2021 National Compensation Forecast

d. hilton associates inc.

D. Hilton Associates, Inc.

National Compensation Forecast 2021

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Introduction to D. Hilton's
19th Annual Credit Union Industry Compensation Forecast

D. Hilton commits to annual research to explore the human resources trends reshaping the credit union industry. The 2021 Compensation Forecast is our 19th edition. The report contains insight into emerging human resources practices, suggested wage and salary administration adjustments, top variable pay metrics, and a breakdown of how benefits are currently being integrated into total rewards programs. But if you've come looking for the magic formula to set a direction for 2021, you've come to the wrong place!

There's no question that CEOs and their teams have worked harder this year than ever before with little to show for it in terms of financial success thanks to COVID-19. What will make this year special, however, is how well credit unions kept their staff safe and assisted members in managing financial hardships while protecting their balance sheets. Now having lived through our sixth once-in-a-lifetime financial crisis, we do know this to be true:

- You can't pause your marketing efforts. In times of turbulence, it's tempting to think you can switch your marketing button off, then resume without any loss of momentum when things get back to normal (whatever that might look like in the future). Your investment in your brand is cumulative and cannot afford to stall. A common trait of credit unions that will come out of the pandemic as high performers will be those organizations that protected their brands.

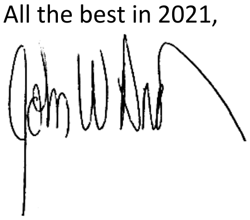
- You can't pause your human resources efforts. Attracting, rewarding, and retaining talent is more critical than ever during a crisis. It's also tempting to consider wage freezes, hiring moratoriums and elimination of variable pay programs as ways to monitor expenses. Unfortunately, your delivery and fulfillment efforts must remain flawless for your members. It's a well-trained, experienced workforce that will deliver peace of mind to those facing financial hardships.

By all accounts, members across the country are viewing credit unions as trusted financial partners and a safe haven for their deposits. This makes 2021 budget forecasts tricky. Executives are cautiously optimistic about the remainder of the year as mortgage production is somewhat offsetting losses in fee income, retail loan revenue, interchange income, and delinquency remains manageable. This report focuses on the impact COVID-19 had on credit union human resource practices and provides guidance on key human resources metrics for budgeting. This includes projections for salary structure movement and potential merit increases along with discussions on variable pay and benefit programs.

We hope this report helps you plan for the new normal. It's an absolute honor to support organizations that make such significant impacts in communities around the nation. Our singular goal is to generate data to assist you in assessing risks and making tough decisions. We provide data and consulting to answer not only "what to pay" but "what to pay for" and have peace of mind that you are doing the right thing for your members and employees. If you have specific questions, we are here to help. Please call me at 800.367.0433 ext. 124.

And remember… We were born to do this!

All the best in 2021,



John W. Andrews, SPHR, CCP, CSCP
Executive Vice President

Section 1: Human Resources Trends of 2021

Trend #1: Staggering Unemployment Rates and the Opportunity Within

No industry sector was spared the pandemic's global economic impact of 2020. Financial institutions weathered the storm better than most, being deemed essential services. However, here's how fast and swift the job market changed:

- April 2019: Unemployment rate is 3.6%.
- April 2020: Lockdowns begin, and the U.S. economy loses 20.5 million jobs. Unemployment hit 14.7% (a post-WWII high).
- May 2020: The U.S. adds 2.5 million jobs and unemployment dips to 13.3%.
- June 2020: The U.S. adds back 4.8 million jobs as lockdowns ease and businesses reopen. Unemployment falls to 11.1%. Then, COVID cases surge again and some companies are forced to close again as regulations tighten.
- July 2020: U.S. adds 1.8 million jobs and unemployment falls for the third straight month bringing unemployment to 10.2%.

While there is a long road to recovery and the impacts will resonate for months if not years to come, it creates an opportunity for credit unions to look outside the standard talent pool. In general, credit unions target other financial institutions for their recruiting. With an increase in experienced technical and retail talent, it may be worthwhile to strategically target some nontraditional talent avenues, which will tap into some quality talent now and diversify your hiring moving forward.

According to a study we conducted in June, more than 42% of credit unions are actively recruiting. The thought that many organizations would implement hiring freezes, furloughs and layoffs is simply not playing out in the credit union industry. Other industries cannot make the same claim. In fact, according to the U.S. Bureau of Labor Statistics' latest numbers, the finance & insurance unemployment rate is 3.6%, one of the lowest in the nation. Looking at some of the other industries, we see another story:

Unemployment Rates by Industry

Industry	July 2019	July 2020
Accommodation	4.3%	38.0%
Arts, Entertainment & Recreation	3.5%	29.2%
Administrative & Support Services	5.7%	12.4%
Information	3.9%	12.3%
Retail Trade	4.3%	10.2%
Manufacturing	3.0%	8.6%
Professional & Business Services	3.4%	7.6%
Finance and Insurance	2.1%	3.6%

Source: U.S. Bureau of Labor Statistics

This is an opportunity to expand the criteria you use to search for roles. Soft skills are quite difficult to train, though technical skills are often quick to pick up. Think about customer/member service – one of the greatest training programs for attracting and developing individuals with outstanding customer service comes from the Ritz Carlton. Hotels was one of the hardest hit industries, with over 25% unemployment. This is an extremely viable candidate pool to be looking at for forward-facing roles. With a robust tactical training program, the potential here is a branch manager, training manager, or contact center manager with the customer service skills of Ritz Carlton.

The retail sector (i.e., individuals who have cash handling and customer service experience) was hard hit at 10% unemployment. Recruiters, who must develop relationships, balance multiple projects and are skilled at asking questions while selling ideas, are plentiful as many firms have needed to cut their recruiting staff drastically. Think about those skills and how many roles those skills could fit into if we just ask if they are open to the idea of something other than recruiting.

The road to recovery is paved with all manner of trials, but also opportunity. Taking the time to break down the critical skillsets for success in your roles will not only allow your credit union to more appropriately plan and track career progression internally, but it will also give your credit union the opportunity to cross-reference skillsets in roles and people that may not be directly related to the role you are seeking. You will be surprised at just where you might find those skill sets in the most unlikely industries when you look past job titles.

Trend #2: Compensation Strategies for the New Normal

Before COVID-19, concerns about costs, productivity, and momentum curtailed any real potential for remote work to gain a foothold. However, the pandemic changed that in a matter of months, and the great work-from-home global experiment began in earnest. It was easier to go remote faster than most people would have ever imagined, but that doesn't mean it's great. About 60% percent of jobs in the U.S. can't be performed at home. Our research shows that almost 40% of credit unions are at least considering a permanent work-from-home option for employees. Credit unions find themselves in the dilemma of being a retail operation where digital delivery channels cannot fulfill an entire membership's financial needs.

The new normal will most likely be a hybrid approach with credit unions expanding their geographical reach for talent due to the utility of remote workers. Where most pay programs were grounded to the home office and a few satellite operations, today, your workforce could be literally be all over the globe. Conversations are beginning to focus on how to integrate remote worker compensation models and philosophies into core pay systems.

When talking about making adjustments or variations from the home office location to the "home" office location of your remote employees, we can look at cost-of-living or cost-of-labor.

- *Cost-of-living* is a geographic pay differential in which is most often used for relocating an employee from a lower cost of living to a higher cost of living area. To "keep them whole," a percentage is added to the current salary so that they can live the equivalent lifestyle in a higher cost of living area. It's merely an adjustment to maintain the employee's buying power. This adjustment is calculated by looking at a multitude of variables – from the cost of food and utilities to housing costs – and an increase (or decrease) is determined. We like the data from the *Council for Community and Economic Research*. Tech companies are leading the way in this area, and companies like Facebook stating that if an employee moves to a lower cost of living area to work remotely, that move may come with a decrease in pay. Cost-of-living can swing drastically in a very short distance, which will impact your cost-of-living adjustment calculation dramatically, especially if you factor in housing cost differentials into the analysis.

- *Cost-of-labor* is most closely associated with market pricing (e.g., what would it cost to hire a similar role in a given market). If you are a D. Hilton compensation client, you are already familiar with the local market pricing methodology as we target the cost of labor in your given city for many roles. In general, the cost of labor will not have as large of a swing in amounts when compared to a cost-of-living adjustment. The advantage with this adjustment is that if you plan to hire additional remote workers in that area for the same role (or, for example, you decided to move a call center to a lower cost of living area), you will have an accurate read on the cost of hiring additional employees in relation to the market. The disadvantage is that this can be time-consuming to perform market pricing for every role in a different city.

For some jobs, the new normal will force an organization to define a national peer group, with less emphasis on the local labor market. Facebook CEO Mark Zuckerberg has stated that his company will begin to offer remote work to new hires, and current employees will soon be able to request switching to remote work. Even if your credit union is in a relatively remote location, imagine Facebook as your new competitor for technology. However, Zuckerberg is quick to point out where the cost of living is dramatically lower; he expects salaries will follow. Good luck, Mark.

