

Total Rewards Symposium 2024



d. hilton associates inc.

D. Hilton's Longitudinal Retention/Retirement Research Update



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BEST BOOK

How to Know a Person by David Brooks

BEST POD

Acquired

BEST BINGE

BritBox or Acorn TV

Executive Vice President

D. Hilton Associates, Inc. (28 years)

President & Founder

D. Hilton Financial Services, Inc. (25 years)

SHRM

Senior Professional in Human Resources Designation

Licenses

FINRA Series 7, Series 24, Series 63, Series 65, Series 66, Life and Health Insurance licenses

University of Houston

Bachelors of Science



Brian Kidwell, SPHR

Executive Vice President

D. Hilton Associates, Inc.

Brian@dhilton.com

BEST BOOK

All Things Stephen King

BEST POD

Bloomberg Odd Lots

BEST BINGE

All Things Star Wars

Executive Vice President

D. Hilton Associates, Inc. (24 years)

Texas State University

MBA, Market Research

Texas Tech University

BBA, Management

SHRM

Senior Professional in Human Resources Designation

Licenses

FINRA Series 7, Series 66, Texas Life and Health Insurances

slido

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What was your favorite part of last night?

① Start presenting to display the poll results on this slide.

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.

2023/2024

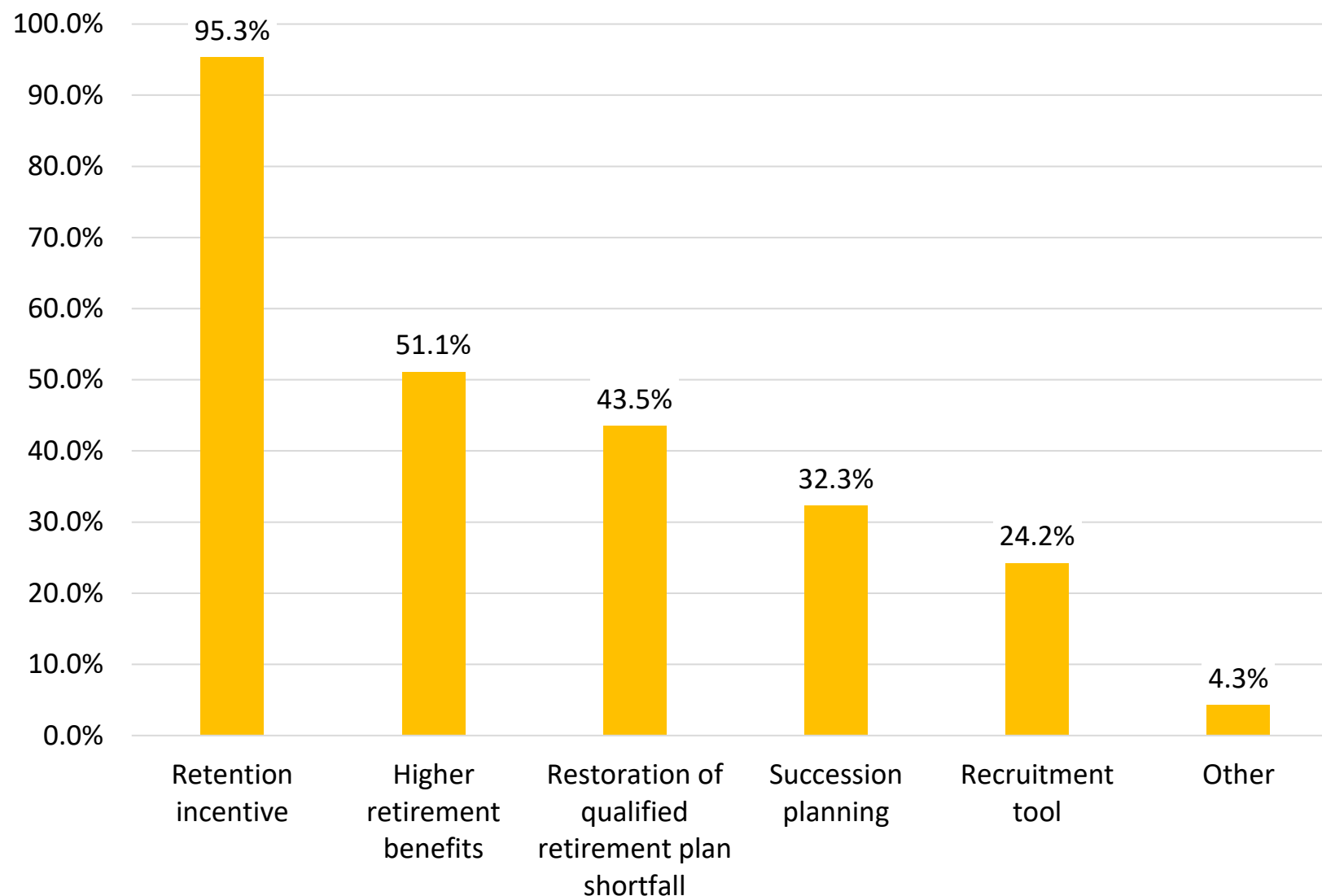
D. Hilton SERP Survey Methodology

- 20th Anniversary Study
- 53% Overall Response Rate
- Emailed to 1,825 credit unions (> \$100 million in assets)
- 965 credit unions responded
- 95% confidence level +/- 2%

Response Rate



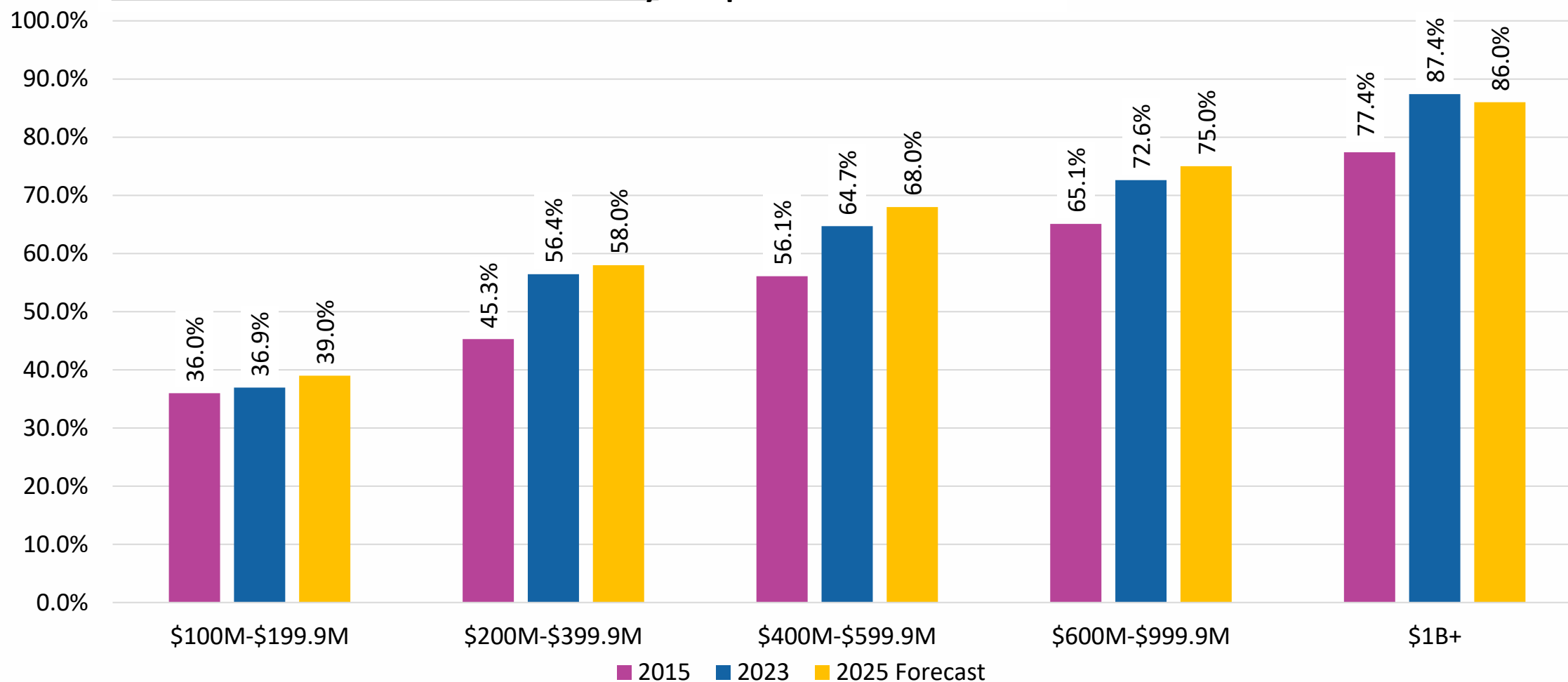
Retention and Succession are Drivers...



