

Recruiting and Retaining Successful Leadership

OM EXECUTIVE BENEFIT CONSULTANTS



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OM Financial Group

Our Mission

“To equip credit unions and nonprofits to make fully informed decisions when considering executive reward and retention programs”



OM Financial Group

Specialists in Credit Union & Non-profit Executive Compensation

- Founded in 1999
- Originated Split Dollar Plans for credit unions
 - OM received first industry approval from NCUA in 2005
 - Provide guidance to NCUA on Split Dollar Plans
 - Over 500 credit union clients nationwide and successfully completed over 1,000 NCUA Audits
- Clients range from \$30M to \$20B in assets
- Regional Benefit Consultants around the country
- Full administrative staff, including actuaries and attorneys



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You don't have to answer this out loud!

What would your reaction be if your CEO came in tomorrow and said, *“I have some bad news, I received a great offer from another credit union that I just can't pass up. I have accepted the position.”*?

Has this ever happened to you?



Change is Coming

- 50% of credit union CEOs plan to transition from their role in the next six years
- Half of Baby Boomers will turn 65 in the next ten years
- 68% of credit unions have succession plans in place
 - Priority for the NCUA
- Consolidation/Mergers
- Regulatory pressure
- New competition

How will this impact your credit union?

“Talent underpins an organization’s ability to move forward, take advantage of opportunities, and mitigate risk.”

-Brian McHenry, c. myers



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Exec Team Succession Planning

From c. myers Consulting Group

Create your strategic people direction.

Look at your credit union's organizational chart. Does it still fit the credit union's needs and direction? If not, determine what your organization is trying to do and what needs to be done to get there. Build the structure without considering faces and names and instead build it for what the organization wants in the future, not what it has today.

Have clarity of purpose, roles, and responsibilities.

A clear purpose will help define roles and responsibilities and how to approach goals while the roles and responsibilities for each position will ensure the team works together, McHenry says.

Identify desired characteristics.

Think about the role-specific duties of each position, as well as the technical skills, leadership traits, and behaviors that must be present within the team.

Invest in leadership development.

Now that you've identified the roles and responsibilities and what the leadership structure looks like, look at your people and figure out how to get there. Assess your people and know their capabilities then you can start closing the gaps and put development plans in place because you know what is needed.

Create more time.

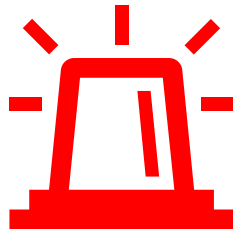
Create a succession plan now. Integrate leadership development into what you're already doing. Change measures of individual success from a focus on production to a focus on strategic thinking and development. Delegate responsibilities to create opportunities for growth and consider emerging talent when making these decisions.

How Can We Prepare and Be Proactive

- Communication with the current CEO
 - What is their timeline?
 - Internal executives
 - Run the fire drill*
- Look at your internal team
 - Training/coaching
 - Define the relationship
- Look at competition within the market
 - Younger executives
 - Possible merger opportunities
 - Market Compensation Analysis
- Network!!!
- Interview recruiting firms

**Do you have a process for
determining who is key?**

RUN THE FIRE DRILL!



What Makes Someone a “Key” Executive?

Key Executive:

- Impacts the financial success of the credit union
- Growth and learning oriented
- Knowledge/Institutional memory
- Manages culture – “no drama” results in employee retention
- Attracts, mentors and develops the next generation of leaders



What Makes Someone a “Key” Executive?

Key Executive:

- Skills – i.e. Unique skillset in business lending
- Relationships (community, members, etc.)
- Can navigate through challenges (grow consistently)
 - Thriving through a downturn
- Positively impacting our community
- Stewardship of the members money – fiscal responsibility



The Potential Impact of Losing a “Key” or “Essential” Executive

- Strategic
- Financial
- Morale
- Does it put your credit union at risk or set you back?
- Who might have to jump in to make up the shortfall?
- Did relationships walk out with the executive?
- What institutional knowledge or memory left with them?
- Reputation risk in the community



Who Are Your “Key” or “Essential” People?

