

Total Rewards Symposium 2024



d. hilton associates inc.

Effective Ways to Retain and Reward Talent



d. hilton associates inc.



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Executive Vice President

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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

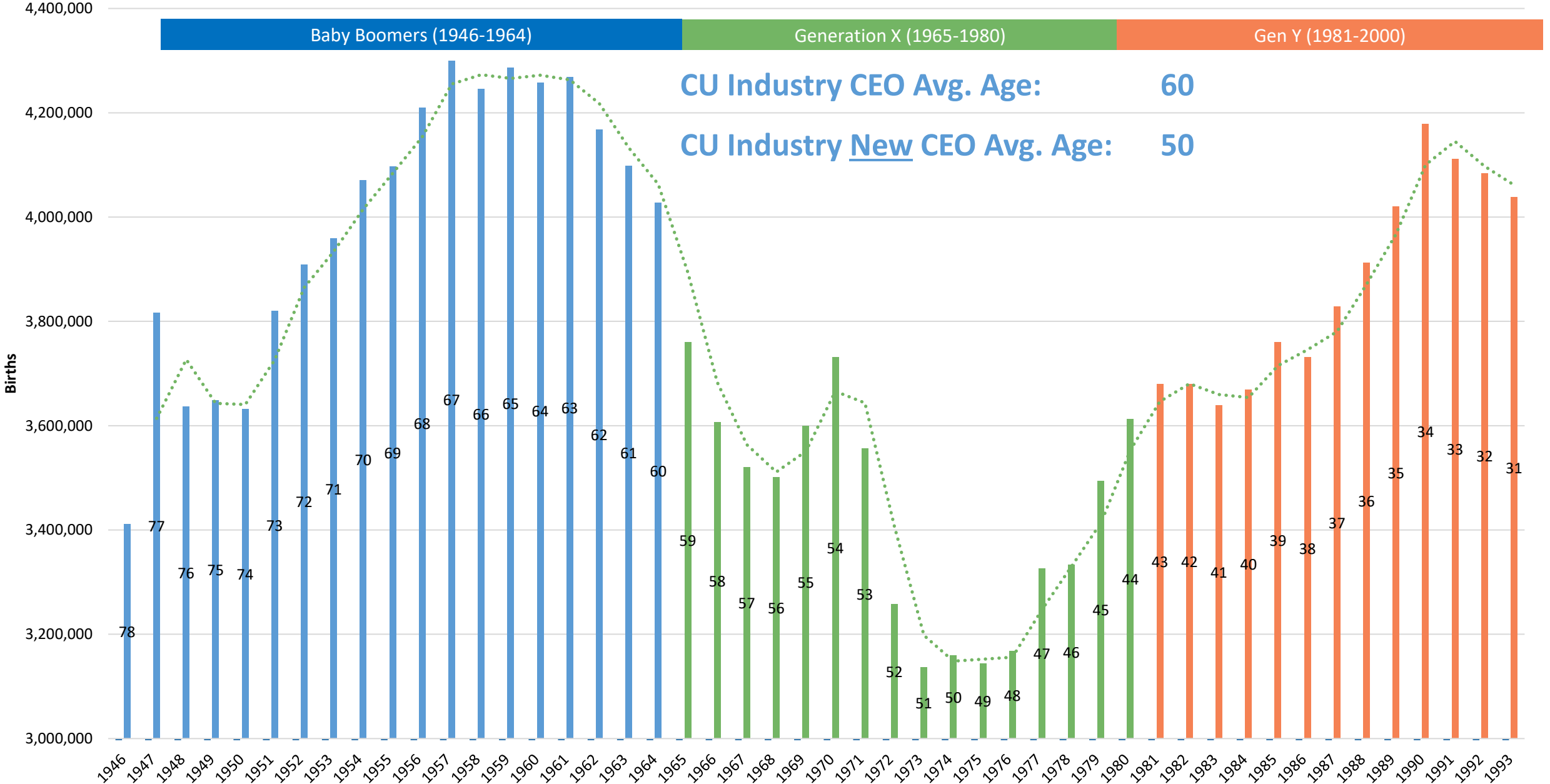
Please download and install the Slido app on all computers you use



What percentage of CU executives will retire in 2025?

