

Prove to Your Leadership Team— The Grass is Greener Right Here

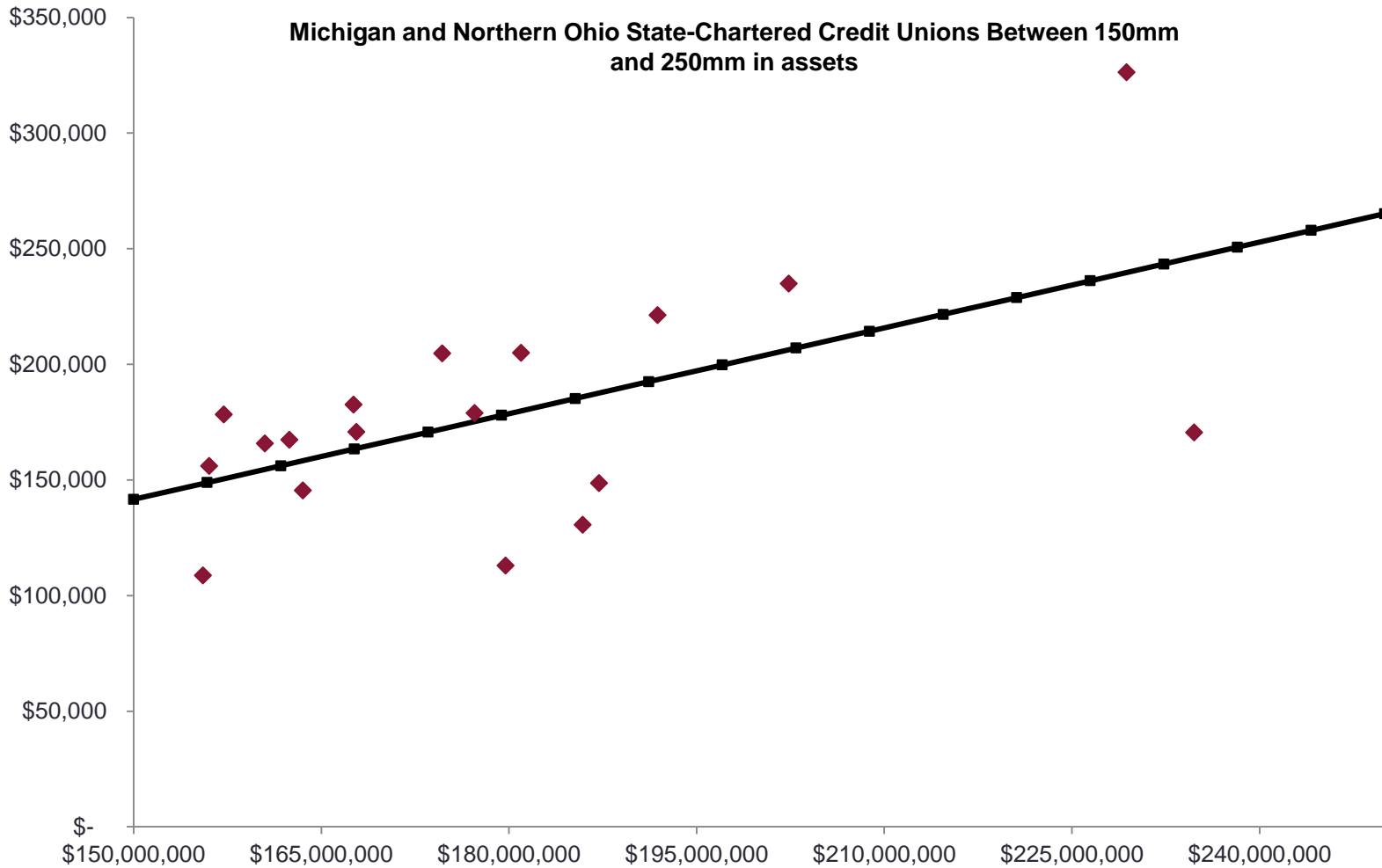
By John Moreno
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What is “Green Grass”?

Grass Variety	 Sir Walter	 Sapphire	 Palmetto	 Empire	 Wintergreen	 Oz Tuff
Water Use	Low	Medium	Medium	Medium	High	Low
Drought Tolerance	Excellent	Medium	Medium	Excellent	Medium	Excellent
Fertiliser Requirement	Medium	Medium	Medium	Medium	High	Medium
Heat Tolerance	Excellent	Medium	Medium	Excellent	Medium	Excellent
Shade Tolerance	Excellent	Good	Good	Medium	Low	Medium
Wearability	Excellent	Excellent	Medium	Excellent	Medium	Excellent

Compensation?



Source: Multiple Forms 990 sourced through Guidestar.org



Does Pay = Performance?

Our Journey



**CUNA
MUTUAL
GROUP**



Lies, Damned Lies and Statistics!

