SUCCESSION PLANNING WITHOUT RETENTION PLANNING IS A HOUSE OF CARDS

A Credit Union Industry White Paper from

CU*influential*[sm]

Effective CEO succession planning can lead to a great internal successor. However, succession planning should not stop at the CEO. A key component of succession planning is retention planning for key executives and failure to provide comprehensive strategies for key leadership positions can leave the credit union vulnerable. Without a well-developed retention plan for C-suite and other key management positions, a credit union could face significant challenges in filling critical leadership roles. "Proactive, ongoing succession planning for key positions is essential to mitigate these risks and ensure a smooth transition of leadership."[1]

Key Takeaways

- Succession planning requires retention planning for the CEO and key executives.
- Increased "executive poaching" sabotages successful succession planning and key executives are very expensive to replace. Estimates suggest that it costs between 200% and 400% for every hundred thousand dollars of compensation to replace a highly compensated employee.[2]
- Today, the credit union employment market is highly competitive, and nonqualified deferred compensation plans, such as Supplemental Executive Retirement Plan (SERP) arrangements are a highly successful strategy to retain key employees.[3]
- Solution Showcase: Acumen Financial Advantage – a game changer for credit unions.

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[1] https://www.americascreditunions.org/blogs/americas-credit-unions/credit-union-boards-critical-role-succession-planning

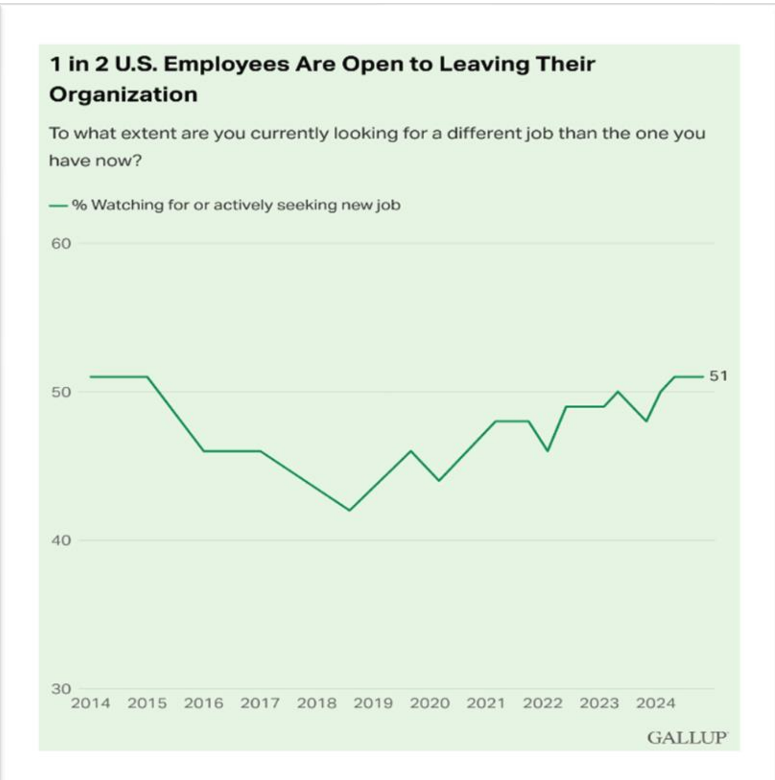
[2] https://fortune.com/2024/09/09/key-executives-poached-expensive-to-replace/

[3] "Creating a SERP Philosophy & Why it's So Important for a Credit Union," Steven Herrera, Modern Capital Executive Solutions, www.cuinsight.com, July 24, 2024

SUCCESSION PLANNING IS CENTER STAGE

Background. On December 17, 2024, the NCUA issued the final rule requiring credit union succession planning to become effective on January 1, 2026. While the regulatory and industry comments preceding the adoption of the final rule primarily focus on the NCUA's intention to mitigate the high number of credit union mergers – particularly of small credit unions – *the boards of all credit unions, regardless of asset size, must either review or adopt a regularly reviewed succession plan as well as adopt a key executive retention culture.*

Why larger credit unions? According to America's Credit Unions, only 54% of credit unions have a succession plan[4]**.** Recruiting and poaching activities focused on key executives of billion dollar financial institutions are becoming more prevalent, threatening to weaken the "bench strength" of larger institutions. Furthermore, recent Gallup reports that half of U.S. employees are open to leaving their current job.