One company that is taking the opposite approach is Basecamp. It's going all-remote and pays everyone on a Bay Area scale and has a "top 10% pay philosophy. This can work best for smaller tech companies with less than 500 employees. For many credit unions, it may be something to consider given that a basic premise of good salary administration design is "good plans are efficient to administer."

Regardless of the strategy you decide upon, D. Hilton suggests credit unions develop a location-based pay policy to address the issue in a uniform matter. If there is the appearance that you are making special accommodations, then some workers may feel alienated and perceive the pay program as unfair. Your credit union will need to decide whether remote workers should be compensated based on cost-of-labor (market pricing) or cost-of-living (retain buying power) or if there will be one pay philosophy based on the home area. The biggest trick and probably the most challenging item is to ensure you are not spending too much time on one employee here and there – but rather looking for how to make more significant impacts based on the potential of roles being remote.

Invariably, we do not recommend making a detailed "city pair" type mapping or adjustments. For example, if your cost of living is 100% of the national average and your employee is moving to a city with a 110% cost of living against the national average – that means your credit union will give the employee a 10% cost-of-living adjustment. The opposite is true as well if they are moving to an area with a 90% cost of living against the national average – the employee will receive a 10% cost-of-living adjustment salary reduction.

Instead, we recommend looking at the issue from the perspective of tiers (or bands, regions, zones) if you are considering a cost-of-living adjustment. These tiers will allow multiple individuals to fall into a tier and greatly ease the administrative process. The increases associated with each tier will allow for an adjustment; however, this process will moderate the adjustment values. For example, your home office could be Tier 1 – with Tier 1 there is no adjustment. Tier 2 is a higher cost of living region and provides an increase and so on. This will take some front-end leg work to determine just what the cost-of-living range fits into what tier. For example, Tier 1 may be 94%-105% cost-of-living against the national average and comes with no cost-of-living adjustment. Tier 2 may be 105.1%-110% cost-of-living and come with a 6% cost-of-living adjustment.

There are multiple ways to approach the reality that some workers may no longer need to be in the local area. There may be a need to discuss how remote work is going to fit into your pay philosophy without over-complicating the administration and allowing for competitive compensation. Having a solid salary administration plan in place for these new realities will be an advantage that will maintain the delicate internal equity of your structure as well as ensure universally applied policies that will protect the credit union.

Beyond all, organizations need to be mindful that these concepts cannot erode organizational culture. Culture boils down to how an organization gets things done and how it wants to serve its members. A remote workforce can alter a credit union's DNA. Ron Kruszewski, CEO of Stifel Financial, said, "I am concerned that we would somehow believe that we can take kids from college, put them in front of Zoom, and think that three years from now, they'll be every bit as productive as they would have had they had the personal interaction."

"Some leaders are effective because they're charismatic," says Randall Dunham, a management professor at the University of Wisconsin at Madison. "But can a charismatic leader be charismatic in a virtual setting? We don't know the answer to that. They tend to feed off, looking at people, and to see and to hear their reaction." The post-pandemic workplace will have fewer opportunities for lunches, happy hours, and conferences where schmoozers can make their mark. People who succeed are, therefore, likely to be those who can generate results without a lot of in-person interaction with their colleagues.

As we explore the hybrid workplace, we must keep in mind:

- People are social animals and seek connection. People want to belong, and in these uncertain times, more people are becoming comfortable with video. And it's not about getting dressed up—in fact; it's the opposite of the Instagram era. People want to be seen as who they really are, not just as how they want to be perceived. The more "unplugged" and authentic, the better. That's why on video conferences, pets are often the stars of the show, as colleagues share glimpses of their work-from-home spaces.
- When "how are you" really means "how are you, today?" What used to be a throw-away intro to get the ball rolling is now crucial. And don't expect a "fine." Be ready for more welfare checks and longer answers. We need to be an emotional outlet. And even if it pains you, you might need to endure an uncomfortable dialogue about that pesky rash.
- People are creatures of habit. When things feel anything but ordinary, we try to preserve a sense of normalcy. People who used to have lunch with colleagues once or twice a week are eating together over Zoom. Colleagues are giving video tours of their remote work arrangements as they create virtual communities.
- We will fist bump again. Social distances will narrow. We won't be the same. Having been apart for so long, we'll have a deeper appreciation for being together.
- Efforts to accommodate a dispersed workforce will require equal investments in culture. Not every executive can manage a remote workforce. Investing in leadership skills for managing remote workers will be a critical investment in culture.

The hybrid approach could mean time spent working remotely with opportunities to convene teams regularly. Perhaps core hours for employees (similar a professor hosting office hour on campus) and teams agreeing to come together for a limited time on certain days for welfare checks, brainstorming and collaboration.

In summary, the workplace has changed and will continue to evolve. Even as employees go back to their branches and offices, the members' adoption of digital delivery channels will create new ways that will require our employees to rethink service delivery and member support. And that's a good thing.

Trend #3: The Hazards of Hazard Pay and the Dangers of Doing Nothing

Early in the pandemic, major retailers and financial institutions triumphantly announced that they would pay their front-line employees additional compensation for potentially dangerous working conditions. In a PR victory, they happily named it "Hazard Pay."

This was a bit of a mistake. Not the additional pay but calling that pay “Hazard Pay.” Now, most of the large retail and large financial institutions have started discontinuing hazard pay, which has caused some unintentional consequences. “As long as we are wearing gloves, wearing masks and social distancing, it seems obvious to me that we are working in hazardous circumstances,” said John T. Niccollai, president of United Food & Commercial Workers Local 464A.

We now have safety protocols in place - protective measures, altered hours, teams, shifts, daily disinfecting, and the list goes on. We listened, we heard, and we accommodated or modified our practices to protect our front-line employees from some of the dangers. But Niccollai has a point. How can we pull back a temporary benefit if we are still calling it hazard pay?

If you provided this benefit, when to eliminate or reduce it becomes a difficult conversation that needs to start sooner than later. Moving forward requires shifting the narrative and a change in terminology from hazard pay. It is vital to continue to reinforce the message of the safety protocols that were established and the modification of safety measures in place to keep employees safe and sound. Otherwise, removing the “hazard pay” benefit can be a tricky and potentially demoralizing situation if plans are not in place to deal with it accordingly.

Another issue made more difficult by the pandemic is basic salary budget increases and salary structure movement. Namely, should you make any moves given the current state of the economy and the unknown. According to the 2020-2021 WorldatWork Salary Forecast, 84% of U.S. companies plan to offer salary increases. D. Hilton’s credit union industry research shows that 86% of credit unions plan to increase their salary budgets. While each credit union has different issues to consider, there are significant dangers of skipping salary structure movements or merit increases this year.

The primary purpose of salary structure movements is to maintain pace with inflation allowing your pay program to maintain its competitive stance with the market as defined by your pay philosophy. The simple danger of not making adjustments is the market will continue to expand and you will be less competitive in a market that is currently showing a 3.6% unemployment rate.

A credit union could pledge to make up the lost year in 2021. However, it runs the risk of being less competitive for a year. It can also increase the difficulty of getting potential candidates to make lateral moves or compete with other local financial institutions recruiting for the same jobs. This is all dependent on how competitive your salary structure was at the beginning of the year.

Merit increases are also subject to the same debate. The same dangers of doing nothing are significant and in many cases more profound than freezing salary bands. Freezing salary bands may not impact every employee immediately. However, freezing merit increases for a year certainly will. If possible, a credit union should strive to move employees through their pay ranges to avoid compression with new hires and internal promotions.

This may be the time to adjust your perspective of merit, however. Just as all employees do not perform at an equal level, not all employees should get an across-the-board pay increase. If there are budget constraints, perhaps not all employees should be eligible for pay increases. When low-to-moderate performers receive the same rewards as top performance, it dilutes the recognition of the top performers.

D. Hilton suggests partitioning your workforce into different performance levels so that you can get more dollars into your top performers' paychecks to recognize their value. This will reward and recognize those that were top performers and integral to success without diluting recognition of their performance by an even distribution of 3% across the board. This could look like a 5% budget for the top 20% and a 2.5% budget for the remaining 80%. The point is no matter what the compensation budget amount is, strive to recognize your top performers with little disruption as possible from market movement and employee expectation even if this comes at the consequence of lower and moderate performers.

Trend #4: Alternate Currencies

According to the WorldatWork 2020-2021 Salary forecast, salary budgets dropped from 3.2% to 3.1% for the first time in years. That may seem small, but it is meaningful. More than ever, credit unions should prepare to work magic with minimal budgets.

Credit unions have powered their way through the cash conservation phase and these actions have bought time, but it is time to make long term impact changes. Now is an opportunity to maximize your most significant capital investments – your workforce. We continue to see the transition from step-progression to pay-for-performance. With the remote work that was required, we have accelerated the transition from work/life balance to work/life integration at unprecedented levels. Credit Unions have managed the changes necessary and proven how agile they can be.

