



ENDSIGHT

Volume 38
Fourth Quarter
2009

ENDSIGHT is a quarterly publication of Executive Compensation Solutions, which is entirely responsible for its content. Please contact us at www.ecs-m.com, creditunion@ecs-m.com or (626) 914-2333.

It's A Matter of Success (A Goal Properly Set is Halfway Reached*)

Retaining experienced and visionary leaders requires a credit union board to examine reasonable and meaningful executive attraction, retention and reward programs. This is especially important in troubled economic times when credit unions are competing with other financial institutions for talent that can create value for the credit union and its members. The NCUA and state regulatory agencies have advised boards that they need to treat retirement and succession as a primary board responsibility. In their consideration of reasonable and meaningful executive benefits, boards should incorporate the following steps into their decision paths.

1. It is important to make informed decisions. Boards must not only consider their retirement and succession responsibility; they must educate themselves on the compensation and benefit environment in which they compete for talent. This is not an easy task, especially in an uncertain economy. However, there is sufficient data available (both in the credit union movement and in the banking industry) to make informed decisions.
2. It is important to know the marketplace. The tools that got the credit union to where it is will not necessarily get it to where it needs to be. Board members should avoid making decisions about executive compensation and benefits solely based on how their own compensation and benefits were structured.
3. It is smart to interview consultants with expertise in the design, implementation and administration of credit union executive compensation and benefits. Boards should build relationships that allow for dialogue and exploration of ideas, and are based on shared values and commitment. Trust should be built on character and competence rather than the numbers. The numbers will change!
4. It is necessary to understand the overall financial impact of the executive compensation and benefits on the organization. Boards must look at not only the expense and liability (both in the short term and long term), but also to the positives that should come from the implementation of retention and reward programs. The purpose of the plan and its effectiveness in attracting, retaining and rewarding key talent is more important than the exact numbers.
5. It is necessary to develop a monitoring process for the programs. Boards need a transparent way to continually monitor what they implemented, to assure effectiveness in meeting expectations and compliance with regulations. This is where you make the numbers come out right!

Increasingly, credit unions are utilizing reward and incentive programs to attract, motivate, retain and reward those people who create value for their institutions and for their members, and there seem to be few obstacles to the acceleration of this trend. A goal properly set is halfway reached. It's a matter of success.

* *Abraham Lincoln*

403(b) Changes – Executive Compensation Implications

Final regulations under IRS Code section 403(b) require plan sponsors to adopt a written plan document that fully complies with complex regulatory requirements on or before December 31, 2009. Ongoing good faith operational compliance with the 403(b) regulations is required until that time. The 403(b) regulations were promulgated to diminish the extent to which a 403(b) plan differs from other salary reduction arrangements, such as 401(k) plans. The 403(b) plan must be maintained pursuant to a written plan and must satisfy all terms and conditions for eligibility, limitations, and benefits in both form and operation.

One provision requires employer contributions to 403(b) plans to comply with nondiscrimination requirements. Prior to the changes in legislation, employers could comply with these regulations by meeting the good-faith standard provided by Notice 89-23. That safe harbor is now eliminated. Employers need to adjust their nondiscrimination testing procedures accordingly.

Credit unions should examine the implications of the 403(b) regulations on their executive compensation plans. There may be adjustments in offsets or scope that are necessary to align expectations with the new regulatory reality.

Standard & Poor's Industry Report Card: Economic Malaise Will Not Begin to Lift Until Early 2010

On September 14, 2009, S&P released a report concerning the financial health of the insurance industry. S&P is maintaining its generally negative outlook on the U.S. life insurance sector and reported the following:

- Downgrades will continue to exceed upgrades during the next six months to a year, and downgrades will generally be limited to one or two notches.
- Most life insurers have capital that supports their particular rating and are still in a strong position to meet both policyholder and debt obligations.
- The life insurance sector is well positioned to capture the needs of an aging demographic market, for which demand may have increased as a result of the recent decline in personal wealth. Protection and wealth accumulation for retirement remains a core need, and only insurers have the ability to offer guarantees to support these products.
- Life insurers typically have more limited exposure to problematic assets - principally various mortgage-backed securities - that have caused trouble elsewhere in the financial system.
- S&P does not believe the economic malaise will begin to lift until late this year or early 2010.

ECS will continue to monitor and evaluate developments relating to the insurance carriers we do business with and the industry as a whole.