A CLOSER LOOK AT THE FACTS: AGING SENIOR MANAGEMENT

Nearly one third (29%) of credit union CEOs are aged 60 years and older and half of CEOs are aged 55 and older. "Regular benchmarking of executive compensation and benefits against peers is crucial for credit unions to remain competitive in the talent market. It helps ensure that compensation packages align with industry standards and meet the needs of executives. Credit unions need to prioritize succession planning for CEOs and other key executives nearing retirement, and tailor benefit packages to individual preferences.[5]

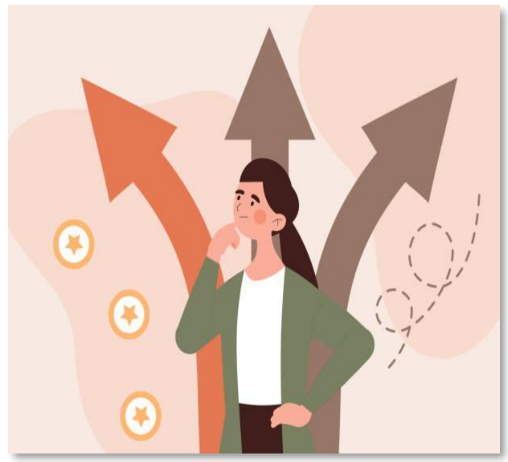
Turnover of potential successors to a retiring CEO. Half of U.S. employees (51%) are considering or actively seeking a new job, continuing a recent upward trend. While voluntary employee turnover rates have stabilized since the Great Resignation due to cooling economic and job markets, employees' long-term commitment to their organizations is currently the lowest it has been in nine years.

[4] https://www.americascreditunions.org/blogs/americas-credit-unions/credit-union-boards-critical-role-succession-planning
[5] https://www.linkedin.com/pulse/beyond-benefits-executive-compensation-survey-results-ptwlc/

Employee retention challenges are emerging, and failing to act could lead to costly replacements in the future. Gallup estimates that the replacement of leaders and managers costs around 200% of their salary, the replacement of professionals in technical roles is 80% of their salary, and frontline employees 40% of their salary.[6]

According to Gallup, self-reported employee turnover risk is at its highest point since 2015. As of May, 2024:

- 51% of US employees are watching or actively seeking a new job.
- 42% of employees who voluntarily left their organization in the past year report that their manager or organization could have done something to prevent them from leaving their job.
- 30% of turnovers could have been prevented with additional compensation or benefits.



CEO succession planning can be fraught with hidden risks and challenging dynamics that, if not recognized and managed, can derail the process and destroy value. Losing a strong internal succession candidate is a greater risk than many boards appreciate. Boards should assume that the strongest internal candidates frequently receive calls about opportunities at other financial institutions. When key employees trust the succession process and timeline, they don't take recruiter calls — but that can change abruptly. All too often, the CEO and board do not know enough about what's on the minds of these executives and there can be many reasons why a leading internal candidate might begin to mistrust the process. Insiders often have too little transparency into the succession process and the relative roles of the board and CEO in developing and selecting the CEO successor.

THE NECESSITY TO RETAIN CEO SUCCESSORS AND OTHER KEY EXECUTIVES

Executive management teams at credit unions, on average, consist of C-Suite leaders with long-standing tenure similar to that of the CEOs. Their careers are often immersed in single disciplines (sales, operations, finance, etc.). They are, by and large, not a racially or gender-diverse group. Taking all these factors together, the reason for the NCUA's recent action becomes clear.

Within the top 50 credit unions, the most recent data shows that senior management teams (defined as business unit leaders as well as the CFO and COO, CIO, and CAO/CMO, when applicable) have an average of 15 years at the same credit union and 11 years in the same role. This statistic in and of itself is not concerning until it is matched with the fact that less than 15% of these executives have cross-functional experience and their average years of experience are north of 30.

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[6] https://www.gallup.com/workplace/646538/employee-turnover-preventable-often-ignored.aspxhttps://www.gallup.com/workplace/646538/employee-turnover-preventable-often-ignored.aspx

Chief Executive Officers average almost 11 years in their role with a tenure of over 20 years at the same credit union. Ninety four percent (94%) of new credit union CEOs over the last five years have come from within the industry. Less than 20% are gender diverse and less than 4% are ethnically diverse.