There are a host of opportunities to consider how to manage the impact of cash conservation initiatives and shrinking salary budgets. Take the distribution of your salary budget, for example. We do not recommend eliminating your merit increase budget for 2021. We do recommend looking at the distribution of this budget more strategically. All employees may not be equal in their contribution, so why do credit unions still hold strong to the concept that a unilateral equal distribution is required? Leveraging your performance management to illuminate those top performers that are providing disproportionate value could allow your credit union to provide a larger cut of the budget to those bringing the most value. Consider rethinking and redesigning your distribution matrix to reward the performance that is best for the members and teammates.

For example, fast learners and top performers should progress quicker and get a higher percentage of the merit pool than those that are already higher in the range or a moderate performer. Moderate performance gets a smaller percent, which prevents over-investment in that performance. Talent markers start to dictate merit distribution, not just "being there" and doing the minimum to meet expectations. This mindset allows managers to make talent decisions that will then trickle down to compensation decisions. From a salary administration perspective, you can better manage the salary budget to reward excellence and competitively compensate solid performers as well without diluting the impact.

Further progress could be made by developing a detailed career framework to complement your salary structures. Salary structures are many times designed by compensation professionals for compensation professionals – not for managers that will use them. While salary structures are a powerful tool for equity, equality, fairness and competitive pay practices, they are not always employee-centric. A modern career framework takes an employee's focus off of comparing his or her movement through a salary range to other employees. It allows employees to build a portfolio of work experiences that facilitates career movement. A career framework, therefore, is intrinsically employee-centric.

An excellent starting point for a career framework system is to classify jobs and apply an internal leveling methodology. For example, back-office staff can be classified as support staff (S) with different levels of responsibilities – S1, S2, S3, and so on. Each level would have specific job qualifications or requirements for placement into the next level. This allows the credit union to look laterally very quickly across the entire organization to reinforce internal equity as well as highlight skillsets that are interchangeable.

The addition of a clearly defined career framework provides the employees consistent job levels, clarity of accountability, and an integrated talent network. It may give a credit union a better way to manage spend, manage the various skillsets, provide talent-based decisions to drive pay as well as ensure the HR process is in alignment. As a bonus, in conjunction with an established salary structure, it will also mitigate risks of pay inequality. Also, a solid career framework allows employees to see their career paths. Think about the power of showing a new hire the potential career trajectory the day they sign on – it will enable them to know the type of work at each level of the credit union.

Some items to keep in mind when you consider a career framework is to keep it simple, build progression intentionally, create consistency across levels and families, work toward a normal distribution and have a plan in place to manage the specially designed or unique roles.

With more efficient use of the salary budget, credit unions can transition their attention to low-cost tools that we see working in financial institutions. One of the biggest influencers in performance is company culture and all the intricate pieces that weave together what makes your credit union special. Keep in mind the hierarchy of needs: Compensation is the foundation that includes benefits and retirement. Getting their head in the game is next, which includes career path, development, and coaching. Finally, heart is at the top, which revolves around community, leadership, and personal alignment – the culture of an organization.

Given current situations, culture will be needing some attention and outside the box thinking. One simple but often overlooked item is that most of your younger workforce has an affinity for cooperation and constantly looking for an opportunity to make an impact on their community. Employees today want to work for organizations that they can be proud of. Organizations that say what they mean and mean what they say and hold firm to their values. A mission-driven culture. That sounds a lot like a credit union. They are reaffirming what your employees do on a day to day basis at a credit union is fulfilling that need to do good and do it well. Credit unions are a collective way to pool money to help all members and the community they serve, which can provide financial security in a time when security is limited.

The transition to remote work has been a double-edged sword – we have been able to continue doing business through technology, but technology can be isolating. We have become better and have been growing connections in the digital world, but we also need to think about what to do when we return to the office. The social events, birthdays, charity fun runs, the community and culture building items HR hang their hats on may not be available. Those that have returned to the office may still feel like they are working remotely. They just happen to be in a centralized location. We are alone together. This can increase frustration and the feeling of isolation.

Time to strengthen the virtual ways to connect. Relationships are vital and according to Gallup research, employees who have positive work relationships expend more effort in their jobs. Gallup reports that companies with high engagement have 20% higher productivity, 21% higher profitability, 59% lower turnover and 233% increased customer loyalty. There is a veritable cornucopia of virtual meeting ideas and whole new business verticals rising to meet the need. Stage a company concert night – there are multiple big-name bands that have committed to weekly and daily virtual concerts. Or web games – there are many great games that do well to connect over Zoom meetings; from virtual pub crawls (all members go to an interesting website and discuss the content over a drink for 15 min, then on to the next) to online team building bingo with randomized bingo cards of the most common online meeting phrases or mishaps. The options are nearly endless. Choosing what will work will take some understanding of your culture and make sure it integrates your company's core values. Also, keep in mind that these efforts to connect are given an extra push of energy when that executive you would never expect joins in the fun. Culture is everything to a remote team. It is what they must hold on to during these times and what they remain a team with.

Work/Life Balance Investments

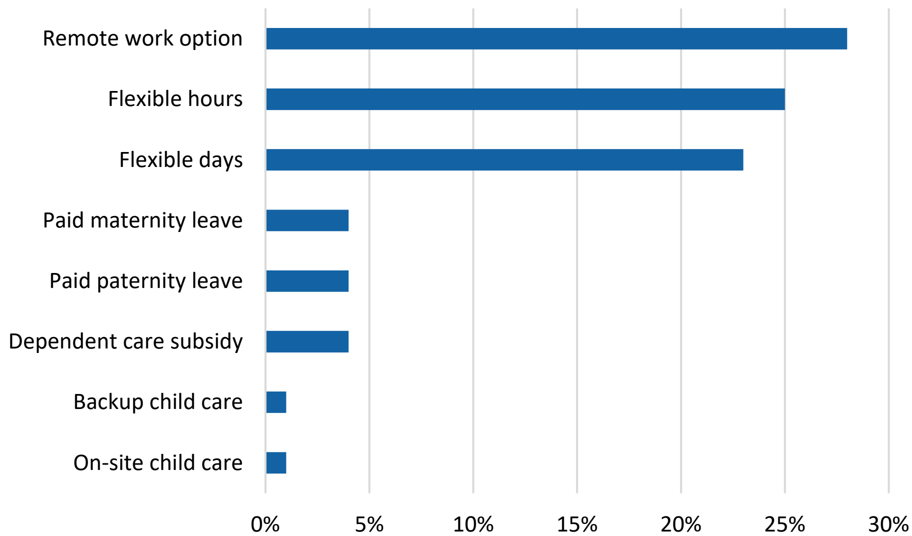
What will replace our beloved Taco Tuesdays until we can safely get back into the office? Financial institution CEOs are increasingly pushing to getting everyone back because many fear the erosion of the culture they have spent years carefully building. It will ultimately come down to executives investing in the culture by adopting new ways to reward and recognize employees.

In many cases, it will not come down to traditional currencies. It will involve creating peace of mind. The biggest challenge for employees coming back this fall is staying productive at work while trying to juggle care for elderly parents, home-schooling children and severe withdrawal from pets that were loyal colleagues during the stay-at-home phase of the pandemic.

Bank of America and Citi have announced new measures to support working parents. Bank of America extended its backup childcare reimbursement program through the end of the year. It will offer daily reimbursements up to $100 to employees working at home or in the office who need childcare. Citi launched a bundle of new services such as nanny placement, in-home and virtual sitter discounts, and educational caregiver search support.

Other banks are offering similar benefits. Truist Financial relaunched a discount program for employees to buy computers, learning tools and school supplies. Fifth Third Bancorp in Cincinnati is providing 30 days of subsidized childcare this year, in-home or at a center. Pittsburgh- based PNC Financial Services Group is giving workers free access to a nationwide, members-only search service to find in-home and virtual caregivers, with free basic background checks.

Many employers said in a recent U.S. Chamber of Commerce Foundation survey that they are offering remote work and flexible hours during the pandemic, but only a few are offering direct childcare benefits and paid parental leave. About 62% of employers are essential businesses.



Source: U.S. Chamber of Commerce Foundation

Sara Wechter, Citi's global head of human resources said, "We're trying to figure out how to bring some stability and routine to children's lives and allow parents to focus on work," "Family life and work life are so connected right now. If we as a company are not looking at the whole family, then we're not solving the problem," said Wechter.

Trend #5: The Omnichannel Disrupts Conventional Incentive Plans

Who gets credit for a sale has percolated under the surface for years in credit unions. With the advent of omnichannel delivery, the discussion becomes even more hotly contested. Here's a typical scenario:

> *A member goes online to find a branch location but stays to fill out a loan app. A main office employee calls the member back to approve the loan. But then the member wants to set up an account at a branch near their house. And when it's all said and done, the member has spoken to five employees – all of whom believe they were the closer!*

In the last five years, many credit unions have stepped back from individualized incentive plans to explore gain share type plans that reward and recognized the entire value chain of selling and fulfillment. In the past, incentive plans were much easier to follow the production, incentivize the results, and set goals for the next period. We created "blended" jobs (where everyone has to sell AND fulfill), and individual department plans made sense.