**Can you think of 1 or 2 (or more)
key people in your credit union
that would be difficult to replace?**



Succession Tips from DDJ Myers

- Intentionally seek and develop people to meet the needs of the board and CEO now and in the future
- Insist on “ready now” or “drop in” candidates
- Integrate CEO coaching into position description
- Update CEO position description at strategic planning sessions
- Keep current (and realistic) on compensation and executive benefits
- Grocery store list – what do you really need?



How to Recruit the Right CEO

- Track record of success
- Fit/Culture (Board)
- Growth orientated
- You get what you pay for
- Always look at a pool of candidates even if there is a clear ideal internal candidate
- Create a reward/carrot when recruiting from outside
- Is your credit union the right challenge for this candidate?
 - Growth potential/opportunity
 - Is the Board willing to modify charter or look for new growth strategies



Managing Transition

- There is no “joy in the void”
- Guidance and frequent communication
 - Stay “in tune and in touch” for one year or until new CEO has earned the trust necessary to step back
- Mentorship
 - Don’t assume anything, each transition is different
- Window to frame or reframe relationships is 3-6 months
 - Internal vs. external hires are different

What Can You Do To Keep Your Leadership?

How to Make Your Credit Union Their Career

- Morale/culture
- Benefits
- Voluntary programs
- Bonus/LTIPs
- Supplemental Executive Retirement Plans (SERPs)/
Golden Handcuffs
- Career growth/progression
- Challenge in the role



What Can You Do To Keep Your Leadership?

Employers Are Changing Their Approach to Benefits

Employers are expanding the range and customization of benefits, improving communications around those benefits, and offering more added value programs.

- ▶ **80%** of employers are increasing **benefit communications** (or intend to).
- ▶ **74%** of employers are offering more **added-value services** for employees, such as mental health programs or EAPs (or intend to).
- ▶ **66%** of employers are expanding the range of **employee-paid benefits** (voluntary benefits) offered (or intend to).
- ▶ **75%** of employers are enabling employees to have **greater customization** of their benefits (or intend to).
- ▶ **70%** of employers are investing in new **emerging benefits** (or intend to).
- ▶ **64%** of employers are expanding the range of **non-medical insurance benefits** offered (or intend to).

What Are Successful Employers Doing Right?

Employees who have high well-being despite their challenges during COVID-19 work at companies that share a commonality, their ability to transform the employee experience with adaptability in mind. By focusing that transformation on aspects like trust, support, and communication, they've steered their workforce toward a culture of resilience.

Building a strong, open culture supports employees' whole selves. **When employees feel cared for through benefits, communication, and other support, they're more likely to have the tools they need to manage challenges and be resilient.**

"I think on one hand I'm grateful to be working for a company that's still open, that's still profitable in this time, and to have leadership in place that prioritizes our employees' well-being above everything."

A Formula for Success

Well-Being Support + Greater Trust + Leadership Communications + Strong Culture = Higher Productivity

Actions Employers Can Take to Build Employee Resilience

To build resilience among employees, employers need to engage their workforce through tangible solutions that promote an open and supportive work culture: When employees feel like they work in such an environment, they're 46% more likely to be productive and 30% less likely to be stressed.

These employees are also more likely to trust that their employer has their best interests in mind, which is yet another contributor to resilience:

Employees who trust their employers' leadership are 70% more likely to be resilient and 50% more likely to be productive than those who don't trust their employer. And yet, 29% of employees say they've lost trust in their employer.

This leaves opportunities for employers to put more effort into employee support. These three strategies can help:

1. Help employees manage work and life.

Work-life norms have changed, and workers need more help balancing competing demands. When they get that help through employee benefits, flex hours, or other types of work-life management support, it's a win-win for everyone.

- ▶ Employees who feel their employer provides the flexibility they need are

40%

more productive and

57%

more likely to be resilient.

- ▶ **72%**

of employees rank work-life management benefits and programs among their top five desired benefits to improve well-being.

- ▶ **44%**

of employers say that because of COVID-19, their organization plans to invest in work-life management programs.

"I've been here so long, and the reason is the flexibility of the ownership. They're extremely flexible for all the employees. If I need a day for my kids, or if something comes up, they are never questioning it."



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2. Build a benefits package that addresses evolving needs.