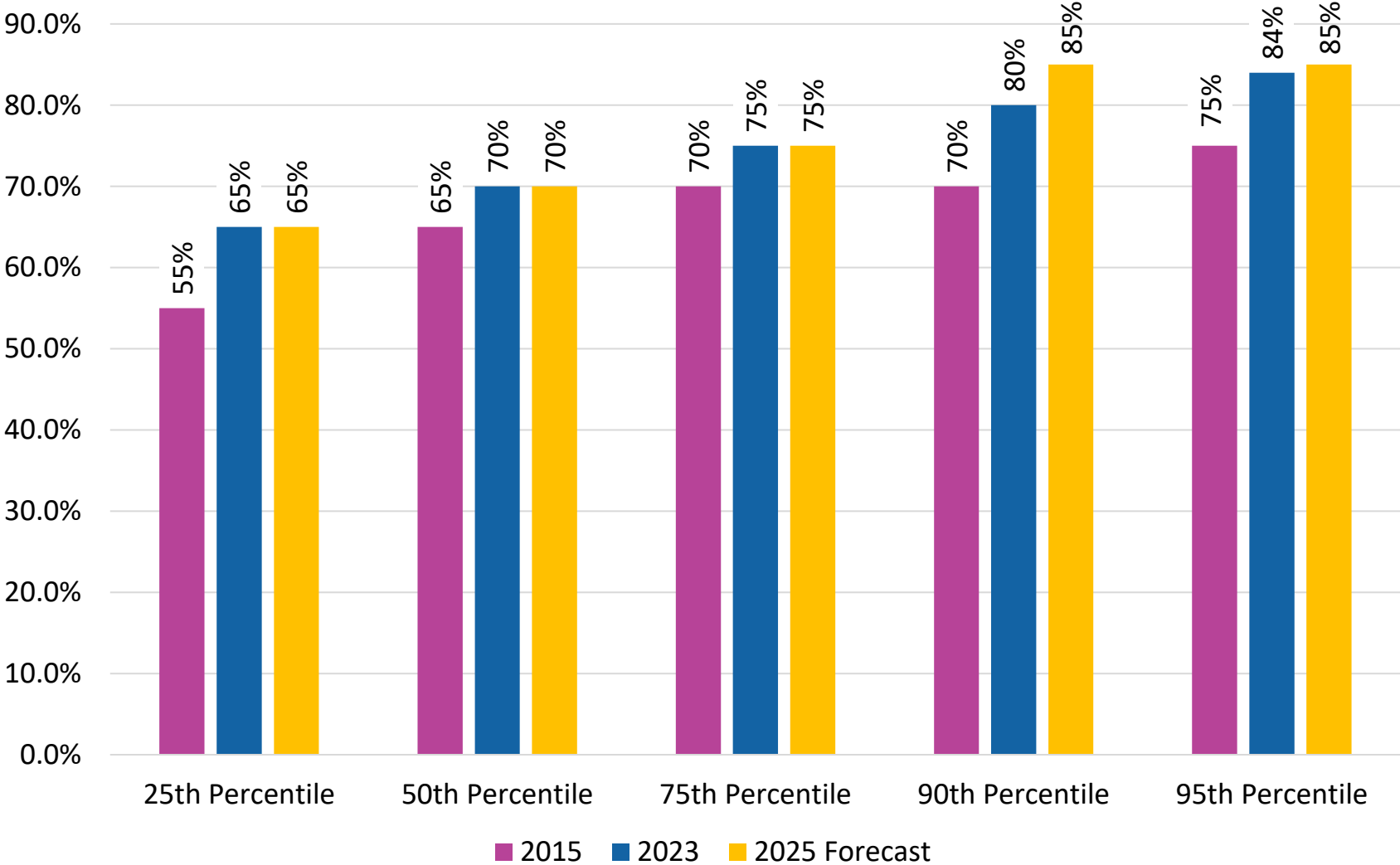
Reason for
offering a
SERP Plan

SERP Plan Usage for CEOs

67% of all CEOs have a SERP Plan today compared to 41% in 2013



SERP Target % of Average Total Compensation for CEOs