Industry Trends

3x

Investments in financial tools tripled to **12.2 billion** in 2014 ¹

72%

Millennials **more likely** to bank with non-financial institutions ²

10 yrs.

In the next 10 years we'll see more **disruption and changes** ³

¹The Future of Fintech and Banking: Digitally disrupted or reimagined?, Accenture Financial Services, 2015.

²Turmoil in Payments: Keys to Credit Union Success, Filene Research Institute, 2015.

³Brett King, co-founder of Moven, a mobile-centric banking app described by Wired, Forbes and The New York Times as "the bank of the future."

Credit Union Environment

10%

Credit union CEOs eligible to retire within 2 years. ¹

40%

Increase in number of CEOs who plan to retire in next **2 years** ²

25+

Credit union CEO and C-Suite jobs currently **posted on CU Times** ³

¹CUNA Salary Staff Report 2016-17

²Complete Staff Salary Survey, 2014-2015, CUNA

³Credit Union Times website, Sept.2016

Where Will Your Next Leader Come From?

Common Trends



68% of credit unions have a CEO succession plan in place ¹

63% of company's report employee retention as their top concern (a 125% ↑ since 2009) ²

2/3 of CEOs are hired externally from financial services industry ³

Only **25%** agree that there is an adequate pool of ready successor candidates for the CEO position ⁴

¹ CUNA Staff Salary Report, 2011-17

² 2015 Compensation Best Practices Report, PayScale

³ CUES Board Benchmarks & Best Practices, 2014

⁴ The Institute of Executive Development, Stanford University, 2014

Transparency



Audience Poll

How many of you are in the process of filling executive management positions at your credit union or have gone through this process recently?



Recruitment & Retention Strategies



Succession/mentorship

- Adequate training & resources
- Growth and promotion opportunities

Compensation/incentives

- Competitive pay/pay surveys

Deferred compensation plans

Non-cash rewards

Leadership Continuity – Key to Recruitment/Retention

Two Key Elements:



Continuing
education
program



Supplemental
executive
compensation
package

Maintaining Bench Strength

- Prevent disruption of meeting **strategic and financial goals**
- **Continuity** of decision making
- **Recruit, retain and reward** key employees

What Are CUs Doing to Protect Their Leadership?

75% of credit unions offer 457(b) plans*

55% of credit unions offer 457(f) plans*

30% of credit unions offer both plans*

*CUNA Compensation Survey for CUs with \$100M+, 2016-17

Supplemental Executive Retirement Plans (SERPs)

SERPs - Benefits

Resolves the **income gap** for executives

Used to leverage and enhance **successions plans**

Attractive to top talent during **recruitment**

Retention strategy

Reward top performers

SERPs – Options

Popular Plans	Descriptions
457(b)	<ul style="list-style-type: none">• Supplement to 401(k)• \$18,000 contribution limit in 2016• Income taxes deferred until distribution• 990 form report each year for deferred amount
457(f)	<ul style="list-style-type: none">• Eligible employees are a select group• No contribution limits• Taxes in the year the “risk of forfeiture” lapses• 990 form report each year for accrual amount, then entire amount once vested
Life-Insurance Based	<ul style="list-style-type: none">• Alternative to 457(b)• No program limits• Executive applies for whole life insurance• CU pays premium, which may be treated as a loan or compensation

SERPs – Uses

Popular Plans	Descriptions
457(b)	<ul style="list-style-type: none">• Supplement 401(k) when maxed out• Appropriate for exec at any life stage• Retirement payout
457(f)	<ul style="list-style-type: none">• Payouts at set intervals in time, to coordinate with the executives life events• Retention or Retirement• Recruitment
Life-Insurance Based	<ul style="list-style-type: none">• Appropriate for execs with 10-15 years until retirement• Most commonly paid out at retirement time• Retirement• Recruitment

Investment/Product Options

- Annuities
- Business-Owned Life Insurance
- Investment-Based
- Combination



How Are SERPs Changing Today?



Use of sophisticated investment strategies

Use of institutional insurance-based programs

Offered to more executives below the CEO level

What is CUNA Mutual Group Doing?



Nearly **4,000 executives** at **1,200+ credit unions*** have one or more CUNA Mutual Group Executive Benefits plans:

- Avg. # of 457(b) Plans/CU = 3
- Avg. # of 457(f) Plans/CU = 2
- Avg. # of Split-Dollar Life Insurance Plans/CU = 1.75



More than **\$2.2 Billion** in assets* supporting these plans

*CUNA Mutual Group Internal Data, Dec. 31, 2015

Action Plan

Compensation Philosophy

- Align your compensation philosophy with market and CU Goals
- Reinforce leadership continuity

Competitive Design

- Use peer compensation data to help competitiveness
- Include compensation plan as component of your succession plan

Regulatory Soundness

- Work with a firm and trusted service commitment
- Ability to provide flexible designs, top carrier products, funding options, exceptional knowledge and strong adherence to changing regulatory environment