We are now in a world of increasingly specialized roles. Risk compliance requires duty separation. Members access multiple delivery channels to fulfill product and services requests – some self-serve, some involve multiple handoffs. In many circumstances, today's environment creates resource competition among internal salespeople. Employees seek full sales credit, yet they are not responsible for interfacing with the member during the entire sales cycle. Individualized incentive plans are increasingly difficult to design well without substantial administrative burden.

Today's sales and fulfillment realities suggest credit unions should strategically review and redesign their total rewards programs to attract and retain critical resources. Strategically, the human resources function must transition from the referee to the omnichannel orchestra leader. The danger is the organization may inadvertently pay double or triple commissions/rewards on an already razor-thin profit margin deliverable. With multiple employees working on a single fulfillment task, additional tracking and recordkeeping resources are required.

Transitioning from individual programs to team awards requires exploring the sales and fulfillment value chains. The best way to establish sales/fulfillment teams begins with process mapping. Follow the product from member request to request fulfillment. Cross-functional teams naturally emerge among front office, back office, departments and branches. Following the process based on individuals carrying along their portion of the sales and fulfillment cycle links them to the team. Then it becomes easier to trace how the work gets done and reward everyone involved in the successful completion. The individual understands and appreciates their contribution, rather than solely focusing on a "quota." When sales goals are masking as quotas, even the best salespeople can become disenfranchised.

Over time, we have concluded that cafeteria plans do not function well. Even with well-designed programs, individuals gravitate to the products that are easier to sell or push what is most comfortable to them. It is not necessarily what is in the best interest of the member. Team-based programs do a better job of incentivizing proper behaviors in many cases.

Sales incentive program design begins with a clear understanding of what the plan is designed to accomplish and how. Conversations then turned to issues such as:

- Who will be eligible for awards?
- What will be measured?
- How will it be measured?
- Will there be a focus on one product/service or multiple projects/services?
- What is the timing of the payout?
- Will any of the award be deferred?
- What will be payout frequency be?

The list goes on. However, having a straightforward pre-launch diagnostic process is tremendously helpful for a successful launch, especially if a new plan design is replacing a long-standing program. With change, there is always the fear of the unknown. When transitioning to a new incentive plan or process, there will always be some trepidation. Clear and concise communication is essential for success.

When transitioning to a new program, it can be beneficial to allow a voluntary opt-in phase. For example, the newly designed plan begins in July, and for the next two quarters participants have the option to transition to a new program immediately or remain on the old program until year-end. During this time, the plan administrator keeps track of potential payouts from both plans. The manager then can demonstrate to the employee how they would have fared with the plan vs. the old plan. This option takes longer to achieve full implementation, yet it creates a better opportunity for long-term program success, especially for service employees transitioning to more sales-oriented environments.

With all this said, mortgage and commercial lending, wealth management, and collections/recovery work groups still benefit from individualized incentive plans. This is because employee interaction with members can be tracked with greater certainty.

It comes down to the fact that most high performing pay programs are not one size fits all – they mirror marketplace pay practices. Successful sales-oriented credit unions are not afraid to have multiple pay programs running under the overall pay program umbrella. Those organizations willing to customize their plans based on market norms have the best chance of attracting and retaining star performers.

High performing credit unions ensure that their human resources functions understand and appreciate the member segments, products/services, and delivery channels that are the most profitable and create the best experience for members. This knowledge lays a strong foundation for a pay-for-performance design that incentivizes the proper results and behaviors. It establishes a win-win situation for the member, your credit union, as well as your employees.

Section 2: D. Hilton's Credit Union Industry Compensation Forecast

As part of its continued commitment to ensuring that its clients' salary administration programs remain competitive, D. Hilton gathers annual research to forecast salary range and merit increase budgets for the upcoming year. The following memo is intended to assist clients in preparing compensation and benefits budgets for 2021.

Since 2002, D. Hilton has gathered information from the national financial services and retail marketplaces. With the economic crisis of 2008, cumulative data became less useful to many of our clients due to the number of credit unions facing difficult staffing, compensation and benefits decisions relating to the need to decrease expenses and stabilize capital positions. While some organizations believe 2021 budgeting will resemble 2008, D. Hilton sees significant differences.

The crisis driver in 2008 was the impairment of the financial system. The challenge in 2020 is coronavirus spread. The economy's strength at the beginning of the year and the financial system's ability to lend during this pandemic have helped us avoid a full-blown financial crisis to date. While there was a pretty significant economic downturn in March, quick and aggressive fiscal and monetary responses resulted in a strong rebound.

Ultimately, the constraint to a full recovery is a medical one, which means we may need a vaccine to help push the economy back to pre-coronavirus employment levels. With that unknown, it appears many U.S. companies are building a medical recovery into their 2021 compensation budgets. While national unemployment hovers around 10.2% today, financial services unemployment is 3.6%. This makes freezing budgets a riskier move than it may have been in 2008.

D. Hilton began the data forecasting process by speaking with 150 of our clients, ranging in asset size from $100 million to more than $10 billion, to explore how the impact of the COVID-19, shrinking fee and investment revenue coupled with significant deposit growth have impacted strategic planning, growth options, expense control and human resource administration. And the responses are significantly different based on individual credit union tolerance of risk and capital positions. Simply put, under-to-moderately capitalized credit unions must focus on safety and soundness initiatives while well-capitalized organizations can continue to grow their operations and take more risks.

The results continue to show that an "overall" industry budget projection can be misleading. D. Hilton prefers to show three capital categories to provide more realistic budgeting scenarios:

- Capital Concerns (< 7% capital)
- Sufficient Capital Positions (7% - 10%)
- Well Capitalized (> 10% capital)

Staff and Executive Compensation Budget Forecasts

Capital Concerns (<7% capital)

- Currently, 1.9% (102) of all U.S. credit unions (down from 2.7% in 2019).
- Credit unions in this category remain in expense control mode with compensation and benefits programs being eliminated or modified.
- These credit unions remain less concerned about employee retention as they once may have been.
- Anticipated 2021 budget actions:
  - 2021 staff compensation budget adjustments: 0.00% — 2.00%
  - 2021 executive compensation budget adjustments: 0.00% — 3.00%

Sufficiently Capitalized (7% to 10% capital)

- Currently, 27.7% (1,469) of all U.S. credit unions (down from 32.3% in 2019).
- They have sufficient capital and exhibit a strong desire to preserve their capital positions through modifying compensation and benefits programs and exploring ways to mitigate HR-related expenses.
- These credit unions are still concerned about employee retention and they don't quite see how they can use the 2021 budget to address some below-market actions of the past few years.
- Anticipated 2021 budget actions:
  - 2021 staff compensation budget adjustments: 2.00% — 3.50%
  - 2021 executive compensation budget adjustments: 3.50% — 5.00%

Well Capitalized (>10% capital)

- Currently, 70.4% (3,736) of all U.S. credit unions (up from 65.0% in 2019).
- They are cautiously optimistic about the current economic situation and continue to pursue growth opportunities.
- These organizations are treating compensation and benefits programs to reward, recognize and retain existing talent but also see an opportunity to upgrade and bring on new technical specialists. They continue to use pay-for-performance tools to ensure sufficient compensation gets into the hands of their top performers.
- Anticipated 2021 budget actions:
  - 2021 staff compensation budget adjustments: 3.00% — 5.00%
  - 2021 executive compensation budget adjustments: 4.00% — 7.75%

Section 3: Compensation Forecast Trends

D. Hilton's primary source for credit union industry trends is its compensation practice and industry network, while the primary source for general U.S. trend information is WorldatWork, a national trade association serving human resource professionals from all industries. The 2020–2021 Salary Budget Survey is in its 47th year and includes data from 1,702 U.S. firms, of which 10.5% is represented by the Financial and Insurance sector.

Base Salary Increases – Financial Services Industry: Respondents reported 83.8% of all employees received a base pay increase in 2020 (a 3.9% decrease from 2019), according to WorlatWork.

Salary Budgets

U.S. Financial Sector	2020	2021*
Total Salary Budget Increase	3.2%	3.1%

Salary Budgets – WorldatWork

U.S. Financial Sector	2020	2021*
Nonexempt	3.2%	3.1%
Exempt	3.3%	3.1%
Executives	3.3%	3.0%

Salary Range Increases – WorldatWork

U.S. Financial Sector	2020	2021*
Nonexempt	2.1%	2.0%
Exempt	2.1%	2.0%
Executives	2.1%	2.0%

Source: 2020-21 United States Salary Budget Survey; WorldatWork
**projected results*

Variable Pay: 84% of U.S. firms reported offering a variable pay program in 2020, which is consistent from 2019 but a 1% drop from 2018. Although there is a decrease, the use of variable pay programs have been consistently around 85% for multiple years.

