

USING EXECUTIVE COMPENSATION & OTHER STRATEGIES TO ATTRACT & RETAIN THE BEST & BRIGHTEST

2017 NHBA HUMAN RESOURCES IN BANKING PROGRAM



Tri-State Financial Institutions Compensation Survey

GENERAL

GENERAL INFORMATION	2016	2015	2014	2013	2012	2011
Participating Banks	32	32	32	37	33	38
Employee Turnover						
Exempt	12.2%	12.3%	15.3%	10.2%	10.9%	7.9%
Non-Exempt (including tellers)	19.3%	19.6%	17.0%	16.3%	16.2%	14.6%
Tellers	32.3%	27.8%	27.1%	24.3%	23.5%	24.7%

Tri-State Financial Institutions Compensation Survey

GENERAL

AVERAGE SALARY ADJUSTMENT BASED ON PERFORMANCE	2016	2015	2014	2013	2012	2011
Above average						
Executive	3.6%	6.7%	4.4%	4.5%	4.3%	4.4%
Exempt	3.8%	3.9%	4.1%	3.9%	3.9%	4.5%
Non-Exempt	3.7%	3.7%	4.0%	3.8%	3.8%	4.2%
Average						
Executive	3.3%	3.7%	3.0%	3.1%	2.9%	3.0%
Exempt	3.1%	2.6%	2.9%	2.7%	2.7%	3.0%
Non-Exempt	2.9%	2.3%	2.6%	2.5%	2.4%	3.1%
Below Average						
Executive	1.4%	3.4%	2.1%	2.1%	1.3%	2.3%
Exempt	1.4%	1.0%	2.0%	1.4%	1.1%	2.3%
Non-Exempt	1.3%	1.0%	1.9%	1.2%	0.8%	2.3%

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AVERAGE SALARY ADJUSTMENT	2016	2015	2014	2013	2012	2011
Exempt	3.0%	3.1%	2.8%	2.8%	2.8%	2.8%
Non-Exempt	2.8%	2.9%	2.7%	2.6%	2.5%	2.6%
Institutions offering:						
Paid time off (PTO)	38.7%	50.0%	35.5%	31.4%	30.3%	21.1%
Vacation/sick time	41.9%	37.5%	35.5%	51.4%	57.6%	55.3%
Combination	19.4%	12.5%	29.0%	17.1%	12.1%	23.7%
Institutions that have a SERP	62.5%	62.5%	56.3%	51.4%	48.5%	42.1%

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GENERAL

HEALTH INSURANCE	2016	2015	2014
Employer Paid Monthly Premium Towards Plan			
Employee	\$ 741	\$ 983	\$ 413
Employee + Child(ren)	1,331	1,698	684
Employee + Spouse	1,396	1,759	807
Employee + Family	1,749	2,306	933
HSA Annual Contribution Amount	\$ 1,263	\$ 1,254	\$ 891

Tri-State Financial Institutions Compensation Survey

DIRECTORS/TRUSTEES RESULTS

DIRECTORS/TRUSTEES SURVEY RESULTS

2016

2015

2014

2013

2012

2011

Average Compensation

Chairperson	\$ 28,463	\$ 31,678	\$ 26,204	\$ 27,228	\$ 25,795	\$ 25,301
Vice Chairperson	20,407	22,394	21,978	22,107	20,557	19,354
Regular Members	25,581	30,529	28,221	20,317	18,661	19,638

Board Terms

Institutions having board terms	12.5%	25.0%	34.4%	8.1%	12.1%	24.2%
Average term in years	2.0	5.0	4.0	2.0	6.0	3.0
Institutions having term limits	12.5%	6.5%	12.5%	8.1%	3.0%	9.1%
Average maximum number of terms	11.0	3.0	7.0	3.0	6.0	6.0

Tri-State Financial Institutions Compensation Survey

DIRECTORS/TRUSTEES RESULTS

HEALTH INSURANCE COVERAGE

	2016	2015	2014	2013	2012	2011
Board member						
Institutions that offer	37.5%	28.1%	28.1%	32.4%	33.3%	18.2%
Institutions that subsidize	21.9%	12.5%	18.8%	18.9%	6.1%	15.2%
Annual subsidy	\$ 3,869	\$ 3,279	\$ 4,458	\$ 5,150	\$ 5,789	\$ 5,243
Family members						
Institutions that offer	34.4%	25.0%	28.1%	29.7%	30.3%	18.2%
Institutions that subsidize	18.8%	9.4%	15.6%	16.2%	6.1%	15.2%
Annual subsidy	\$ 10,557	\$ 15,843	\$ 12,486	\$ 12,234	\$ 13,545	\$ 10,988
Institutions having a mandatory retirement age	78.1%	84.4%	71.9%	78.4%	75.8%	72.7%
Average mandatory retirement age	73.0	72.0	72.0	72.0	72.0	72.0



Trends in Executive Compensation

- Qualified retirement plans
- Nonqualified deferred compensation
 - Supplemental Executive Retirement Plan (SERP)
- Other alternatives (e.g., cash bonuses)
- Synthetic equity
- Equity compensation

Qualified Retirement Plans

IS THERE A WAY TO GET MORE TAX DEFERRED BENEFITS TO EXECUTIVES?