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

Tracking the Baby Boomers




95% of Credit Unions Use a
SERP Plan for Retention



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.



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- The background of the slide is a photograph of a modern office space. It features large, floor-to-ceiling windows on both sides, providing a panoramic view of a dense city skyline with numerous skyscrapers. The office floor is made of polished, light-colored concrete. In the center of the room, there is a large, white rectangular screen or wall where the text is displayed. The lighting is bright and even, suggesting a high-rise office environment.
- Deploy Multiple SERP Distributions.
 - Strategically Time SERP Distributions.
 - Succession Should Be Flexible.
 - Sometimes Things Aren't Working Out.

How can we use SERP plans to retain executive talent?

The Gold Watch is Dead!

- Putting in 40 years of service to then retire and begin receiving SERP payments is an outdated idea.
- Executives desire interim SERP payments that allow them to enjoy the fruits of their labor earlier.
- Retirement Age is a loose definition that means different things to different executives (e.g., age 60, age 70, age 55, etc.).



Timing is Everything!



2021

- Ellen Ripley is a veteran President/CEO of Best Credit Union, a multi-billion dollar community credit union.
- In September 2021, Ellen informs the Board of her pending retirement on January 1, 2024.
- Best Credit Union formally launches its succession strategy in January 2022.



2022

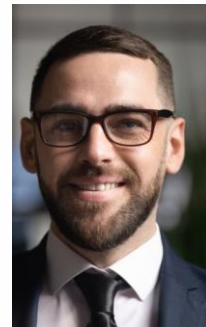
- Best Credit Union has identified three senior executives for possible succession to the President/CEO position.
- Ellen announces her pending retirement to the executive team.
- Each executive begins an internal development plan to prepare for the recruitment process.
- The Board reviews the SERP program for any cracks that may expose the credit union to executives departing before or after Ellen's retirement.



James Kirk, Chief Financial Officer
Age 53



Sarah Connor, Chief Technology Officer
Age 50



Emmet Brown, Chief Retail Officer
Age 46

SERP Program Milestones

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

2023

- Best Credit Union launches a formal executive search for qualified internal and external executive talent.
- The Board reviews materials and interviews internal and external executive talent.
- External candidate Regina George is selected to be Best Credit Union's next President/CEO.



2024

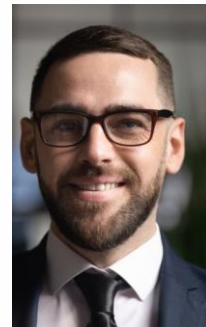
- Ellen retires on January 1st, and Regina begins with Best Credit Union.
- The management team warms to Regina, but the three internal candidates still aspire to be a CEO.
- Best Credit Union's 75th percentile compensation philosophy and the multiple SERP distribution strategy enhance retention.



James Kirk, Chief Financial Officer
Age 55
\$2M SERP payment in 2 Years (2026)



Sarah Connor, Chief Technology Officer
Age 52
\$1.5M SERP payment in 3 Years (2027)



Emmet Brown, Chief Retail Officer
Age 49
\$750k SERP payment in 3 Years (2027)

Does the Management Team Need to Get an Equal Benefit?



James Kirk, Chief Financial Officer
Age 55
\$2M SERP payment in 2 Years (2026)

SERP plan targets 70% of final average total compensation.



Sarah Connor, Chief Technology Officer
Age 52
\$1.5M SERP payment in 3 Years (2027)

SERP plan targets 70% of final average total compensation.



Emmet Brown, Chief Retail Officer
Age 49
\$750k SERP payment in 3 Years (2027)

SERP plan targets 65% of final average total compensation.

And What About Regina?

- Board committed to a 12-month SERP implementation deadline (take 6 months to implement).
- Know what they were walking away from.
- Even rookie CEOs are not rookies for long.
- Design the plan for a long tenure.
- The sooner you implement it, the less it costs.

What if you need them to
stay longer?