WorldatWork Financial Sector Trends

Salary Increase Projections	Nonexempt	Exempt	Executives
National ’20	3.2%	3.3%	3.2%
National ’21	3.1%	3.1%	3.0%
Eastern Region ’20	3.2%	3.1%	3.0%
Eastern Region ’21	3.1%	3.0%	2.9%
Central Region ’20	3.2%	3.1%	3.0%
Central Region ’21	3.0%	2.9%	2.9%
Southern Region ’20	3.1%	3.1%	3.0%
Southern Region ’21	3.1%	3.0%	3.0%
Western Region ’20	3.1%	3.1%	3.0%
Western Region ’21	2.9%	2.9%	2.8%

Salary Range Adjustments	Nonexempt	Exempt	Executives
National ’20	2.1%	2.1%	2.1%
National ’21	2.0%	2.0%	2.0%
Eastern Region ’20	2.0%	1.9%	1.9%
Eastern Region ’21	2.0%	1.9%	1.9%
Central Region ’20	2.0%	1.9%	2.0%
Central Region ’21	1.9%	1.8%	1.8%
Southern Region ’20	1.8%	1.8%	2.1%
Southern Region ’21	2.0%	1.9%	2.0%
Western Region ’20	1.9%	1.9%	2.0%
Western Region ’21	2.0%	1.9%	1.8%

Source: 2020-21 United States Salary Budget Survey; WorldatWork
2020 actual results – 2021 projected results

Base Salary Increases – D. Hilton Salary Survey Research: Credit Unions report 86.4% of all employees received a base pay increase in 2020, according to D. Hilton's 2020 Credit Union Salary Survey.

Salary Budgets – D. Hilton

Credit Unions	2020
Nonexempt	3.4%
Exempt	3.3%
Executives	3.7%

Salary Range Increases – D. Hilton

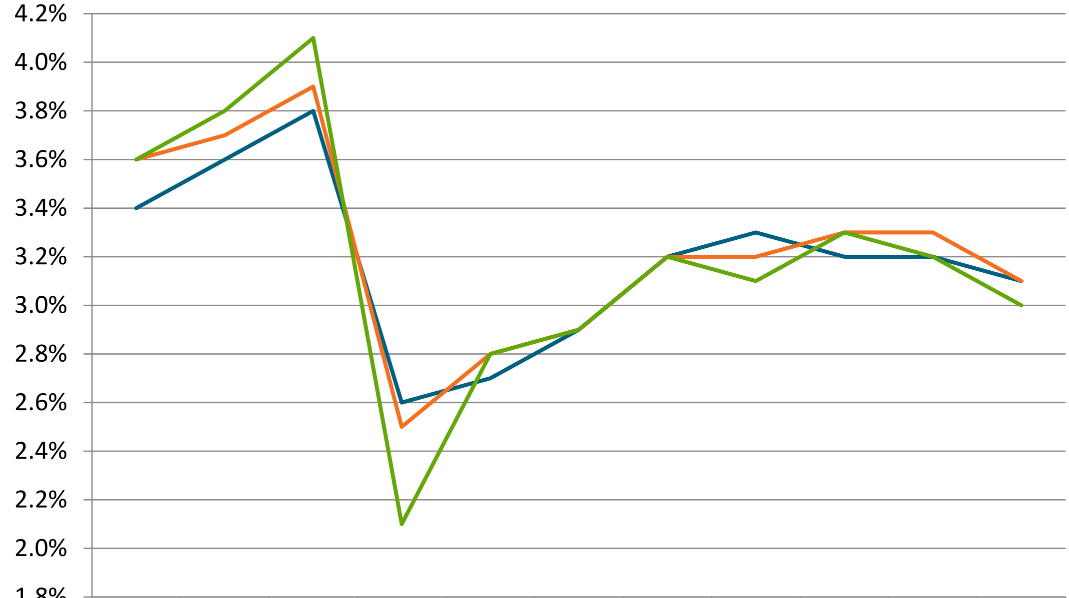
Credit Unions	2020	2021*
Nonexempt	2.9%	2.7%
Exempt	2.9%	2.7%
Executives	3.8%	3.6%

Source: 2020-21 Credit Union Salary Budget Survey; D. Hilton Associates
**projected results*

Additionally, an average of 12.7 months is reported between pay increases, with the most common being every 12 months.

Salary Budget Trends - National

The following graph illustrates yearly historic salary budget increases witnessed since 2003 and the projected salary budget increase for 2021:

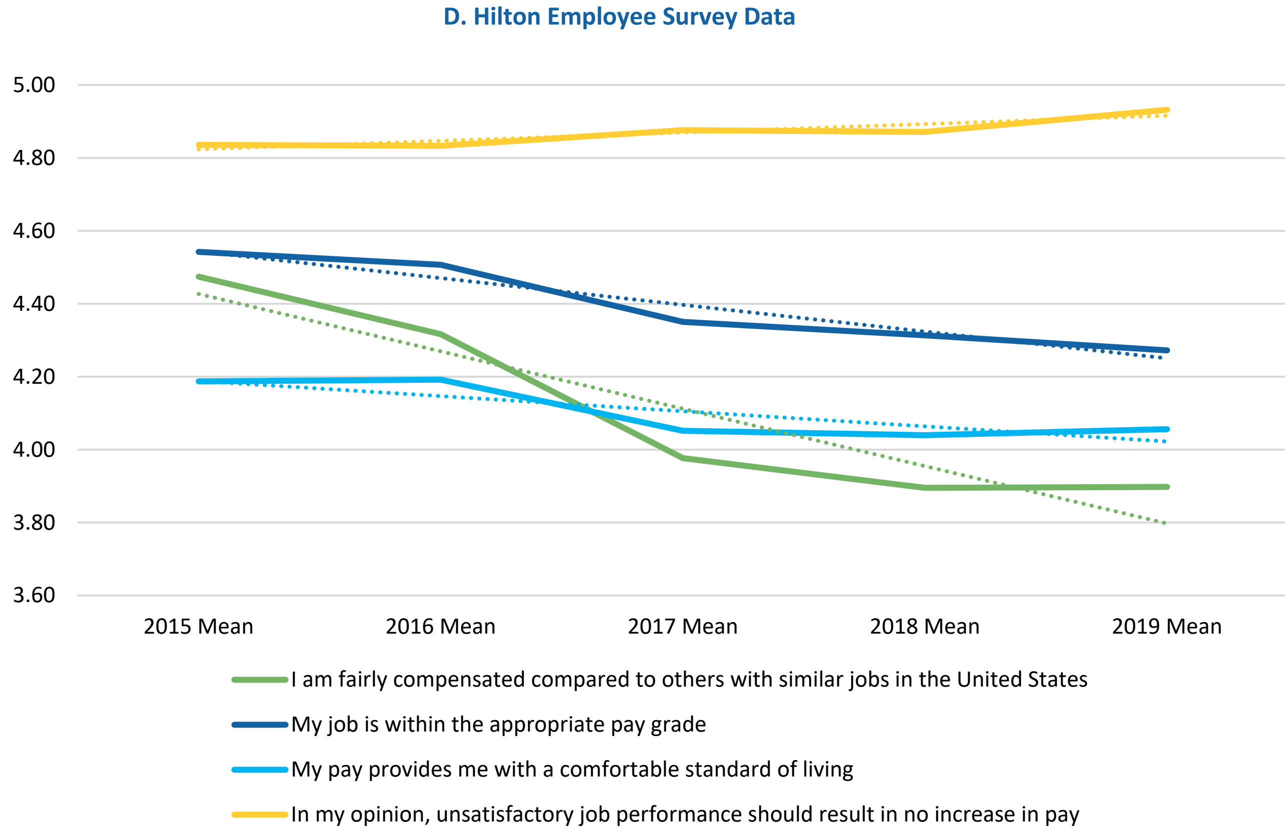


	2003	2005	2007	2009	2011	2013	2015	2017	2019	2020	2021*
Nonexempt	3.4%	3.6%	3.8%	2.6%	2.7%	2.9%	3.2%	3.3%	3.2%	3.2%	3.1%
Exempt	3.6%	3.7%	3.9%	2.5%	2.8%	2.9%	3.2%	3.2%	3.3%	3.3%	3.1%
Executives	3.6%	3.8%	4.1%	2.1%	2.8%	2.9%	3.2%	3.1%	3.3%	3.2%	3.0%

Source: 2020–21 United States Budget Survey; WorldatWork
**estimate*

Salary budget increases have recovered since the 2008 recession but have seen the first decrease in over a decade. Due to market uncertainty and short-term cost saving initiatives, employers are hesitant to increase salary budgets. With shrinking salary budgets, formalized career frameworks and strategic pay increase distribution to top performers will be a critical initiative in the months and years to come. If diminishing salary budgets prevents your credit union from rewarding key talent or requires diluting the impact of merit increases by the unilateral distribution of funds, an employer is placing themselves at risk of losing crucial employees as well as failing to build a workforce that can meet strategic objectives in the future.

D. Hilton's proprietary employee survey peer data includes employee satisfaction data from all client employee surveys and is updated annually with the latest data. Peer data shows that employee perception of fairness continues to decrease over the last five years, and D. Hilton expects that trend to continue. Employee peer data reveals a sharp decline in the perception of fair pay when compared to similar jobs across the country. Employees are also notably less likely to feel their job is in the appropriate grade at their organization or that it provides a comfortable standard of living. Employees clearly feel that compensation has not kept up to nationwide trends. In addition, employees are more likely to feel that pay should be tied to performance compared to five years ago.