As employees look for greater support from their employers, particularly around financial well-being, employee benefits can play a pivotal role. Benefits provide active support to employees when they need it most, helping them manage unexpected expenses that can destabilize well-being.

Employers who offer a range of benefits that meet the diverse and evolving needs of their workforce find that employees become more engaged, resilient, and trusting in leadership.

The key to driving this impact is providing benefits that go beyond the basics of medical insurance and retirement plans. Now, programs that address the full spectrum of employee needs are a must-have.

- ▶ Employees who say their employer offers a benefits package that meets their needs are 41% more likely to feel resilient and 60% more likely to trust their employer's leadership.

Employees Need Benefits That Support Financial Wellness

Over half of employees are concerned about their financial health, more than any other aspect of well-being.

Top 5 Causes of Financial Stress & Anxiety:

- ▶ **48%:** Ability to retire as planned/on schedule
- ▶ **48%:** Long-term savings—such as 401(k)s, IRAs, or other retirement accounts
- ▶ **47%:** Monthly expenses/cost of living
- ▶ **45%:** Medical/health expenses
- ▶ **44%:** Other unexpected expenses—such as home/car repair

A comprehensive benefits offering can help provide that much-needed support by limiting out-of-pocket medical expenses that medical insurance may not cover, providing tax incentives, and extending other financial protections.

And yet, gaps persist—particularly with financial wellness: 64% of employees rank financial benefits in the top five, but only 37% of employers are planning to invest more in such benefits after COVID-19.

Taking a holistic approach to benefits—in which offerings coexist and complement each other—can help narrow these gaps substantially.



A Working Blueprint for Approaching Benefits



Build a healthy foundation—Insuring health inside and out

- Medical Insurance
- Employee Assistance Programs (EAPs)
- Mental Health Programs
- Prescription Drug Coverage



Enhance Your Health Coverage—Building on the foundation

- Dental Insurance
- Vision Insurance



Protect Your Way of Life—Protecting against the unexpected

- Accident Insurance
- Hospital Indemnity Insurance
- Critical Illness Insurance
- Cancer Insurance
- Disability Insurance



Secure Your Family's Future—Finding financial peace of mind

- Life Insurance



Safeguard Your Household—Covering the things worth protecting

- Legal Insurance
- Pet Insurance
- Auto Insurance
- Home Insurance
- Identity Theft Protections



Reach Your Financial Goals—Taking control of everyday spending, savings, and retirement

- Health Savings Account
- 401(k) and/or other retirement savings
- Financial Wellness Programs

The interconnectedness of this benefits framework ties back to employee needs as well as employee demand. And in 2020, that demand included both traditional and non-traditional benefits—reflecting the changing nature of a pandemic-era workforce.

The Benefits Employees Want

What non-traditional perks and benefits interest employees?

Increased paid leave or paid time off

80%

Insurance benefits for retirees

79%

Guaranteed retirement income options

79%

Remote work, flex schedules, or fixed weekly hours (for hourly workers)

76%

Access to personal protective equipment or free/discounted COVID-19 testing for onsite workers

73%

Financial stipend/allowance for home office set-up and running costs (e.g., WiFi/phone reimbursement, ergonomic office equipment, larger screens, etc.)

71%

Setting boundaries on working hours

69%

Telehealth coverage

68%

Professional development credits

66%

Caregiver benefits

62%



Board Impact on Culture

Board Governance				
Micro-Managing Board	Managing Board	Governing Board	Ratifying Board	Failing Board
Board may not trust or respect CEO	Board assumes CEO needs help running org	Board delegates to Competent CEO	Hire a good CEO and stay out of his/her way	CEO in Control, High or No Board turnover
Boart telling CEO what to do or overriding CEO	Board involved in minutiae, manager of CEO	Focused on purpose, values & results	Organization OK but board has surrendered Governance	Financial soundness issues
Board usurping job of CEO	Board assigns tasks to CEO	Clear division between Ops and Governance	Board approves what CEO brings	Strife and distrust among board members
Focus on day-to-day operations. Protecting from CEO	Board hands on and proud of it	Board monitoring gauges of success	Out of touch, complacent, delegating Governance	Looking to the past, way behind staff
Ignore planning and future. Deals with today	Focus on administration & Ops	Operates on future/strategic level	Stale policies, little accountability	Not strategic, in-fighting or apathy
Primary role is protecting CU and employees	Primary role is making decisions	Primary role is representing "membership"	Primary role is supporting CEO, rubber stamping	Primary role of board is keeping perks.

