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The Role of the Credit Union Compensation Committee

The role of the Compensation Committee has never been more important than it is today. The need to make informed and appropriate compensation and benefit decisions must be balanced with the best interests of the credit union. In order to accomplish this, the Committee must be knowledgeable about its responsibilities, and equipped with complete information to evaluate its options.

The purpose of the Compensation Committee is to assist the Board in fulfilling its fiduciary responsibilities with respect to the oversight of the credit union's activities in the areas of compensation plans, policies, and programs, especially those respecting executive compensation and benefits. Each year (or as directed by the Board) the Committee provides the Board with a report regarding its recommendations, and rationales for those recommendations. The primary responsibilities of the Committee are to ensure that compensation programs:

- ✓ Encourage high performance,
- ✓ Adhere to the credit union's values, and
- ✓ Align employee interests with the long-term best interests of credit union members.

The evaluation process for executive compensation and benefits can become sidetracked in a comparison of compensation metrics and vendor proposals presented in a context that does not provide the necessary information for the Compensation Committee to make complete, informed, and effective recommendations to the Board.

Due to increased competition for executive talent, and a difficult global economic environment, it is wise for the Committee to go beyond the traditional evaluation of like-sized credit union compensation and benefit packages. To do this, the Committee responsible for executive compensation and benefit oversight should consider the use of outside assistance, such as an independent consultant to guide them through the process.

Most Committees have the authority to select compensation and benefits consultants to provide them with independent advice. In addition, the Committee should have access to credit union staff to gather data and advice in connection with the Committee's review of management compensation practices and policies.

Often, the Committee is also responsible for the leadership development processes and practices. It is important for the Committee to keep accurate records of its meetings and recommendations in the form of minutes and notes. In most

governance systems, the Committee Chair reports to the Board following Committee meetings or as requested by the Board.

The Compensation Committee is generally responsible for:

- Overseeing succession planning, including consulting on an ongoing basis with the Chief Executive Officer and the Board to stay current on management development activities, performance, and advancement potential of current and future senior management;
- Evaluating succession plans and reviewing the probability of retention of high-level, high-potential succession candidates;
- Assessing the overall compensation structure of the credit union and structuring a written statement of compensation philosophy and strategy;
- Selecting appropriate peer groups and periodically reviewing executive compensation in relation to these peer groups;
- Reviewing and approving credit union goals and objectives relating to the compensation of the Chief Executive Officer;
- Evaluating the performance of the Chief Executive Officer in relation to those goals and objectives, and making appropriate recommendations for improving performance;
- Establishing the overall compensation package of the Chief Executive Officer;
- Leading the Board in a review of the Chief Executive Officer's performance in executive session;
- Reviewing and approving compensation for all other key officers of the credit union; and
- Administering and reviewing all executive compensation programs and long-term incentives.
- In addition to the above responsibilities, the Committee should review and evaluate its own activities and the general effectiveness of the Committee on an ongoing basis.

In order to fulfill its fiduciary duties to the credit union membership, it is important for the Compensation Committee to articulate its objectives in a written philosophy statement, and then use this statement as a guiding point in its decision making process. The Committee should make recommendations to the Board only after it is satisfied that it has made a fully informed decision, and the recommendation will meet its responsibilities to the credit union and its membership.

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