



# ENDSIGHT

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## Why It Is Important To Respond To The Survey: Employee and Executive Compensation and Benefits For The Credit Union Movement

Your Board of Directors has increased responsibility to oversee and directly exercise its authority to hire, fire, determine duties, set compensation, and discipline senior management. As we said last quarter, "The buck stops in the boardroom." The board must also ensure that appropriate policies are in place to guide senior management in the execution of their duties. While boards have the responsibility for the alignment of leadership compensation with the strategic goals of the credit union and the best interests of the members, they rarely have the incumbent expertise to develop the systems, structures, and mechanics to get the job done. However, they do have access to outside industry resources that can provide knowledge and increase their ability to make effective decisions about executive compensation.

One of those resources is The Survey: Employee and Executive Compensation and Benefits For The Credit Union Movement, which has been published for almost a decade. It contains a wealth of knowledge on executive compensation practices, industry trends, retention tools, reward systems, supplemental retirement plans, comparative figures and benefit plans. The information in The Survey is important for executive compensation decision makers. The more credit unions that participate, the better that information gets! Plus, we give The Survey away as our contribution to the Credit Union Movement. After all, that is where ECS lives.

## The Survey Is Even More Important Because Of Recent Regulations

Compensation issues and concerns are not new. The exposure of corporate bad actors over the last few years spurred Congress to pass legislation which is intended to limit compensation and impose rules and requirements for banks, public companies and other employers, including credit unions.

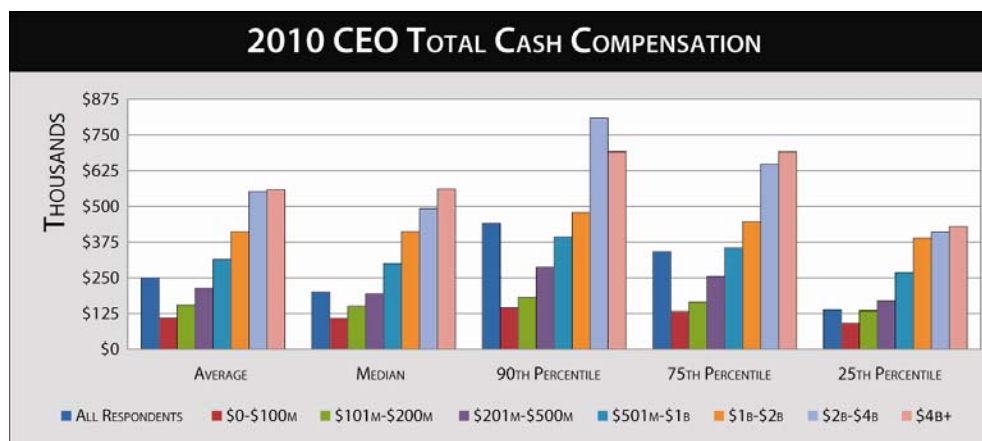
The NCUA and other federal financial regulators are now reviewing comments submitted this spring about the Proposed Rules for Incentive Compensation, which were drafted to

implement Section 956 of the Dodd-Frank Wall Street Reform and Consumer Protection Act. The final Interagency Rule will be issued in the near future. Basically, the proposed regulations seek to ensure that the boards of financial institutions set out a "systematic approach" to rewarding executives.

Even more recently, the IRS has signaled its intention to pay closer attention to the compensation and benefits paid to executives in exempt organizations, and the well-publicized enhancements to the compensation disclosure requirements on Form 990 give the IRS plenty of information to work with. With this in mind, we wanted to offer a brief review of the so-called "intermediate sanctions" rules and a refresher on the simple process that tax-exempt employers should follow when setting compensation and benefits packages for executives. According to Lois Lerner, IRS Director of Exempt Organizations, the biggest area of IRS audit concentration regarding noncompliance related to governance issues for tax-exempt groups (including credit unions) is executive compensation. If an executive is paid too much, the organization, the executive, and the board members who made the decision to pay the unjustifiable salary, risk paying penalties. The IRS is also imposing intermediate sanctions against exempt organizations not treating fringe benefits as income.

If the IRS determines that there has been an excess benefit, the disqualified person must reimburse the organization to place the organization back in the position it was in before the excess benefit transaction was completed. In addition to making the organization whole, there are stiff interest penalties and excise taxes. These penalties are called "Intermediate Sanctions". An organizational manager who participated in the transaction may also be fined an aggregate of \$10,000 per violation and is jointly and severally liable.

Excessive compensation or the receipt of an "excess benefit" is harder to define. Generally speaking, to determine whether someone's compensation is reasonable a comparison should be made of the compensation being paid to persons doing similar jobs in similar enterprises in the same geographical area.



Preliminary findings for 2011 data seem to indicate a fairly robust rebound in CEO bonuses. Even with moderate increases in base salary, it appears that CEO total cash compensation will rise for 2011. Your participation will help us deliver the best decision making information available.

To participate in the survey visit [www.ecs-m.com](http://www.ecs-m.com) and click on the "2011 Survey Questionnaire Link"