When You Really Want to Ensure a Key Executive Stays With You!



Income Alternatives

- **Salary**
 - No wealth accumulation
 - No “golden handcuffs”
 - Paying more today than yesterday
- **Pension** – benefit pays tomorrow for work today
 - Must include everyone
 - Can be a very expensive solution



Executive Benefits

- **Supplemental Executive Retirement Plan (SERP)**
 - 457(f)
 - Split Dollar Plan
- **Other Executive Benefits**
 - Executive Bonus Plan/Long Term Incentive Plan
 - 457(b) – Similar to a second 401k
 - Additional life insurance
 - Individual disability income insurance
 - Individual long term care insurance
 - Golf membership
 - Car allowance
 - Any combination/all of the above

Individual Disability Income Insurance

Designed for highly compensated executives whose existing coverage may not meet their financial needs, due to monthly caps, potential exclusion of incentive compensation and bonuses. This is a selective benefit.

Benefits to the Credit Union

- Significant Discount off standard unisex rates
- Protects Highly Compensated Employees whose benefits are limited by a group LTD maximum
- Guaranteed Standard Issue (based on group size/participation)

Benefits to the Executive

- Protects the income not covered by group LTD (bonus and commissions)
- Simplified Underwriting
- Portable benefit and does not lose the discounted rate



Individual Long Term Care Insurance

Long Term Care Insurance provides coverage for long term care expenses as a result of needing assistance with the activities of daily living. Care can be provided through multiple channels, such as home healthcare, assisted living, adult daycare or nursing home.

- Three Primary Reasons to Buy LTCi
 1. Asset Protection
 2. Control/Choice on how care is provided
 3. To preserve assets for your own needs
- Credit Union pays premiums for key employees on selective basis
 - Premiums Paid by CU are tax-free benefit
- LTCi benefits are tax-free
- Group and Spousal discounts of up to 35%
- Upon Retirement/Termination, employee responsible for ongoing premiums

Filling the Retirement Income Gap

Supplemental Executive Retirement Plan (SERP)

60% - 85% Income ^{1, 2}
Replacement Ratio Target

“Typically people need between **65% and 75%** of their pre-retirement income to maintain their lifestyle once they stop working.”

