Supplemental Benefits Provide Competitive Edge in Retention/Recruiting

By John Pesh

SERPs are a valuable tool to help retain and attract talented leaders.
In an environment where 63% of companies report that employee retention is their top concern, a talented leadership team is critical to keep on board. Retaining high-performing credit union executives could rest on whether you can provide them a more comfortable retirement.

There are limitations on how much credit union executives can contribute and receive from traditional retirement plans, such as a 401(k) or pension plan. These limitations make supplemental executive retirement plans (SERPs) a viable and important complement to these conventional plans.

SERPs are nonqualified retirement plans that provide benefits beyond those offered by qualified plans. Although qualified plans may have more tax advantages, nonqualified plans offer more flexibility in customizing contribution amounts and timing of distributions. SERPs allow you to build a powerful supplemental benefits package, which can create greater loyalty to the credit union.

Create a customized program.
As more CEOs approach retirement, retaining and attracting capable leadership has never been more critical. In the next two years, 10% of credit union CEOs are expected to retire, and 2/3 of new CEOs are hired externally from the financial services industry. SERPs can help credit unions stay competitive in the search for new talent, and to strengthen leadership continuity.

Nearly 60% of credit unions offer SERPs to their CEOs. Of these credit unions, 75% offer 457(b) plans; 55% offer 457(f) plans; and 30% offer both types. The 457(b) plan supplements a 401(k) plan and defers income taxes on contributions until the benefits are paid to them at retirement. Although 457(b) plans allow for self-direction of investments, they have a contribution limit, which is $18,000 for the 2016 tax year.

A 457(f) plan has no contribution limits, and taxes are paid in the year the “risk of forfeiture” lapses—when the executive becomes vested, which is typically when the benefit is paid. Plans can be designed with multiple vesting dates to spread payments and create ongoing retention incentives. The credit union owns the 457(b) and (f) plan assets until distribution.
Life insurance-based plans can be a more cost-effective alternative to 457(b) or (f) plans. The credit union can lend the executive money or offer a bonus to pay the annual premiums, and the executive owns the policy. These plans have no program limits, and income from life insurance can be withdrawn income tax-free.

Tailoring a supplemental benefits package to the executive’s needs may create greater loyalty to the credit union. Some might value a 457(b) or (f) plan. Others might even prefer other benefits in addition to retirement incentives, such as additional life or disability insurance. Long-term care insurance can also be an important component as it helps to preserve nest eggs from medical costs Medicare doesn’t cover.

Competition for top executives continues to intensify. Quality executives are in high demand, and losing an executive to a competitor is costly. Supplemental benefits can strengthen your succession plan and preserve leadership quality and continuity.

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1 2015 Compensation Best Practices Report, PayScale
2 CUNA Salary Staff Report 2016-17
3 CUES Board Benchmarks & Best Practices, 2014

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