests.

Financial Misstatement

Risk Management Failures

Performance Metric Errors

Termination for Cause

Misconduct/Breach of Duty

Regulatory Violations

Failure to Achieve Long-Term Goals

FOOD
FOR
THOUGHT

Recap

An Executive Compensation Committee Work Primer

Key Questions to Ask Annually

- Ensure the executive compensation program is market competitive (competitive with the national credit union and community banking markets).
- Ensure the executive compensation program is reasonable (being within peer group compensation as well as performance parameters).
- Ensure the executive compensation program is defensible should the program be called into question (providing a means to support a pay practice that may otherwise be misunderstood or misinterpreted).

Philosophy

- ***How does our philosophy support our strategic vision/culture?***
Have pay strategies rewarded executives for protecting the elements of the member experience while making our brand more valuable?
- ***What is our compensation mix in terms of base salary, variable pay, benefits and retirement/retention programs?***
True pay-for-performance ensures that pay programs provide meaningful rewards and consequences and doesn't change the rules too often if things are not going as planned.
- ***Are we able to recruit and retain the right people?***
The key to long-term executive continuity is securing existing executive talent and rewarding them for success.

Design Concepts

- ***Are our programs fundamentally competitive in terms of components, mix and levels?*** It's a good bet that if you know they are great, the marketplace knows it as well. Ensuring you retain these types of individuals is the best business decision and should take greater precedence over internal equity.
- ***Where is our program most vulnerable to member and community criticisms?*** Many credit union execs earn more than many of their members and volunteers. An executive compensation committee must be able to document the value of the executive management team's performance.

Performance Leverage and Risk

- ***Do we have an appropriate linkage between pay and performance?*** There is a sweet spot when it comes to establishing variable pay targets as a percentage of base pay. If the target is too small, it is not motivational. If it's too large, it lends itself to allegations of encouraging too much risk-taking.
- ***Do we set threshold and maximum performance goals commensurate with pay opportunities?*** Committees should think of establishing three success points not just one. All-or-nothing targets (cliffs) can be demotivational should executives determine that they cannot be reached.

Retention and Severance

- *Does our program promote the retention of top talent?*
- *Do we have a sound business purpose and rationale for our severance agreements?*
- *Do our committee minutes accurately and completely reflect our process, analysis and decisions?*
- *Do any of committee members have a conflict of interest?*