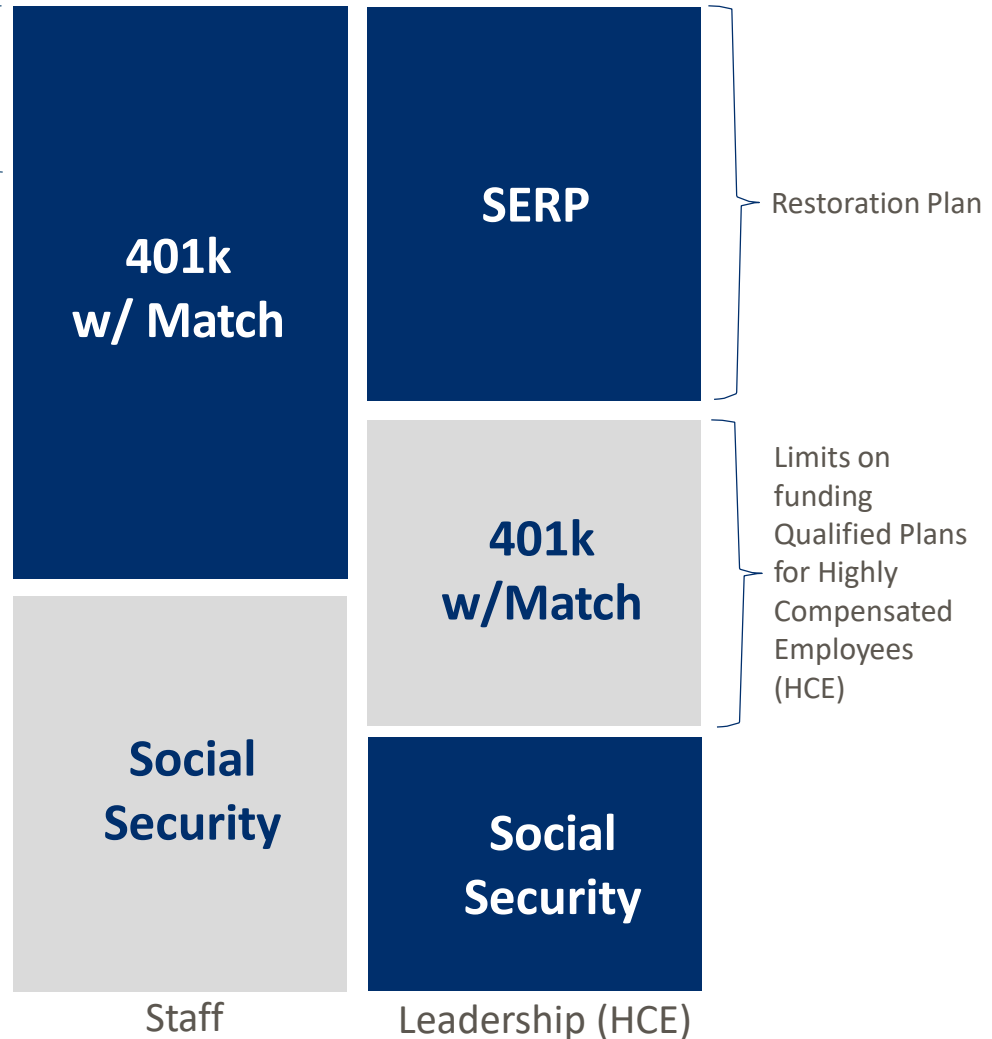
The House and Living Standards in Retirement Alicia H. Munnell and Maurice Soto Center for Retirement Research At Boston College December 2005, No. 39

“Common financial planning advice suggests target replacement rates should be between **65% to 90%** of preretirement income. We find a median optimal target replacement rate of 0.75 for married couples (and 0.55 for singles).”

What Replacement Rates Should Households Use? John Karl Scholz and Ananth Seshadri Michigan Retirement Research Center University of Michigan September 2009

*Based on the latest Social Security Trustees Report, the combined OASDI program will be insolvent by 2034, at which point there will be only enough incoming revenue to pay out 78% of scheduled payments.

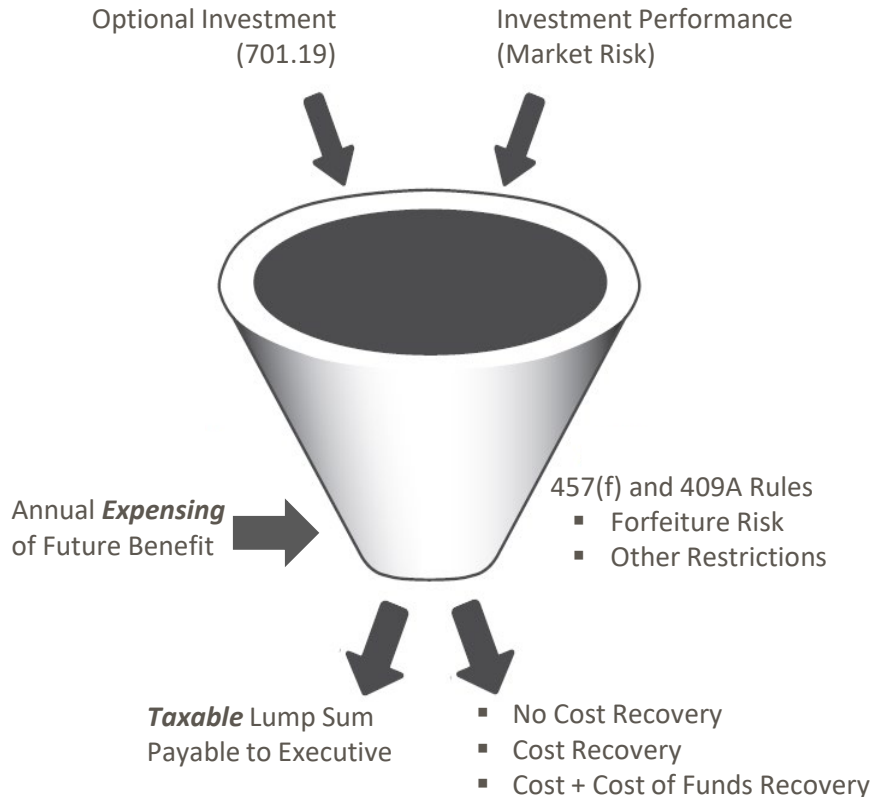
On the Solvency of Social Security, Brenton Smith 2021