Due Diligence

Regulatory Considerations



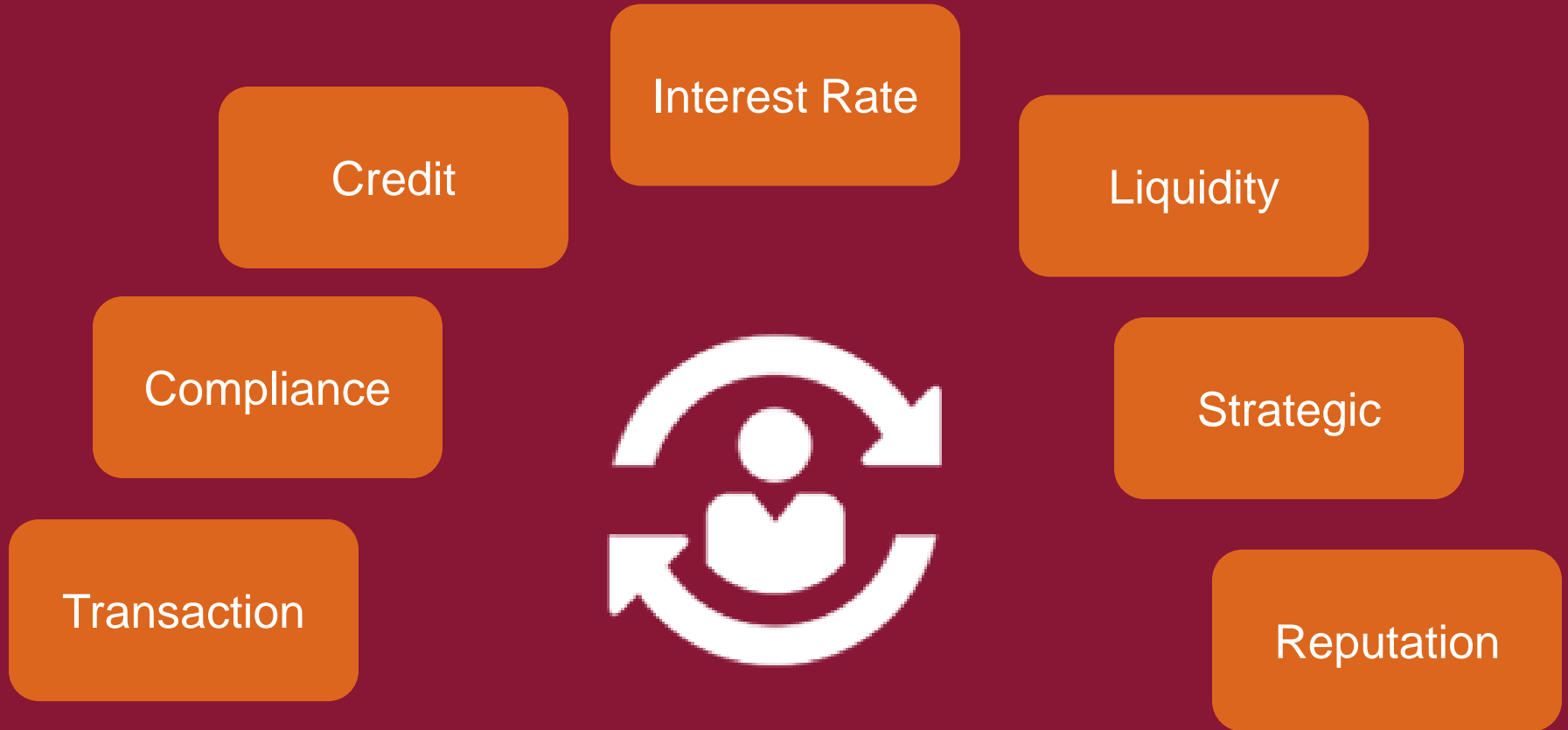
- NCUA Letter on **5300 CU Call Report** (updated March 2014)
- Collateralized Assignment **Split-Dollar Policies** (State and Federal regulations)
- Michigan Bulletin 2013-18 CU
- NCUA guidelines on **impermissible investments** (Q4 2015 or Q1 2016)
- FASB Accounting Changes

Due Diligence

- **Analyze the program for:**
 - Legal authority
 - Accounting considerations
 - Risk management
- **Evaluate alternatives** to the program and/or investments
- **Regulatory reporting** items
- Ongoing **3rd party vendor relationship**

Due Diligence, cont.

Analyze risks associated with the program:



In Conclusion

Market Trends

- More Transparency
- More Competitive Environment

Leadership Continuity

- Offer Leadership Enrichment
- Augment with Retention Strategy/Tools

Actionable Steps

- Rational, Consistent Process for Plan Establishment
- Work with Reputable, Stable Providers

Questions?

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