CEOs and boards must have ready-made successors in the wings who are truly qualified, have enough career runway to deliver continuity and are confident in their chance to become CEO at their current credit union. But the few candidates that tick these boxes enjoy ample opportunity for recruitment by other credit unions. Since most credit unions do not have established C-Suite executive development programs to create strong internal candidates, they are severely limited in their choice of executives. According to a 2016 NAFCU Executive Compensation and Benefits Survey, more than 70% of executives are age 50 and older. Nearly three out of 10 executives are, or will be, eligible for retirement in the next five years. This statistic is fueling the fire for credit unions to be proactive about recruiting C-level talent and creating tailored offers to attract future leadership.[7]

SUPPLEMENTAL EXECUTIVE RETENTION PROGRAMS (SERPs) - INTRODUCING A WINNING RETENTION STRATEGY FOR CREDIT UNIONS

In order to attract and retain the key members of the C-Suite it is critical to execute a winning retention strategy. Many credit unions go beyond just salaries and bonuses to keep top executives motivated. Executives who have already reached the contribution limits of qualified retirement plans need additional ways to save for retirement. Employees who have demonstrated loyalty over many years can and should be rewarded with substantial retirement benefits, incentivizing key leaders to remain committed to the credit union. Supplemental executive retirement plans (SERPs) provide additional, tailored benefits that help keep leaders engaged while planning for the future. 82% of companies state that offering nonqualified deferred compensation plans, typically targeting employees earning $150,000 and above, has had a positive impact...Most Fortune 500 companies are likely to offer this option, with mid-market companies increasingly doing so.[8]

By providing additional supplemental retirement income, credit unions can attract and retain talented executives who might otherwise consider offers from competitors.

Supplemental Executive Retention Programs (SERPs) are customized plans that focus not only on retention, but on providing re-capture to the entity providing the benefit. SERPs take on different forms, including entity owned insurance, restrictive bonus arrangements and split dollar programs. The plans are life insurance funded programs because life insurance values grow tax deferred, death benefits are income tax free, and distributions from life insurance can be designed to be income tax free. There are no other

[7] https://www.russellreynolds.com/en/insights/articles/how-credit-unions-can-develop-concrete-ceo-succession-plans

[8] Tony Greene, present, NFP Executive Benefits, September 2024

financial instruments which allow for the same treatment. Thus, returns on investment (ROI) are greater when compared to assets within similar classes.[9]

Linking SERP benefits to performance goals or service duration makes them a powerful retention strategy. Executives are motivated to stay with the credit union to access these long-term benefits, which also helps credit unions maintain stability in their leadership teams.

Because of their exclusivity, SERPs are not offered to all employees, making them a targeted tool for rewarding and retaining leadership. Let's take a closer look at SERPs with the help of Investopedia:

A supplemental executive retirement plan (SERP) is a set of benefits that may be made available to top-level employees in addition to other retirement savings plans. A SERP is a form of deferred-compensation plan.

Characteristics of a SERP. A SERP is structured through an agreement that outlines how it will be funded, when the benefits become available, and the method of distribution. These details help create a retirement plan that works on multiple levels. Below are the main components that define how SERP plans operate:

- **Funding methods:** Credit unions can choose various ways to finance a SERP, such as setting aside cash flows, purchasing cash value life insurance, or investing through other financial vehicles. Each funding option has its own risks, from liquidity challenges with cash flow funding to market exposure with investments, and upfront costs with cash value life insurance. Credit unions must choose a strategy that fits their financial situation and goals.
- **Vesting schedules:** A vesting schedule specifies the requirements an executive must fulfill to receive benefits. This could include tenure with the credit union or hitting certain performance goals. Vesting not only incentivizes executives to stay but also aligns their performance with the credit union's success.
- **Payout structures:** SERPs provide flexibility when it comes to distributing funds. Executives can often choose between receiving payments over time or taking a lump sum. This flexibility allows for tailored planning to meet specific financial needs during retirement.
- **Tax implications:** SERPs grow tax-deferred, meaning taxes are postponed until the benefits are paid out.
- **Life insurance role:** SERPs can incorporate a death benefit, which is typically funded through cash-value life insurance. This feature allows for financial protection for an executive's family, offering more than just retirement benefits and adding another layer of value to the plan.