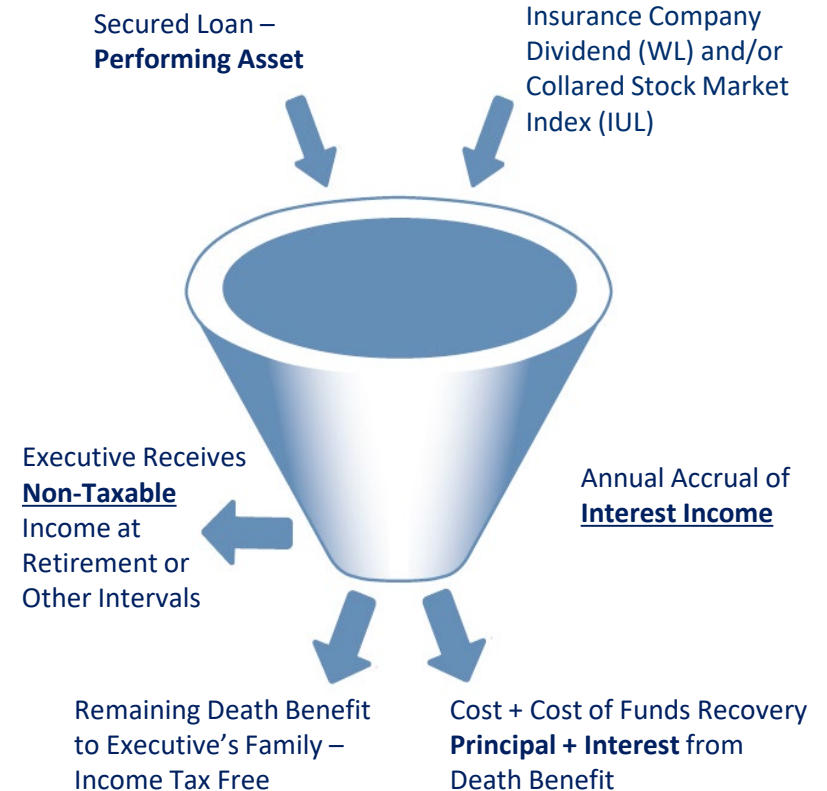
Supplemental Executive Retirement Plan Options

457 (f) vs. Collateral Assignment Split Dollar (Split Dollar)

457 (f)



Split Dollar



Note 2018 Tax Law: When total compensation exceeds \$1 million (i.e. salary + bonus + 457f payout), there is a 21% excise tax on the amount in excess of \$1 million, payable by the Credit Union.

Benefit Amount Alternatives

- Replacement Ratio
 - Percentage of final pay
- Fixed Dollar Amount
 - Ie: \$100k per year for 20 years
- Fixed Loan Amount
 - Ie: \$2M