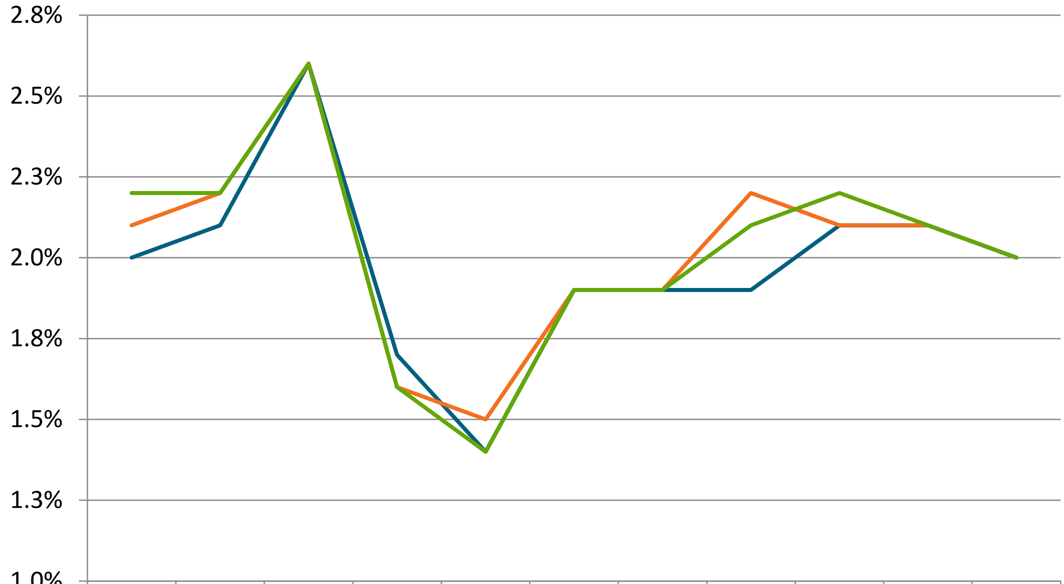
Viewing the salary budget as an opportunity to invest in your workforce needs to be the mindset during the annual salary increase process, especially in times of economic crisis. There are three main reasons why an employer may be hesitant to increase the salary budget.

- **Cost containment.** Employee salaries are usually the main operating cost and using money to increase the salary takes away the opportunity to invest in other resources.
- **Economic uncertainty.** Due to the current landscape in the wake of the pandemic and uncertainty of the market, senior management is trying to minimize fixed costs in case of a recession or until the recovery trajectory is confirmed. Increases in salaries are hard to undo so senior management may be hesitant to give into long-term fixed costs.
- **Globalization of labor forces.** With technology bringing the world together, the talent pool is not just in America. This causes any stagnation outside of America to drive salaries to a global equilibrium.

Saving money by trimming salary budgets is a quick fix and looks beneficial on paper. However, the unseen impact can cost exponentially more in the future. Whether or not an employer decides to increase their salary budget, it is crucial to make sure the decision is sound with the credit union's strategic goals. During the cost-saving initiatives in place to weather the economic turmoil left by the pandemic, it is critical not to allow short-term measures to cement long-term implications, which can cripple strategic goals as the economy recovers.

Salary Range Adjustment Trends - National

The following table illustrates the yearly historic salary range increases witnessed since 2003 and the projected salary budget increase for 2021:



	2003	2005	2007	2009	2011	2013	2015	2017	2019	2020	2021*
Nonexempt	2.0%	2.1%	2.6%	1.7%	1.4%	1.9%	1.9%	1.9%	2.1%	2.1%	2.0%
Exempt	2.1%	2.2%	2.6%	1.6%	1.5%	1.9%	1.9%	2.2%	2.1%	2.1%	2.0%
Executives	2.2%	2.2%	2.6%	1.6%	1.4%	1.9%	1.9%	2.1%	2.2%	2.1%	2.0%

Source: 2020–21 United States Budget Survey; WorldatWork
**estimate*

Section 4: Variable Pay Trends

> Let me get this straight…
> We pay the CEO a big bonus when times are good
> and now, we pay a big bonus when times are bad?

The rise of variable pay in credit unions has been impressive during the last decade. But will credit unions be willing to stick to pay-for-performance principles in a challenging economy? For many organizations, 2020 becomes the first real test of delivering pay when strategic plans and income forecasts won't be met. And this begs the question, "Are boards willing to deliver the consequences of not paying bonuses when COVID-19 has caused so much disruption?" This essay explores the future of variable pay in the credit union industry. There's no question that it will remain a key fixture in most credit union pay programs. It just won't look like it has in the past.

This year optics have come to the forefront. How will incentive plan modifications be viewed by various stakeholders (e.g., employees who were negatively impacted by compensation or benefit reductions and members and communities that have been adversely affected by the current economic environment)? Here are some of the critical issues facing the credit union industry in the next few years.

- **COVID-19 impact of 2020 executive incentive plans and how to approach the future.** In April, D. Hilton surveyed 185 credit unions regarding their plans for their 2020 incentive programs. D. Hilton's research found that only 5% of credit unions eliminated their executive plans when the pandemic first hit. By mid-year, most organizations committed to "letting the cards fall where they may" and keeping metrics and goals without modification. The options came down to how best to align program metrics with new priorities. For many organizations, if at mid-year, their plans were tracking at "threshold," then they retained their existing plans. If they chose to adopt a replacement plan, it wasn't viewed as a "make-whole" award. With either decision, most boards are committed to some form of evaluation of feedback to executives to recognize their performance.

  This is a positive reaction. So much corporate effort has been invested in pay-for-performance linkage that postponing the plan for a year can derail the momentum established. It's important not to change the rules too often.

  While it is impossible to prepare for every crisis, leaders must possess the flexibility to adapt in the face of negative feedback rapidly. Effective crisis management is served by resilient organizations, which can absorb blows and recover quickly. A key factor is to engage frequently in preparatory practices (risk analyses, simulations, and scenario exploration).

- **Variable pay programs are not making the annual pay raise obsolete – not just yet.** The yearly merit increase cycle is a long-held practice. However, it's evolved into a tense time where employees quibble over minuscule differences between high-performer and low-performer rewards. How to make an annual salary increase more meaningful and motivating to employees has been an ongoing challenge for employers. 2021 is the first year in more than a decade, where we will see merit increase budgets lower than 3%. It could be lower, and that will not exactly get employees super excited.

  A key driver in the adoption of variable pay programs is the fact that employees are rarely motivated by merit increases. A credit union ends up creating disillusion when 9 out of 10 employees get 3%, and the superstar getting 1% more isn't that thrilled either. Variable pay was seen as a means to differentiate high performers from the pack further. If top performers are unlikely to receive a salary increase of more than 5%, then variable pay can reinforce their internal worth. As we hire more traditional sales competencies, the variable pay concept will provide increased value.

The exploration process begins when a credit union explores shifting some, or all, of its merit increase budget to variable pay. This coincides with conducting market pricing every two years to ensure salaries are keeping pace with market conditions. With inflation staying around 2%, the goal is to get everyone to a market midpoint and then let performance incentives differentiate employee penetration within a salary range. This means the longest-tenured MSR might not be the highest-paid MSR. And that might not be bad. It also enhances the front-line managers' credibility. They have more control over their performance budget and be able to reward and recognize those employees that contribute for them.

If you are still not ready to cut the cord on merit increases, consider these options:

- Frame the discussion in terms of a range of increases instead of communicating the overall budget. Stating that the budget for meeting expectations is 2% and exceeding expectations is 6% demonstrates the variable nature of the program and frames the discussion as to set different expectations for merit-based pay raises.

- Performance management becomes even more crucial. A major weakness of many managers is communicating goals to their employees. For employees to accept the merit increase range, the evaluation results must clearly reflect each employee's performance and contribution. If everyone is "above average," then no one is above average, and everyone will expect the maximum increase.

- Use a higher rating to be eligible for merit increases. Most organizations set the average merit increase at the average performance score (e.g., a 1 to 5 scale, with 3 being meets expectations). In these cases, the "3" would equal the average merit increase. Perhaps the merit increases would start with a 3.5 rating, and employees between 3 and 3.5 would get a lump sum. Poor performers would have to wait longer to get a payout (if any).

- **Team Base Awards are coming back.** As mentioned earlier in the Top 5 essay, who gets credit for a sale has percolated under the surface for years in credit unions. With the advent of omnichannel delivery, the discussion is even more heated. A member goes online to find a branch location but stays to fill out a loan app, only to have someone at the main office call them back to approve the loan. Still, the member wants to set up an account at a branch near their house, and when it's all said and done, the member has spoken to five employees – all of whom believe they were the closer! Omnichannel delivery is making a strong case for the reemergence of team-based awards.