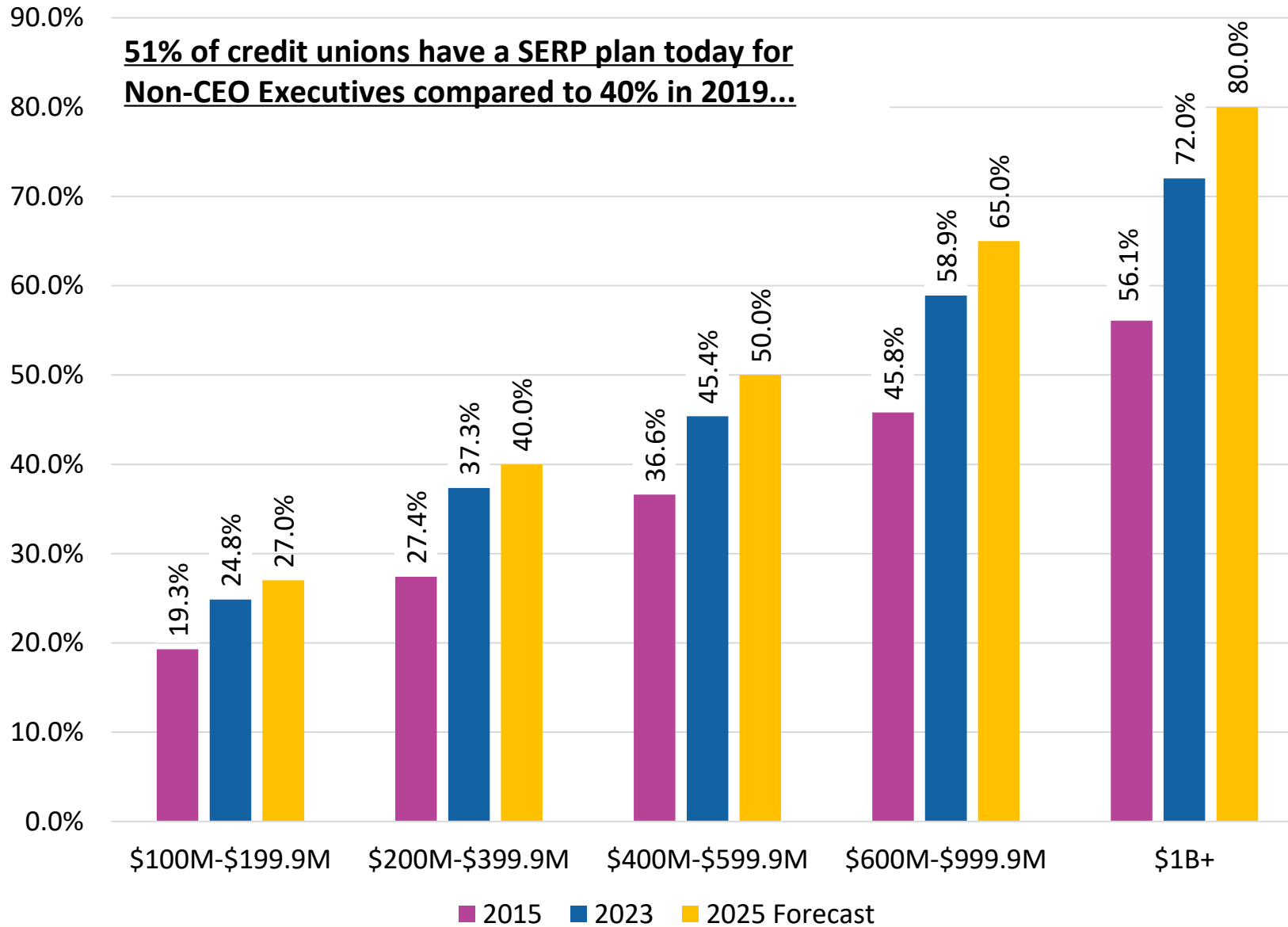
Total Compensation

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

51% of credit unions have a SERP plan today for Non-CEO Executives compared to 40% in 2019...