“Make her an offer she can't refuse”



A person in a jumpsuit is floating out of the open cargo hold of an airplane. The person is seen from behind, with arms and legs outstretched. Below them, a city is visible, bathed in the warm, golden light of a sunset or sunrise. The sky is filled with soft, wispy clouds. The interior of the airplane's cargo hold is visible on the left and right sides of the frame, showing various equipment and structural elements.

What if you need them to leave?

“Make her an offer she
can't refuse”

The background of the slide is a dark, textured surface resembling a stone wall or cracked asphalt, with irregular, dark grey and black patches separated by lighter, slightly raised lines.

Today's SERP Plan Should Not Bind You Forever

40% of CUs have made revisions

This agreement between the credit union and executive will be considered terminated only in any of the following circumstances:

A: the executive chooses to terminate the agreement;

B: the executive is terminated for cause;

C: the executive dies.



**But Read The Fine
Print!**

Consistency of Terms

“For Cause” means any:

- a) intentional act of fraud, embezzlement, theft, or personal dishonesty;
- b) willful misconduct;
- c) loss of bond;
- d) removal from office by, or upon the recommendation or demand of, state or federal regulatory authorities; or breach of fiduciary duty involving personal profit by the Officer in the course of the Officer’s employment, or any intentional act of a criminal nature by the Officer that may have an adverse impact on the Credit Union’s reputation and standing in the community.

VS.

“For Cause” means any:

- a) Fails to materially perform the duties assigned to the Executive;
- b) Engages in conduct that materially impairs the interests of the Credit Union;
- c) Materially breaches the terms of any employment agreement between the Executive and the Credit Union;
- d) Commits a felony of any nature, commits any crime acting in their capacity as an Officer of the Credit Union, or commits any crime that reflects adversely on the Credit Union;
- e) Fails to adhere to any written policies of the Credit Union of which the Executive has reasonable notice;
- f) Engages in a material act of dishonesty, disloyalty, or fraud with respect to the Credit Union, auditors, or any of the Credit Union’s vendors, customers, or employees;
- g) Is removed from office by, or upon the recommendation or demand of, state or federal regulatory authorities;
- h) Grossly mismanages the financial concerns of the CU, as determined by Credit Union;
- i) Is determined by the Credit Union to be responsible, in whole or in part, for any of the events set forth in 12 C.F.R. Section 750.1(d)(1)(ii), which indicate the Credit Union’s troubled status to regulatory authorities;
- j) Is determined by the Credit Union to have caused damage to the Credit Union as a result of the Executive’s actions or reputation in the community;
- k) The Executive loses their bond, or;
- l) The Executive conducts themselves in a manner which is in violation of their common-law duty of loyalty or other fiduciary duty to the Credit Union.

A horizontal strip of white paper with ragged, torn edges is centered against a light gray background. The paper appears to be a piece that has been torn out of a larger sheet. On the white strip, the words "Conflict of interest" are written in a black, serif font. The text is centered horizontally and vertically on the strip.

Conflict of interest

Know What You Are Promising or Receiving



Original Projected Benefit = \$140k a year x 20 years.

Current Projected Benefit = \$95k a year for 20 years.



A new CEO can
mean change
and knowing
where you are
on benefits is
crucial.

How Do You Determine What You Have?

Executive Information

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

CU Retirement Benefits

- IRC 415 Impact
- 401(k), Profit Sharing, MPP
- Employer Portion Balances
- DB/ Pension Benefit
- 457(b)

CU Factors

- Employee Benefit Guide
- Organizational Chart
- Job Descriptions
- Comp. Philosophy
- Qualified Plans
- Non-Qualified Plans

Total Cash Compensation

- Current Base Salary
- Proj. Future Base Salary increases
- Most Recent Variable Pay
- Current Var-Pay/Bonus Target %
- LTIP