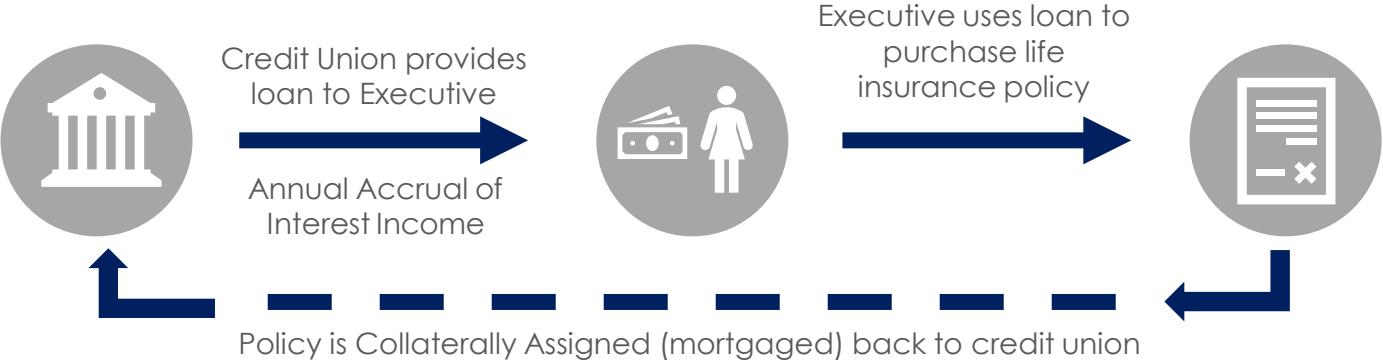
Collateral Assignment Split Dollar Plans

Funding

Mortgage



Split Dollar



Collateral Assignment Split Dollar Plans

Distributions

Home Equity Line of Credit (HELOC)

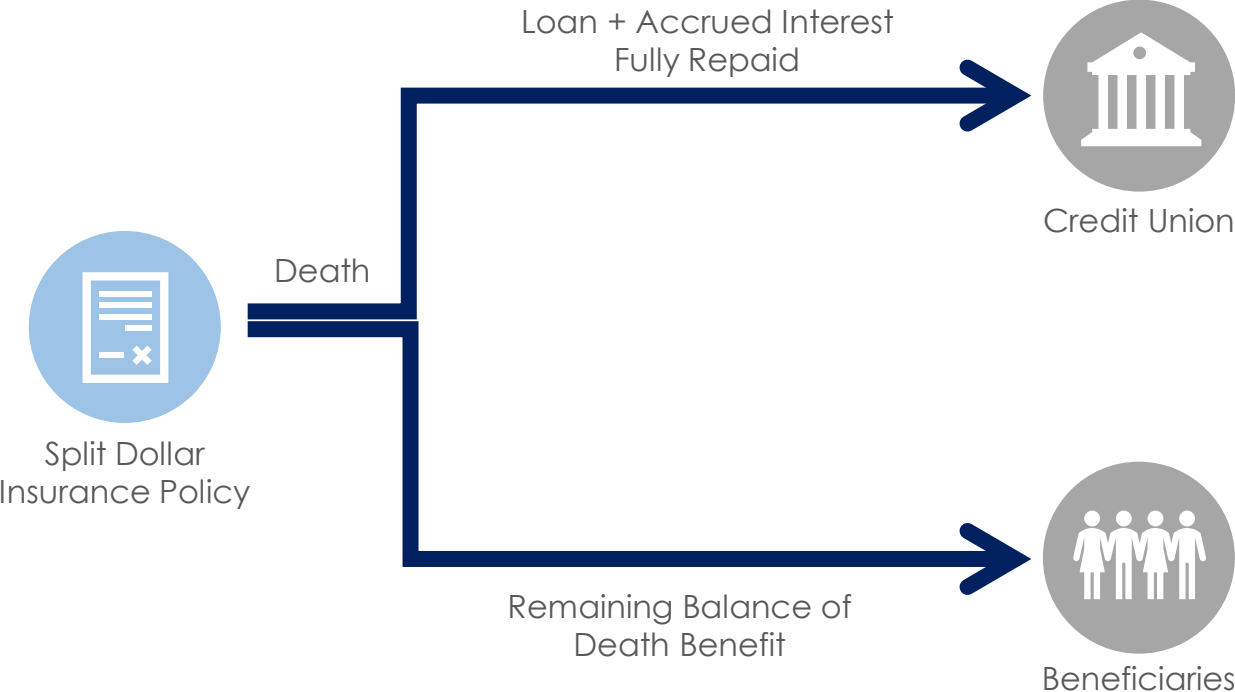


Split Dollar



Collateral Assignment Split Dollar Plans

Payback



Conclusion

- Rewarding and retaining your leadership is a lot more complicated than the amount you pay
- Questions?

Thank You!



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