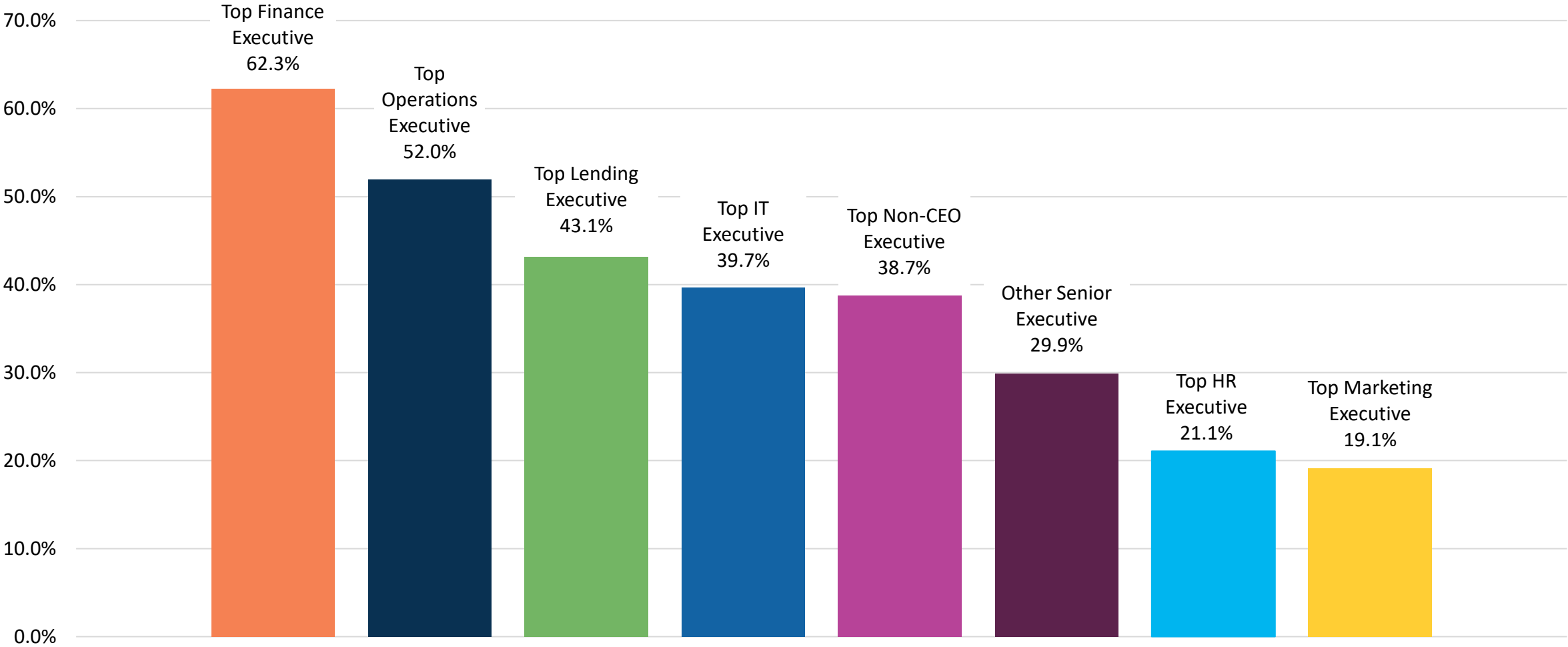


**SERP Plan
growth among
Non-CEOs is
rising substantially**

Typical Roles Include:

