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# Adjusting Deferred Compensation

*In the wake of the Great Recession, Railway CU effectively modifies its CEO's plan.* June 18, 2018

By John Pesh

*(The following is adapted from a case study in the CUES ebook,* Non-Qualified Executive Benefits: A Guide for Credit Union Leadership*.)*

Any executive non-qualified deferred compensation plan looks great when its assets are growing smoothly along with a strong economy. The proof of a well-designed deferred compensation plan, however, isn't only good returns—it's how well the plan protects the credit union's bottom line when the economy *isn't* strong.

The board of $106 million, 7,220-member Railway Credit Union, Bismarck, N.D., chose wisely when setting up a deferred compensation plan for CEO Paul Brucker in 2005. He'd been CEO since 1997 and overseen growth from $12 million in assets to $33 million.

Considering leadership retention, the board put into place an executive benefits package that included a life insurance policy with Brucker's family members as beneficiaries and a 457(f) plan scheduled to vest in 15 years, when Brucker would be 55.

The 457(f) plan was designed with a goal that the investments funding it would generate enough income to produce the full anticipated benefit at vesting and earn the credit union a bit of additional income to cover the cost of funds. (The board also purchased a key person life insurance policy on Brucker, with the credit union as the beneficiary, so if Brucker should die while CEO the credit union would have additional funds to cover recruitment and transition costs.)

In effect, the 457(f) plan was to operate as a gain-sharing program between Brucker and the credit union, with a target benefit amount—but no guarantees.

**Plan Revised After the Great Recession**

Brucker says he and the board chose this plan design rather than a defined-benefit program that might prove onerous for the small financial institution to fund. "We agreed that we could not put the credit union in harm's way," he says.

When the Great Recession struck, growth on the investments funding Brucker's plan slowed, stopped and went into negative territory. Although Railway CU had to record losses on those funds for a time, the investment performance returned as the economy recovered.

However, the low-performing years created a significant gap in targeted benefit and the projected returns. Railway CU's board was informed of the gap as part of its annual reviews and general oversight of the plan. As per the original plan design, the gap would affect Brucker's payout, not the credit union's bottom line.

But given Brucker's excellent performance and the board's continued desire to keep him at the helm, they chose to implement a supplemental 457(b) plan to help close the gap. The credit union fully funded the plan with monthly payments into the account, beginning in December 2012.

This appeared to be the most cost-effective option. The board determined that other options, such as adding to the 457(f) plan—or changing the structure of the investments funding it—would have larger up-front costs, such as attorney and investment fees and surrender costs. It's a testament to the plan's original design that options were available to adjust it to suit market conditions.

**457(b) Plan Complements 457(f) Plan**

As with a 457(f) plan, a credit union retains access to assets it contributes to an executive's 457(b) plan. However, these contributions are limited to an annual maximum ($18,500 in 2018).

Another key difference is that 457(b) plans may not be as strong a retention tool as a 457(f) plan.

Brucker's original 457(f) plan was structured so that he would not receive the benefits if he were dismissed for cause or left voluntarily before the plan vested. The 457(b) plan, on the other hand, is fully vested at all times so isn't subject to these restrictions.

Even so, Brucker remains the CEO at age 52, and by adding the 457(b) to the 457(f), the credit union has boosted the projected retirement benefit. "We're starting to close the gap on the original target," he notes.

John Pesh *is executive benefits director for CUESolutions platinum provider* *CUNA Mutual Group, Madison, Wis. For more information about supplemental executive compensation, read the CUES* ebook, Non-Qualified Executive Benefits: A Guide for Credit Union Leadership*. To learn more about becoming a CUESolutions provider, email Kari Sweeney.*

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