STRATEGIC INSIGHTS FOR POLICY MAKERS

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SERPs Evolve to Address Retention, Too

Use of the tool expands to cover more executives—and earlier in their careers.

As you set your credit union's strategy for supplemental executive retirement plans (SERP) and recruitment plans, consider these statistics:

- **81% of credit unions** offer SERPs designed to target a specific percentage of an executive's annual income after retirement, whereas 19% structure them more like annual bonuses.
- **Nearly 50% of SERPs** are now created for professionals in the C-suite other than the CEO.
- **The adoption of 457(f)** and collateral-assignment split dollar (CASD) plans has grown over the past four years.

These statistics can help credit union boards determine where their SERP packages stand in relation to those of their peers. At year-end 2016, more than 3,700 executives representing more than 1,240 credit unions had one or more 457(f) or CASD plans, according to CUNA Mutual Group data.

Because this data represents actual buying behavior, it can add another level of insight to augment comprehensive annual survey results such as those found in CUNA's salary and compensation research.

A more meaningful benefit

For the 19% of credit unions that provide SERPs that mirror bonus plans, the most common plan contribution is 25% of annual salary for CEOs and 20% for non-CEOs.

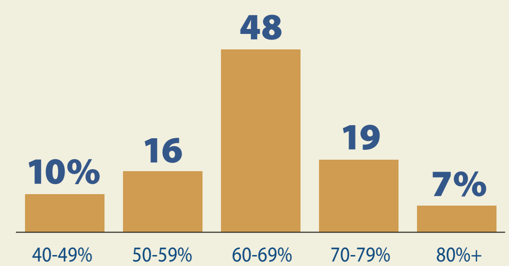
Certainly, these plans can help executives save for retirement. But the 81% of credit unions that use retirement income targets are creating a more meaningful benefit for their executives or recruits.

They're giving these executives a powerful tool to solve the retirement income gap that affects highly paid employees. The most common targeted salary replacement level for SERPs is 60% for both CEOs and non-CEO.

457(f) and split-dollar options

A 457(b) plan remains a popular tool for supplementing retirement income for executives. These are generally used as voluntary savings plans for the executives, although credit unions can contribute to them. But 457(b) individual contributions are capped. In 2017, that ceiling is $18,000.

CUs' Retirement Income Target for CEOs



Source: *CUNA Mutual Retirement Solutions*

In contrast, 457(f) plans, which the credit union contributes, aren't capped. They can be designed to provide income to executives before retirement at key life stages, such as when their children reach college age.

SERPs containing a CASD life insurance plan can also provide flexibility when executives draw income from them. With a CASD, the employee owns the policy and the employer lends the premium required to pay

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for it. These are more typically used for an executive nearing retirement age, but they're also purchased for new executives as part of employment agreements.

The increased funding potential and flexibility of 457(f) and CASD plans might be driving their popularity. Between year-end 2013 and 2016, 457(f) plans increased 9.3%, while CASD increased a whopping 48.2%.

Implementation occurring earlier

The perception that SERPs are mainly for rewarding long-term executives appears to be fading.

Certainly, additional benefits are often bestowed late in executives' careers. But data shows that credit unions implement 52% of SERPs within eight years of an executive's hire, and 70% are in place within 15 years.

These statistics show that the composition and timing of SERPs are shifting to provide additional short-term benefits to more levels of executives, who have flexible options for using the plans' proceeds.

This represents a positive trend for the credit union industry in protecting its best talent.

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Roots of the Retirement Income Gap

When employees who earn modest salaries during their careers retire, they can often replace 60% to 70% of their salaries with Social Security income in addition to proceeds from qualified, tax-deferred retirement plans such as a 401(k), IRA, and defined benefit pension.

But for many executives, these sources of retirement income replace a much smaller percentage of their salaries. In many cases, these standard sources of retirement income are projected to replace less than 40% of final salary.

A well-designed and monitored supplemental executive retirement plan (SERP) and recruitment plan can close the gap.

The law prevents credit unions from offering stock options and many other perks available to commercial financial institutions. So, SERPs are critical for credit unions to recruit and retain top executive talent.

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