EXECUTIVE BENEFITS 101

David Emery, Managing Partner

Emery Financial Group

Learning Objectives

1. Review compensative/retention benefits that are commonly used in credit unions today.
2. Discuss specific steps regulators expect from Boards.
3. Review best practices associated with choosing a plan design.

ROCHDALE + VLI

VLI 2024
Executive Benefits 101

Should We? – How do we decide?

Recruit, Retain, Reward:

- Negotiated during the recruitment process
  - Usually a one year honeymoon period
- MVEs
  - Who will impact the credit union the most if we lose them
- Retirement plan catch-up

Now what?

Roadmap:

- Board education
- Analysis
- Implementation
- Administration

Now what?

Board Education:

- Credit Union landscape
- Due diligence
- Regulatory environment
- Risks (7)
- Common plan designs
- Pitfalls
- Best practices

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Now what?

Analysis:

- Analysis as to reasonableness – benefit amount
- Analysis as to safety and soundness – plan type and impact – funding
- Investment policy review*
- 3rd party legal/accounting review
- Exit strategy

Now what?

Implementation:

- Implementation checklist defined*
- Document preparation
- Final funding and accounting recognition
- IRS/DOL notification

Now what?

Administration:

- Online system entry
- Annual/quarterly accounting
- Annual reviews

Details:

Types of Plans:

- Deferred compensation plans
  - 457(f)
  - 457(b)
- Welfare benefit plans
  - Loan regime split dollar
- Restricted bonus plans

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457(f)

- Key Components:
  - The Credit Union promises to pay a benefit in the future if the Executive remains employed until stated date(s).
  - No IRS limits on benefits or payment structures.
  - The Credit Union has an annual expense to accrued promised benefit.
  - The benefit is payable at stated vesting date.
  - The benefit is taxable upon vesting and is paid in a lump sum.
  - At its option, the Credit Union can utilize otherwise impermissible investments for cost recovery.

Loan Regime Split Dollar

- Key Components
  - The Credit Union makes a loan to the Executive who buys life insurance policies.
  - One policy creates a fund from which the Executive borrows tax-free to supplement retirement income.
  - The other policy provides death proceeds that:
    - Repays the Credit Union its loan plus interest
    - Provides additional key person coverage.
    - Provide a tax-free death benefit to the Executive's beneficiary

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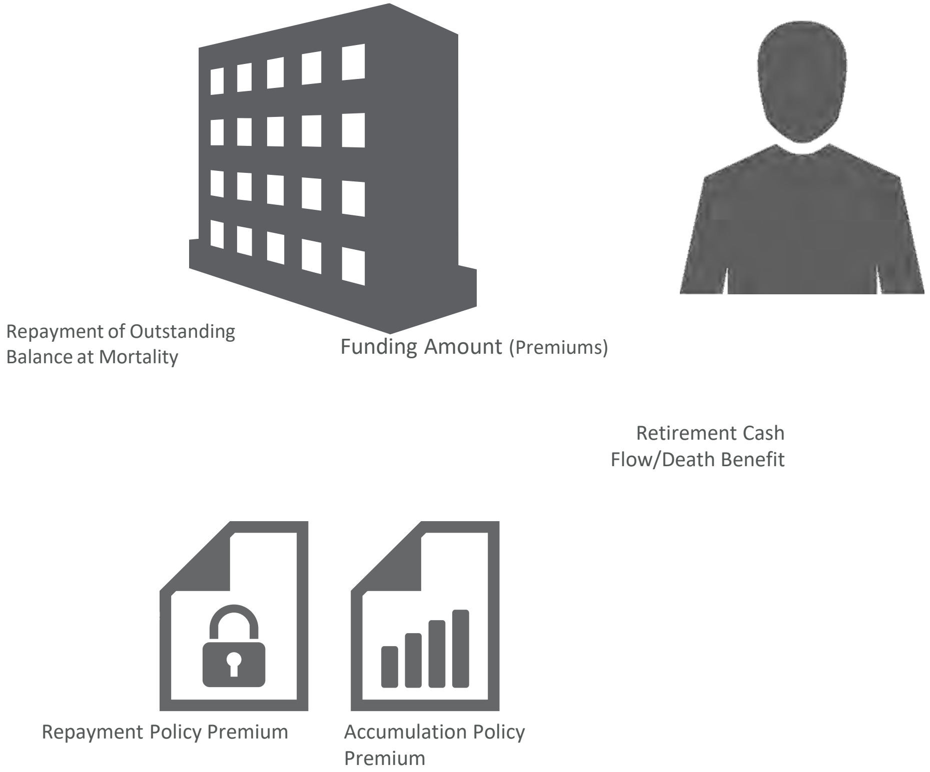
How Split-Dollar Arrangements Work:



A two-policy arrangement allows for:

- The **Accumulation Policy** to be structured to eliminate the risk of policy lapse (Overloan Protection Rider) due to excessive policy borrowing by the executive.
- The **Repayment Policy** is efficiently designed and tailored for its specific purpose with no executive access or control.
- Mitigation of post-retirement risks between the parties (investment choices, changes to tax rates, and amount and timing of retirement income, etc.).
- Each party selects a policy type based on its objectives and risk tolerance.
- A lower Funding Amount than a single policy structure.

Restricted Bonus:

- Key Components
  - The Organization pays premiums on a life insurance policy owned by the Executive.
  - Legal agreement with vesting options
  - The Organization can add a vesting schedule.
  - Taxation = Section 83 of the tax code
  - Bonus the Executive for taxes due
  - Premiums and tax bonuses cease at the Executive's termination of employment.
  - Executive determines when and how to access policy values.

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How do We decide?

- Re-visit analysis results
  - Review 7 risks
  - Compare all plan designs
  - Prepare financial impact analysis
  - Consult with auditor/regulator
  - Consult with CEO
  - Make the decision

Contingency Plans:

- The Board and the CEO are not in agreement
- The CEO and the DR are not in agreement
- Funding not available
- Plan(s) need to be amended
- Exit strategy

Questions?

- Supplemental Tools
  - Due diligence checklist
  - FAQ
  - Vendor selection tool
  - Accounting sample(s)

Bio

Dave Emery, CFP® – Managing Partner

Dave Emery is the Founder and Managing Partner of EFG and has more than 30 years of experience counseling both corporate and individual clients in virtually every aspect financial planning. For 20 of those years, his work has focused on nonprofit institutions with a primary emphasis on executive benefit planning.

Mr. Emery holds a Bachelor of Science degree from John Brown University where he was a two-time All American baseball player. He has completed graduate work at the College for Financial Planning where he received his CFP designation. He also completed Executive Development programs at Stanford University. He has been married to Marci Emery for over 40 years, and has two adult children; Cassidy and Lindsay.

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Plan Design and implementation

- 457(f) plans
- Supplemental retirement plans (SERP’s)
- Endorsement and loan regime split dollar
- Executive life insurance arrangements
- Executive disability insurance arrangements

Executive Benefit Expense Funding

- Self-funding
- Credit-union-owned life insurance
- Mutual funds and managed securities
- Investment committee funding policy statement development
- Bank-owned life insurance (BOLI)

Organizational Benefit Expense Funding

- Supplemental retirement plans (SERP’s)
- Corporate owned life insurance (COLI)
- Bank-owned life insurance (BOLI)
- Post-retirement benefit plans

Administrative Services Review

- Evaluation of legacy provider/plan
- RFP consultation
- Administrative provider selection
- Service agreement due diligence
- Ongoing provider oversight

Thank You!

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