Credit unions use SERPs as a way to reward and retain key executives. Because these plans are non-qualified, they can be offered selectively to key executives, whose contributions to the company's qualified plan – such as a 401(k) - must follow the maximum contributions rule set annually by the IRS.

[9] "Retention Planning: Considering C-Suite Turnover," Jeffey Adler, Modern Capital Executive Solutions, February 5, 2024.

Typically, the credit union and the executive sign an agreement that promises the executive a certain amount of supplemental retirement income based on various eligibility conditions that the executive must meet. The credit union funds the plan out of its current cash flows or through the funding of a cash-value life insurance policy. The money, and the taxes on it, are deferred. After retiring, the executive can withdraw the money, He or she must pay state and federal taxes on it as ordinary income.

Advantages of a SERP. Supplemental executive retirement plans are options for credit unions seeking to incentivize key executives. As they are non-qualified, they require no IRS approval and no minimal reporting.

The credit union controls the plan and is able to book an annual expense equal to the present value of the stream of future benefit payments, much like an annuity. When the benefits are paid, the credit union is able to deduct them as an expense.

When a cash-value life insurance policy is used to fund the benefits, the credit union benefits from tax-deferred accumulation inside the policy. In most cases, the policy can be structured in a way that allows the credit union to recover its costs.

For executives, the plan can be tailored to meet specific needs. The benefits accrue to the executive without any current tax consequences.

When funded with a cash-value life insurance policy, death benefits are available to provide a continued periodic payment or a lump-sum payment to the family in the event of the executive's death. Depending on the details of the policy, these benefits can support a surviving spouse and potentially the executive's dependents. Beneficiary designations are important with such policies because they supersede what is written in a will, and allow assets to be distributed while an estate is in probate or even if the executive died intestate.

What happens to a SERP if the employee terminates? If the employee leaves, what happens to his or her supplemental executive retirement plan (SERP) depends on the conditions set in the agreement with the credit union. If the SERP was based on a vesting structure, and the employee parts ways with the credit union before the employee is fully vested, then unvested assets are forfeited.

There are two vesting structures, according to the IRS: graded vesting and cliff vesting. The former distributes assets in a set, periodic schedule over time (for example, 20% per year), whereas the latter distributes assets all at once, after a certain period of time (for example, after an employee has worked for four years at a company).[10]

[10] Internal Revenue Service “Retirement Topics-Vesting.” https://www.irs.gov/regirement-plans/plan-participant-employee/regirement-topics-vesting

Who Funds a SERP? The credit union funds the supplemental executive retirement plan (SERP). It is typically funded through a cash-value life insurance policy, which the credit union purchases for an agreed-upon amount for the employee. The policy may have survivor benefits for the executive's beneficiaries.

How is a SERP Paid Out? A supplemental executive retirement plan (SERP) is typically paid out either as a lump-sum payment or as an annuity. A lump sum arrives all at once, which may have the impact of raising the employee's income into a higher tax bracket. An annuity is deposited over time periodically, in a set schedule.

"Nearly one-third, 29%, of CEOs are aged 60 years and older. While this percentage has remained relatively stable over time, it's essential to recognize the implications of CEOs nearing retirement for recruitment, succession planning, and retention efforts. Given the post-pandemic trend of early retirements, the fact that half of CEOs are aged 55 years and older raise concerns about leadership continuity and transition strategies.

Regular benchmarking of executive compensation and benefits against peers is crucial for credit unions to remain competitive in the talent market. It helps ensure that compensation packages align with industry standards and meet the needs of executives. In managing total compensation, credit unions need to consider the competitive talent market, regulatory compliance for nonqualified plans, prioritize succession planning for CEOs and key executives nearing retirement, and tailor benefit packages to individual preferences."[11] SERPs are not designed to replace other retirement accounts, but rather to enhance them.

Proper credit union retention strategies require the expertise of a qualified and dedicated financial performance partner who will tailor SERPs to meet the specific and unique needs of both the credit union and the individual executive.

Introducing Acumen Financial Advantage:

Acumen
FINANCIAL ADVANTAGE

Acumen Financial Advantage is the financial performance partner of choice for mission-driven credit unions specializing in optimizing programs that attract and retain top talent, increase investment yields, and maximize charitable impact. As a single-source provider for both qualified [401(k)] and non-qualified (SERP) plans, Acumen simplifies retirement planning while delivering unparalleled value. Acumen's tailored strategies reduce costs, enhance services, and provide a seamless experience for their clients, elevating retirement planning to a higher standard.