Other Factors

- Longevity
- Social Security
- Split Dollar/CASD
- 457(f) SERP Distributions



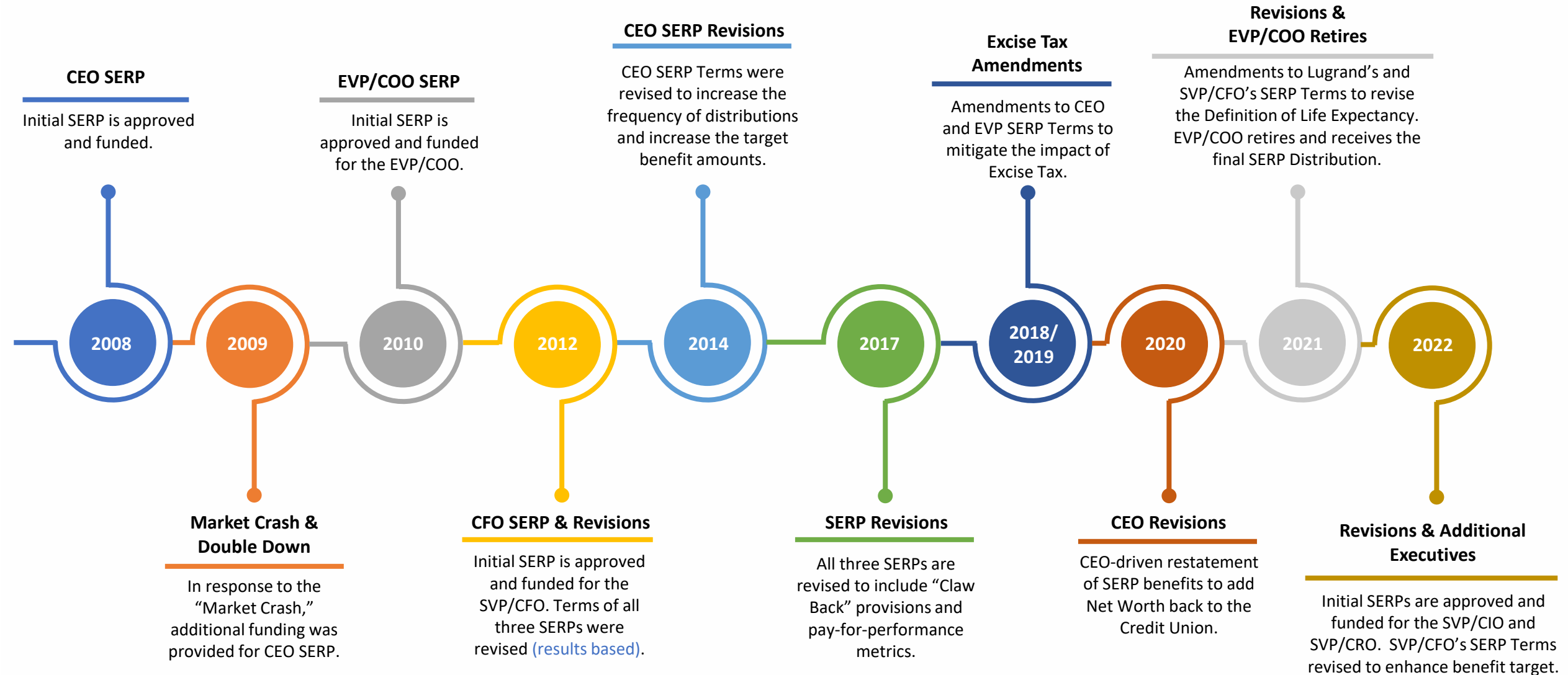
Variables Impacting SERP Design and Effectiveness

- SERP Plan Assumptions used in the original design are out of date.
- SERP documentation is out of compliance or not in sync with other documentation (ex. Employment Contract).
- Retention & retirement plans for the Executive have changed.
- Plan design / Executive benefit is not competitive with peers both inside and outside the industry.
- Value of SERP benefit is misunderstood by Executive and/or Board.
- CU's compensation philosophy and SERP are not aligned.
- Insufficient or underperforming funding.

A Case Study in Success at InTouch CU

InTouch CU's SERP Program Timeline

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- Timing of SERP distributions is crucial.
- SERP plans should not be set in stone.
- Know what you have and where you are in your plan.

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