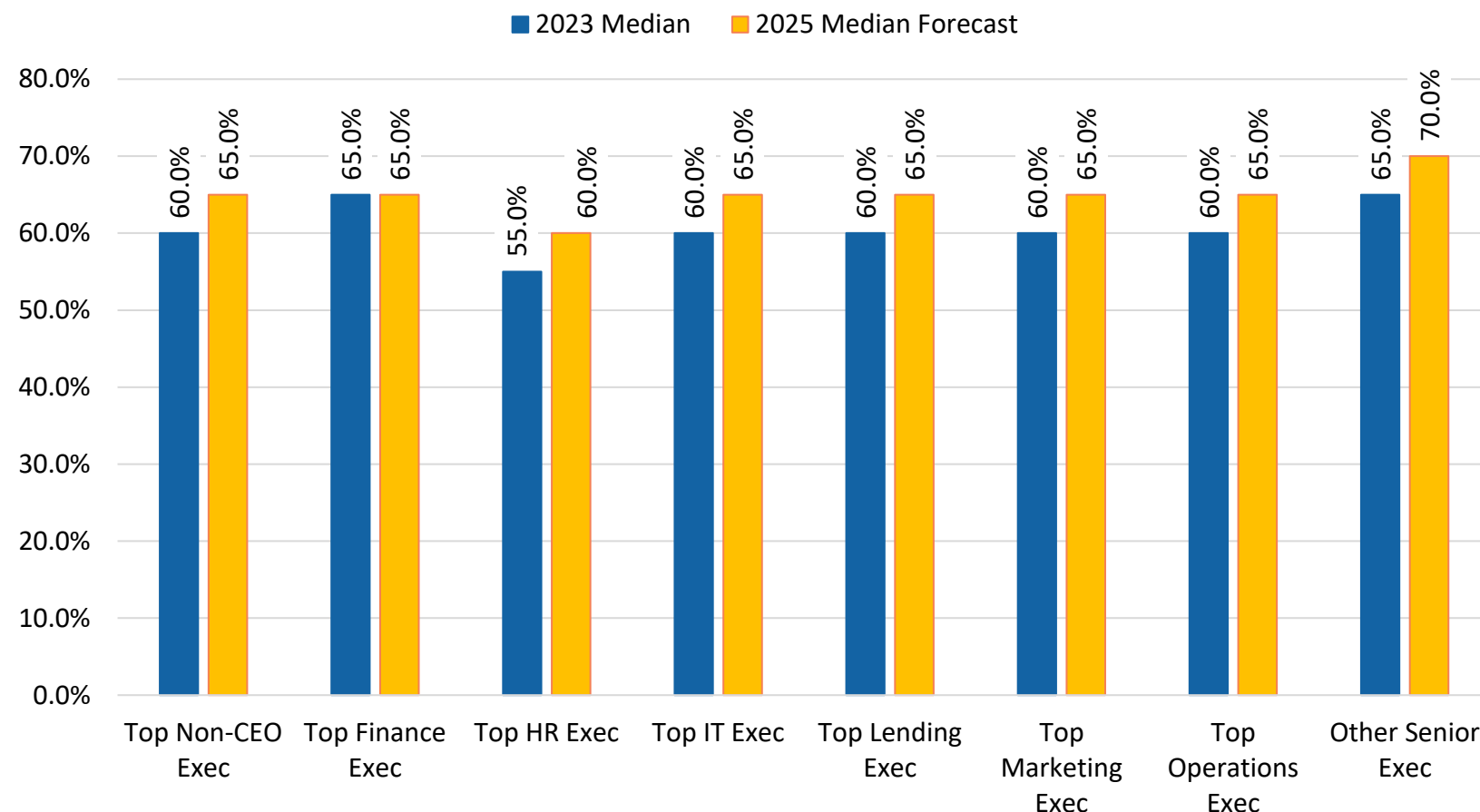
- CFO
- CLO
- COO
- CIO

SERP Plans for Non-CEO Executives



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

SERP Target % of Average Total Compensation for Non-CEOs

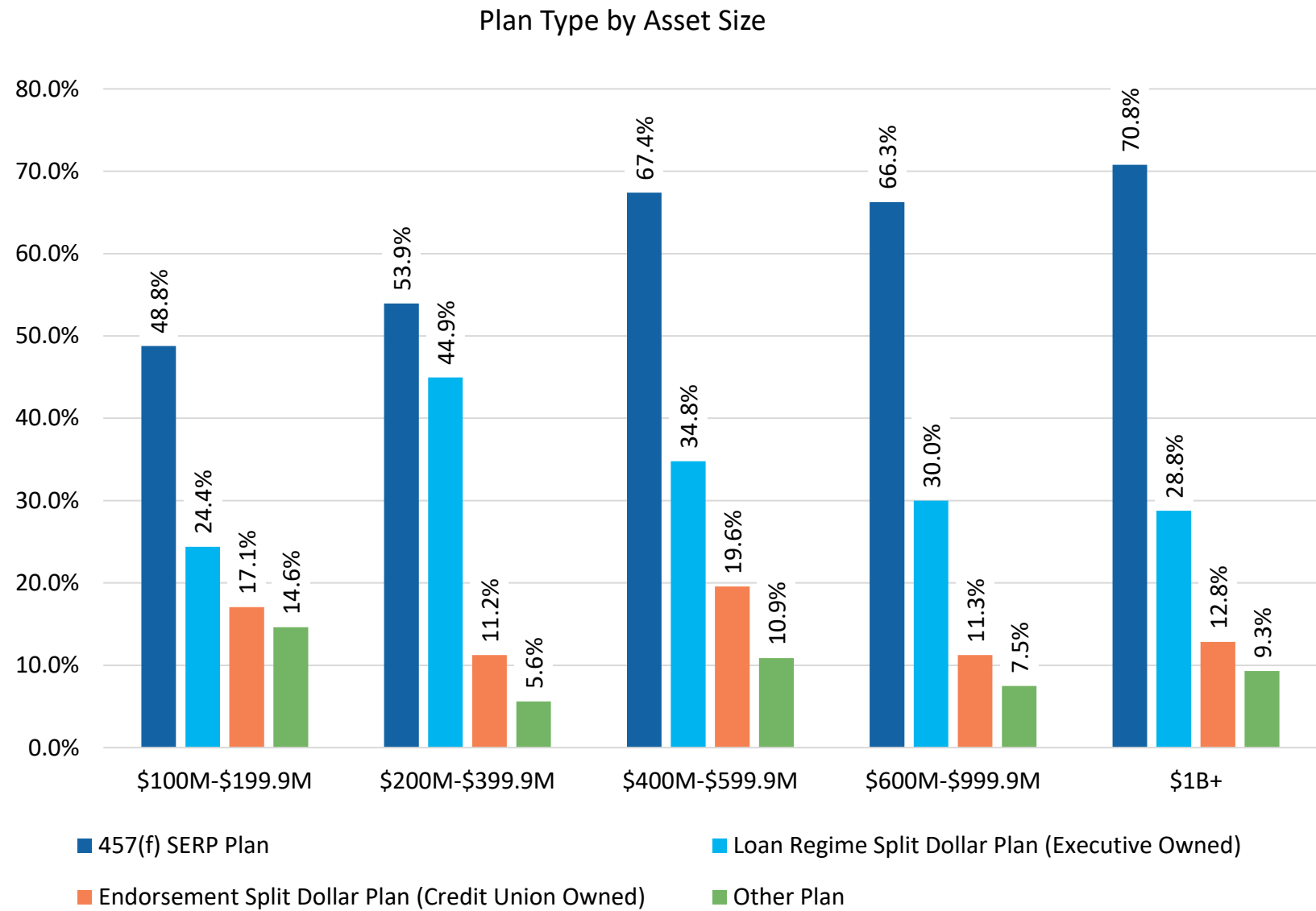