Does the Bank make the following contributions consistently?

- Safe Harbor Nonelective Contributions
- Profit Sharing Contributions

Consider use of a Class Allocation for nonelective contributions

Example:

Class 1 – President

Class 2 – Senior VPs

Class 3 – VPs

Class 4 – all other employees

Qualified Retirement Plans

BENEFITS TO THE BANK AND EXECUTIVES:

- Both save FICA taxes
- Bank gets a current tax deduction
- Allocation formula can be designed to help replace any lost benefits in frozen/terminated defined benefit plan

LIMITATIONS:

Normal plan limits apply



Nonqualified Deferred Compensation

- Cover a select group of management or highly compensated employees
- Generally funded with employer contributions
- Deferred amounts are taxable upon the earlier of payment or funding

Nonqualified Deferred Compensation

Enforceable promise to pay in a later tax year, compensation that is earned in the current tax year

Negotiated between employer and employee

Design flexibility

Generally subject to IRC § 409A

Nonqualified Deferred Compensation

SERPs:

- Generally defined benefit plan type benefits (moving towards defined contribution)
- Can be integrated with other retirement benefits provided to executive
- Generally for executives and not directors
- What is the average replacement ratio?

Nonqualified Deferred Compensation

ITEMS TO CONSIDER WHEN DESIGNING A PLAN:

- Who will bear investment risk - Employer or Participant?
- What interest rate will be credited to accrued benefits?
- Require employment on last day of plan year to accrue benefit?
- When will vesting occur?

Nonqualified Deferred Compensation

OTHER DESIGN ALTERNATIVES:

- Apply to directors
- Permit employee/director elective deferrals
- Allow participant investment direction
- Rabbi Trust

Nonqualified Deferred Compensation

DISTRIBUTION PROVISIONS:

- Must generally follow IRC § 409A
- When and how can benefit payments be selected and/or changed?
- What are the common forms of payment?
- Does it make sense to delay payments?

Nonqualified Deferred Compensation

INCOME TAX:

- No taxable income at time of award/deferral
- Ordinary income at time of payment
- Employer tax deduction at time of payment

Nonqualified Deferred Compensation

FICA TAX:

- FICA imposed when substantial risk of forfeiture lapses

Why is this helpful?

- Be careful of plans established within 12 months of termination/retirement



Performance Based Compensation

- Can apply to annual cash bonuses or deferred compensation
- Performance metrics based on individual or Bank goals?
 - Consider the Bank's strategic plan
- Do all eligible employees need the same metrics?
- Long-term or short-term goals?
- Apply vesting provisions?

Performance Based Compensation

HOW TO DETERMINE PERFORMANCE METRICS:

- Profitability
- Return on assets
- Asset quality
- Return on equity
- Earnings per share
- Total return to shareholders



Synthetic Equity SARs

- Measured by increase in stock price from Grant date
- Reward future performance
- Employees receive benefit in cash (ordinary income)
- Vesting can apply
- Not subject to § 409A, if issued at FMV

Synthetic Equity

PHANTOM STOCK

- Measured by stock price at payment date
- Reward past and future performance
- Employees receive benefit in cash (ordinary income)
- Vesting can apply
- Subject to § 409A

Incentive Stock Option (ISO)

ADVANTAGES

- No income to employee at grant
- No income to employee at exercise (AMT may be triggered)
- Capital gain rates on ultimate sale (basis = amount paid)

Thus, no ordinary income tax at all!!

DISADVANTAGES

- No tax deduction to Employer
- Strict requirements of IRC§422 must be followed
 - 10 year limit prior to exercise (5 yrs. for certain >10% shareholders)
 - \$100,000 limit

Nonqualified Stock Options (NSO)

ADVANTAGES:

- ER tax deduction at grant or exercise (must withhold tax)
- More design flexibility (no ISO requirements)
- No AMT exposure for recipient

Nonqualified Stock Options (NSO)

DISADVANTAGES:

- Taxation of recipient accelerated
 - At date of grant, if FMV ascertainable
 - At date of exercise, if FMV not ascertainable at grant (most common scenario)
- Ordinary income tax rates apply

Stock Options

FICA RULES:

- ISO: No FICA since there is no ordinary income
- NSO: FICA payable when the compensation event occurs (generally upon exercise)

IRC 409A RULES:

Do not apply to ISOs or NSOs granted at FMV!



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