  With all this said, mortgage and commercial lending, wealth management, collections/recovery work groups still benefit from individualized incentive plans. This is because of their unique product lines and their interaction with members. It comes down to the fact that most high performing pay programs are not one size fits all – they mirror market pay practices and are not afraid to have multiple pay programs running under the overall pay program umbrella. Those organizations willing to customize their plans based on market norms have the best chance of attracting and retaining star performers.

Executive Plans Should be Evaluated Annually

The concerns over the risks inherent with variable pay plans are not new. For decades, these programs have been used as a catalyst to promote credit union growth and success. Still, everyone has some anecdote of a pay plan gone wrong manipulated by a rogue executive. While we agree there have been some very poorly designed plans over the years, for the most part, credit unions have gotten it right. Variable pay opportunities have allowed credit unions to attract some of the banking industry's best and brightest.

Variable pay programs come in all shapes and sizes and work well when tailored to the specific needs of each organization. A program that drives one organization, however, does not necessarily drive the next. The key is to align the variable pay program with the credit union's strategic plan and to balance the measurements to ensure sustained success. In other words, what is a Board willing to pay for? The answer to that question lies in their strategic plan – you pay for strategic plan execution.

Most credit unions fall safely below the asset threshold for mandatory clawbacks and increased regulatory scrutiny of their executive variable pay programs. But the assessment criteria used to protect against excessive executive risk-taking has merit for credit unions of all sizes. D. Hilton suggests credit unions operate their executive variable pay programs using similar assessment criteria.

D. Hilton suggests a credit union evaluate the effectiveness of its variable pay programs annually. This evaluation starts with a basic four-question assessment:

- To what degree is the plan self-funding? The goal is to link operational enhancements to financial results. The best plan metrics encourage growth in earnings, loans, members, efficiencies, etc., for a credit union to help as many of its members and potential members as reasonably as possible without taking unnecessary risks. By creating a self-funding program, the credit union is sharing its success with the executives and employees that executed the strategy.
- Do we measure the right things? A key objective is to focus on high-impact measures. Too often, programs measure areas for the sake of measurement, or that are easy to measure or focus on areas that do not address the strategic plan. The objective is to verify that the metrics within the program align with the direction in which the institution wants to go. In other words, if we accomplish these things, will we be financially stronger, and will we reach more members?
- Are we balanced? Are our metrics weighted appropriately? Is there too much emphasis on one area? For example, if Strategic Plan Achievements is weighted highly and the Board's Evaluation of the CEO is weighted lower, this could create a situation where the credit union is meeting all of their strategic objectives. However, the board may or may not be pleased with how the goals were accomplished. The board approved of "what was accomplished," but not necessarily "how it was accomplished." This illustrates the value of weighting metrics to ensure executives understand the board's expectations of how things should be done. In governance parlance, a strong variable pay program establishes executive limitations (the how) in addition to goals (the what).
- Is the design in the best interest of our members? Do our executives have "skin in the game?" Variable pay creates no entitlements. Unfortunately, we can never rest on past laurels as we must demonstrate our commitment to member service every day. Therefore, our executive pay plans must encourage sustained excellence. Variable pay creates an atmosphere of rewarding and recognizing this commitment to the member experience. The best interest of the membership means we create an experience that is noticeably more favorable than other financial services providers. The member experience is defined differently by each credit union but generally focuses on competitive rates, access to funds across multiple delivery channels, and world-class service.

If you can answer these questions with "yes," then your program is likely aligned with the best interests of not only the members and employees but the fiduciary responsibilities you hold.

Top Executive Scorecard Metrics Used by Year

D. Hilton has annually evaluated the incentive plans of more than 250 credit unions since 2010. The table below shows the most frequently used metrics on variable pay score cards for 2020.

2020 Top Variable Pay Metrics Trends

2020 Top Drivers	2020	
	Rank	%
Board satisfaction survey score	1	93%
ROAA	2	73%
Net worth ratio	2	73%
Delinquencies + net charge-offs	4	70%
Strategic plan achievements	4	70%
Member satisfaction survey (extremely satisfied)	6	48%
Net new member growth	7	45%
Operating expense ratio	8	38%
Local loan market share	9	35%
CPA audit	10	28%
Employee satisfaction survey score	11	18%
Net promoter score (NPS)	12	18%
Net checking growth	13	18%
Efficiency ratio	14	18%
Share growth	15	15%

WorldatWork reports that 84% of U.S. companies incorporate some form of variable pay into their total compensation strategies. The following charts show the variable pay payouts in recent years and the potential in pay programs for 2021:

All Financial Services - Nonexempt

Year	Mean Target	Mean Actual Paid
2017	5.7%	6.2%
2018	6.4%	6.9%
2019	6.5%	6.1%
2020	6.1%	6.0%
2021	6.5%	TBD

All Financial Services - Exempt

Year	Mean Target	Mean Actual Paid
2017	11.4%	12.4%
2018	12.5%	13.5%
2019	12.3%	13.2%
2020	11.9%	11.4%
2021	11.5%	TBD

All Financial Services - Executives

Year	Mean Target	Mean Actual Paid
2017	36.3%	39.7%
2018	39.1%	44.9%
2019	37.4%	41.1%
2020	35.8%	34.9%
2021	33.9%	TBD

Source: 2020–21 United States Budget Survey; WorldatWork

Section 5: Executive Benefits Summary

The most critical issue related to executive benefits is the desire for credit unions to retain key executives and protect them from outside offers in an extremely high demand/low supply market. Credit union boards continue to turn to supplemental retirement and retention vehicles to address this issue.

To assist its clients with retention strategies, D. Hilton publishes a biennial study on executive retirement and retention trends exploring what credit unions are doing today to protect their executive investments. For more information or to obtain a copy of this study, please contact Brian Kidwell at 800.367.0433 ext 125.

The following section provides data on some of the more frequent questions D. Hilton receives relating to executive benefits.

Auto Allowances

75.3% of credit unions offer auto allowances or a vehicle to the President/CEO role. The average auto allowance in 2020 is $663.50 each month ($7,962 annually). When a car is provided, the average sticker value is worth $47,179.

For other senior positions, 38.9% of credit unions reported offering an auto allowance. Of these, the average allowance is $509.84 each month ($6,118 annually). When a vehicle is provided, the average sticker value is worth $41,455.

	President/CEO	Senior Executives
Auto allowance or vehicle offered	75.3%	38.9%
Average yearly auto allowance	$7,962	$6,118
Average vehicle sticker price	$47,179	$41,455

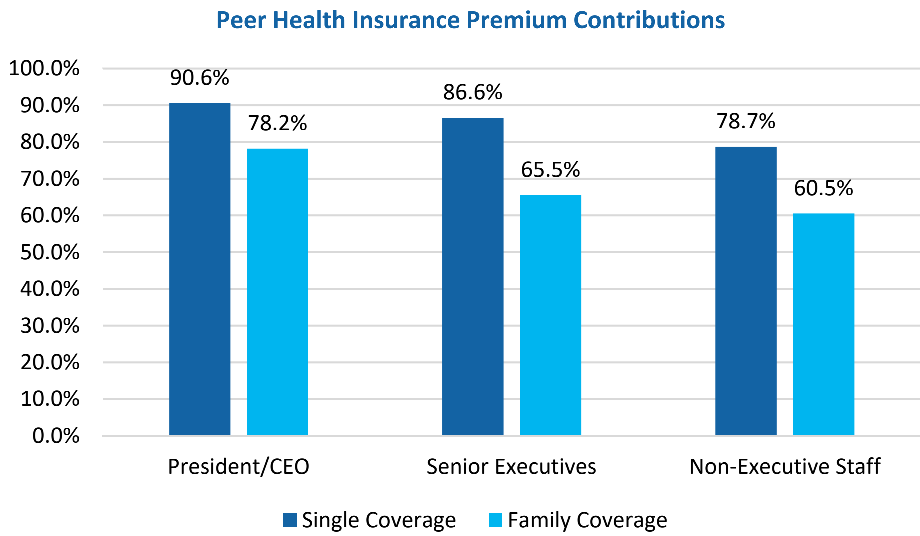
Leave Benefits

Increasing in popularity as a benefit, 36.3% of reporting credit unions offer executives more time off than other staff members. For the President/CEO and senior executives, the average of total leave days is 28, with 7% of credit unions reporting unlimited PTO.

Other types of leave benefits that may or may not be exclusive to credit union executives include paid maternity/paternity leave beyond federal/state requirements, paid leave for parenting (not subject to FMLA) and/or elder care, and paid military leave beyond federal/state requirements.

Health Insurance

On average, credit unions contribute approximately 85.3% of single coverage health insurance premiums and 68.1% of family coverage for the President/CEO, senior executives, and non-executive staff. 23.1% pay more in health insurance premiums for the President/CEO position than for other staff members (most often reported at 100% of premium), whereas only 11.8% reported paying more in premium contributions for other senior executive positions.



27.4% of President/CEOs also receive a paid executive physical examination, during which the executive is given a comprehensive physical examination and provided a forum to discuss his or her health and well-being with a physician. Because executive physical examinations are usually covered by most health insurance policies, this program is generally billed directly. This number has drastically increased since 2014, when it was reported by just under 5.1% of credit unions.