Note: Total Compensation = Base Salary + Variable (Bonus) Pay

Source: 2023/2024 D. Hilton SERP Survey

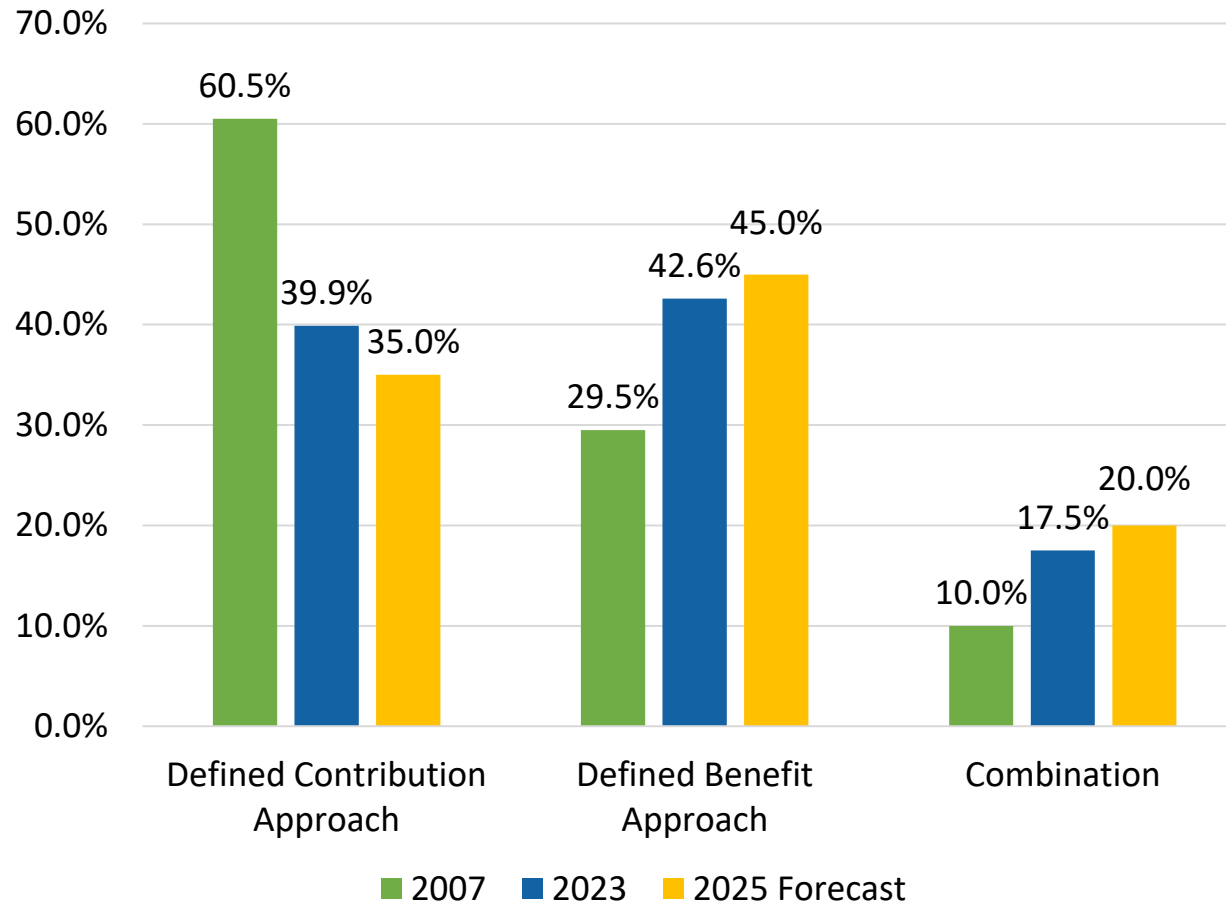
Target % for Non-CEO plans will continue to rise, especially for successors