[11] https://www.alliedsolutions.net/resources/allied-insights/beyond-benefits-executive-compensation-and-benefits-survey-results-are-in/

Through unmatched industry expertise, dedication to superior performance, and a consultative, high-touch approach, Acumen leverages untapped strategies - meticulously designed to outperform industry benchmarks. The result is bespoke solutions that meet each client's unique, evolving needs and empower them to more efficiently live their mission.

Acumen Financial Advantage is the evolution of **Acumen Insurance Solutions**, awarded Best Credit Union Advisory Firm in the USA by Wealth & Finance International for work in employee benefit plans, with long-time partner **MCES**, a consulting firm rooted in the credit union space providing expertise in executive benefits and retention planning to C-Suites and boards. The combination offers 400-plus combined years of expertise, 200+ loyal clients, 750+ successful audits and over $3 billion projected returns and savings for credit unions.

- Acumen offers bespoke solutions tailored to the unique needs of each credit union, setting them apart from competitors who provide off-the-shelf products.
- The customization process involves deep expertise in insurance, finance, and credit union regulations, ensuring that clients receive solutions that fit their specific organizational requirements.
- By focusing on customization, Acumen enhances client satisfaction and loyalty, as credit unions feel they are receiving personalized service rather than a generic offering.

A unique and proven credit union focus:

- Bespoke solutions for credit unions offer tailored services that meet the unique needs of each organization.
- These solutions leverage deep expertise in finance, insurance, and credit union regulations to create customized offerings.
- By providing personalized products, credit unions can differentiate themselves from competitors who offer more generic, off-the-shelf solutions.

Balancing limited resources with ambitious goals is never easy. But for mission-driven credit unions, achieving the highest possible return while minimizing costs is an everyday battle. Acumen Financial Advantage realizes every precious dollar invested is critical to funding a credit union's operations, mission and future.

Ryan Millman, CEO of Acumen Financial Advantage, is the former CEO of Modern Capital Executive Solutions. As a former senior partner of Stearns Financial Group and Regional Vice President of BFB Gallagher, he is recognized as an industry expert regarding non-qualified deferred compensation. Ryan has worked with over 200 tax-exempt organizations with updating, enhancing, and designing their supplemental executive and key leadership member retention plans. A common theme across his consulting engagements, Ryan focuses on aligning data, relationships, and circumstances to drive mutually beneficial outcomes for both the organizations and individuals in question. Ryan graduated from Tufts University in 2015 with a dual degree in Quantitative Econometrics and Entrepreneurship. At heart, Ryan is an entrepreneur that is driven by helping individuals in all aspects of his life.

Ryan reflects on Acumen's credit union expertise: "At Acumen, we craft tailored solutions to enhance retention and optimize financial performance. We're able to leverage our deep knowledge of tax codes, NCUA regulations, and institutional life insurance, and we align to leadership and board priorities to create custom solutions for long term success. As a single-source provider for both qualified (401(k)) and non-qualified (SERP) plans, Acumen simplifies retirement planning while delivering unparalleled value. Our tailored strategies reduce costs, enhance services, and provide a seamless experience for our clients, elevating retirement planning to a higher standard. Acumen is not just a provider; we are your exclusive financial performance partner, dedicated to achieving unparalleled impact and success. With an unwavering commitment to client service, we deliver solutions that are not only cost-effective and flexible but uniquely designed to foster long-term growth."

Acumen Financial Advantage

- **400+ combined years expertise**
- **200+ loyal clients**
- **750+ successful audits**
- **$3+ Billion projected returns and savings for credit unions**

Because measurable impact is everything.

Millman continues, "Success is measured through the tangible outcomes we achieve for our clients. We set clear benchmarks and track progress meticulously. Our goal is to ensure that every initiative leads to significant, measurable impact."

Examples of what credit unions have to say about Ryan Millian and his team:

- "*Our experience ... was exceptional, characterized by consistent responsiveness and a strong commitment to achieving the best outcome for our team. Ryan Millman's dedication and hard work were evident throughout our collaboration, ensuring a positive and successful partnership."* - Chris Harlan, President and CEO, University of Illinois Community Credit Union ($678.2 million), Champaign, IL .

- "*Since 2020 (they) have been providing us with the ability to retain top leadership within our organization by offering competitive retirement options. We appreciate our partnership."* - Julie Marquis, President and CEO, Five County Credit Union ($384.3 million), Bath, ME.

- *"... As a new CEO, you have a lot of competition for your time, but the team made it easy to make progress and implement an executive retention program. Similarly, their attention to detail and ability to provide a variety of considerations and options made the experience extremely productive for the institution and executive."* - Kris VanBeek, CEO, Rockland Federal Credit Union ($3.17 billion), Rockland, MA.

- *"Our experience ... has been incredible! Ryan is extremely knowledgeable and was able to provide myself and all my managers with executive benefit plans that not only took care of my credit union in regards to succession but benefited them personally with tax free retirement benefits. He was also able to provide the credit union more income each month with the new retirement investments he hooked us up with."* – Christine Devine, President and CEO, KV Federal Credit Union ($124.8 million), August, ME.

- *"They understand us by customizing our program to our risk tolerance, performance, and benefit objectives. In addition, we find them easy to work with and one of the most* *responsive partners as they always get back to us immediately with the answers or follow-up items that we need. Ryan Millman is one of the best in the industry and they are top notch in support of regulatory, training, and accounting/balancing needs for our credit union."* – Rick Weber, President and CEO, OceanAir Credit Union ($865.7 million), Oxnard, CA.

- *"Ryan Millman and (team) have been great to work with. They set up Highmark's Charitable Donations Account and also rescued a split-dollar SERP that was underperforming. I highly recommend."* - John Carlson, President, High Mark Credit Union ($253.5 million), Rapid City, SD.

CONCLUSION

Talent wars are heating up and the credit union employment market is highly competitive. In addition, credit union CEOs and other key executives are approaching retirement. More than 70% of executives are aged 50 and older. Nearly three out of 10 executives are, or will be, eligible for retirement in the next five years. While all executives in their 50s are not alike, their needs are definitely different from executives in their 30s or 40s. Executive benefits planning done right considers the needs of both the credit union and the individual.

In order to avoid creating a house of cards, credit union boards must ensure their CEO succession plans are built on a strong foundation of retention strategy.

SERP arrangements are frequently used to retain key employees, while offering future-oriented incentives tied to their retirement goals. The purpose of a SERP is to retain and reward those who are driving the day-to-day objectives and long-term goals of the credit union. A SERP allows an employer to provide a highly compensated key employee with additional retirement benefits beyond those provided by traditional qualified plans. The financial rewards paid to key executives are human capital investments in the success of the credit union.

Deeply rooted in credit unions, Acumen Financial Advantage understands the daily challenge of balancing earnings with member experience and expenses. Their unrivaled expertise in analyzing the latest market trends and tax codes alongside each credit union's data means Acumen delivers solutions that are not only cost-effective, but uniquely designed to foster long-term growth. Rewarding top performers and planning leadership transitions requires strategic investment expertise. Acumen's unmatched industry expertise, dedication to superior performance, and consultative, high-touch approach leverages untapped strategies meticulously designed to outperform industry benchmarks. The result? Bespoke solutions that meet each client credit union's and their key executives' unique, evolving needs, and outperform industry benchmarks. Because measurable impact is everything.

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About CU*influential*sm

CU*influential*sm *(www.cuinfluential.com)* is dedicated to enhancing the strength of the credit union industry by accelerating collaborative growth among credit unions, CUSOs and credit union industry vendors and service providers.

Founder Mike Hales served on the National Association of Credit Union Service Organizations (NACUSO) as a board member and during his 18-year tenure he chaired the NACUSO Governance, Membership Growth, and Business Services Committees. He has been president of two Credit Union Service Organizations, and a veteran bank and credit union consultant with Moss Adams, LLP, Counter Intelligence Associates, and the Rochdale Group where he oversaw the development and launch of 16 multiple credit union-owned CUSOs.

Mike is a graduate of the Lincoln University School of Law as well as the *ABA School of Bank Marketing Management and Strategic Planning* at the University of Georgia, and the NACUSO/Pepperdine University *Designing and Implementing Collaboration and Business Networks* certificate program. He is the author of "*The Handbook of Consumer Banking Law*" © Prentice Hall and "*The Language of Banking*" © MacFarland & Company.