457(f) SERP Plans are the leading design approach



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

SERP Plan Design by Type



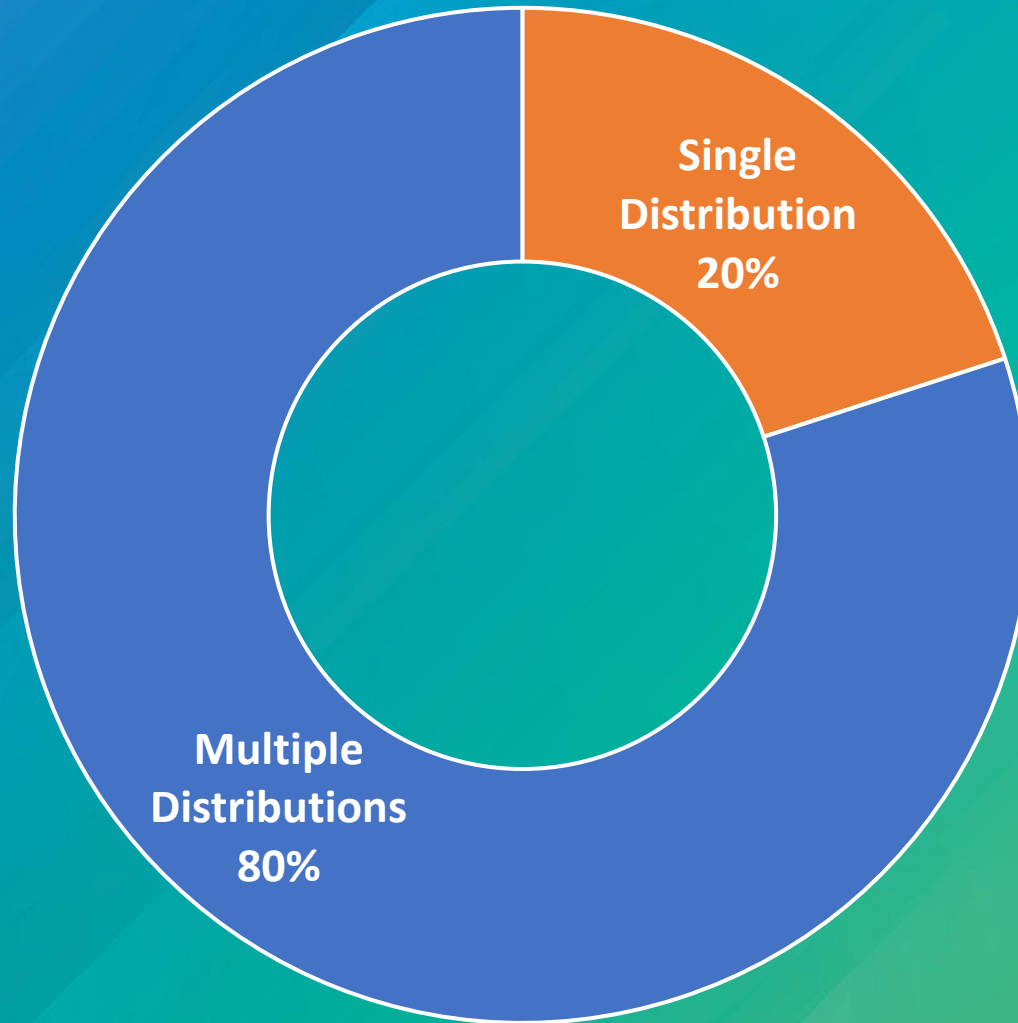
- A **Defined Benefit Plan** guarantees a pre-determined dollar amount or a percentage of final average total compensation (base salary + variable pay). The majority of these plans use a compensation replacement formula and are usually offset by other qualified and non-qualified income sources (e.g., projected social security benefits, projected 457(f) and split 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.

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

Hybrid SERP Plan Sample Illustration							
Milestone	5 Year Anniversary	10 Year Anniversary	15 Year Anniversary	17 Year Anniversary		20 Year Anniversary	22 Year Anniversary
Age	50	55	60	62		65	67
Benefit	457(f) Interim Distribution	457(f) Interim Distribution	457(f) Interim Distribution	457(f) Interim Distribution	Loan Regime Split Dollar Benefit	457(f) True-up Distribution Equal to 70% Total Comp	457(f) True-up Distribution Equal to 75% Total Comp
	\$350,000	\$500,000	\$500,000	Equal to 65% Total Comp			

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.

Single Distribution vs. Multiple Distribution Strategies



**Distribution
Frequency
Matters**



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.

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.

- SERP plans are prominent among CEOs.
- There is a lot of flexibility in the ways you recruit, retain, & reward.
- SERP plans across multiple layers of management is quickly becoming the norm.



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