Life and Disability Insurance

Credit union executives (both President/CEO and other senior executive positions) most commonly receive term life insurance policies that cover two times the salary amount. The most often reported amount of group term life insurance coverage among credit union staff members is also two times the salary amount. For President/CEOs and some executives who receive a SERP, a life insurance policy may be connected to their retirement benefit. 78.9% of credit unions offer the opportunity to purchase supplemental life insurance, and 91.5% offer the option to purchase dependent life insurance.

Short- and long-term disability insurance coverage for executives typically does not vary from other employees. The average short-term disability (STD) policy covers 65.8% of base salary and takes effect after an average of 10.9 days of leave (7 days is most reported). Long-term disability (LTD) policies cover approximately 64.0% of base salary and take effect after 90 days of leave.

D. Hilton continually surveys credit unions for executive and staff benefits practices and publishes results periodically in a separate report.

Section 6: Staff Benefits Summary

Health Insurance

In 2020, credit unions offered an average premium contribution of 78.7% overall for single coverage (i.e., employee-only). The average credit union contribution for family coverage plans is 61.5% overall.

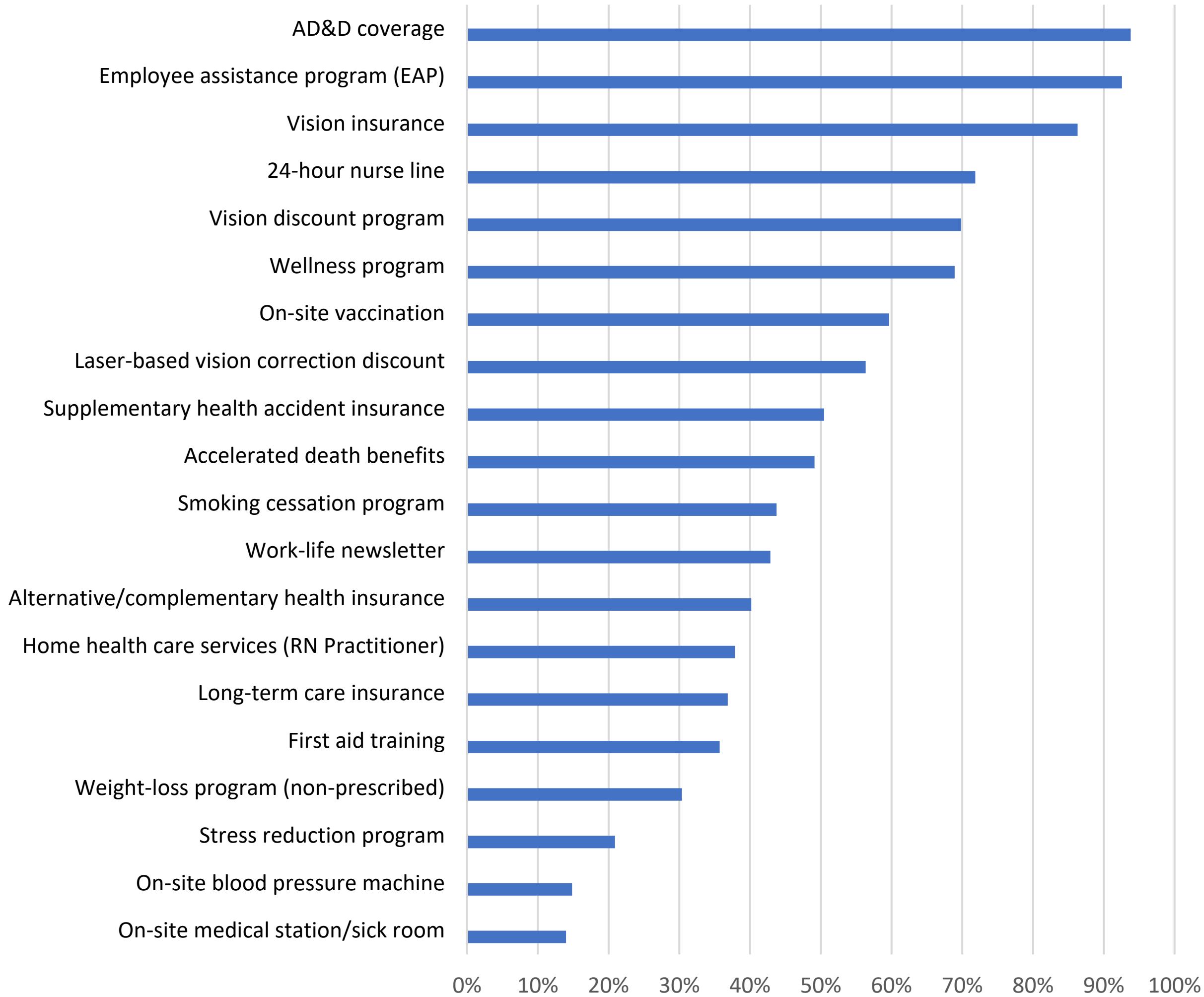
Health Insurance Premium Contributions

Total Assets	Single Coverage	Family Coverage
	Average Credit Union Contribution	Average Credit Union Contribution
$0 -$499.9 million	82.2%	55.9%
$500 - $999.9 million	78.0%	61.1%
$1 billion or more	77.6%	63.1%

Health Insurance Coverage Options

Coverage	$0-$499.9M	$500M-$999.9M	$1B or More	All
Chiropractic	83.3%	88.0%	94.6%	90.4%
Contraceptives	76.7%	91.7%	96.4%	90.3%
Critical illness	72.4%	87.5%	83.9%	82.3%
Infertility treatment	48.0%	50.0%	44.4%	46.8%
Intensive care	83.3%	91.7%	94.6%	91.2%
Mail-order prescription	93.3%	100%	96.4%	96.5%
Mental health	90.0%	96.0%	100%	96.5%
Nutrition therapy	37.0%	60.9%	40.4%	44.3%
Prescription drug coverage	96.7%	100%	100%	99.2%
Prescribed weight-loss program	34.5%	50.0%	51.0%	47.0%

Supplement to Healthcare Program



The chart above shows the percentage of each supplements to healthcare programs offered by credit unions in our database.

Leave Benefits

Paid time off (PTO) programs are continuing among credit unions with 58.1% reporting use, as opposed to 41.9% that report using traditional vacation/sick leave programs.

For PTO programs, 91.7% of credit unions reported that the program allows year-to-year leave accrual, of which 85.0% of credit unions limit. The average limit of leave accrual is 24.3 days (or 194.4 hours). 66.7% of credit unions allow unused PTO to be cashed out in a variety of forms upon termination (retirement, voluntary or involuntary resignation, etc.), of which 8.3% cash out at a discounted rate (i.e., up to a specific daily rate).

For traditional vacation leave programs, 76.0% of credit unions allow year-to-year accrual, of which 81.6% of credit unions cap. The average limit of vacation accrual is 24.8 days (or 198.4 hours).

For sick leave, 81.6% of credit unions allow accrual. 75.0% of credit unions cap the amount of sick leave that can accrue, and the average limit of accrual is 22 days (or 176 hours). 27.1% of credit unions allow employees to cash out unused sick leave days.

Average Days of Leave By Service Years

Average Days of Leave by Service Years	PTO Program		Traditional Vacation/Sick Leave Program			
	Exempt	Nonexempt	Vacation Exempt	Vacation Nonexempt	Sick Exempt	Sick Nonexempt
Less than 1 year	8	8	7	7	5	5
1 to 4 years	18	18	11	11	9	9
5 to 9 years	22	22	16	16	10	9
10 to 19 years	27	26	20	20	12	10
20 to 24 years	30	29	23	23	15	10
25 or more years	31	30	24	24	19	10

Credit unions are currently averaging 10 paid holidays a year. 37.3% of credit unions also offer floating holidays—discretionary days given to employees. The average number of floating holidays provided is two days. These trends have remained stagnant for several years.

All reporting credit unions pay for jury duty leave beyond the federal requirement that releases employees to jury duty without pay. 95.4% of credit unions pay for bereavement leave separately, and 32.0% allow employees leave for unpaid volunteerism (39.4% pay for volunteer leave). 13.5% of credit unions pay for maternity leave above and beyond federal/state mandates, and 13.3% pay for paternity leave beyond mandated requirements. 14.6% of credit unions pay above and beyond what is required for military leave.

Retirement Plans

From our database, the following bullets highlight the current trends for retirement plans in credit unions:

- 98.3% of all credit unions offer 401(k) plans.
- The 2020 average employee contribution is 5.1%, with 81.6% of credit unions imposing a waiting period of some type before participation in the plan can begin.
- The most frequently reported waiting period is 90 days (or first of the month following 90 days of employment service), with 27.4% reporting.
- 91.7% of credit unions allow employer contributions to the retirement plan. Of these, 91.4% offer matching contributions.
- The most frequent match program reported is a dollar-for-dollar match up to 5.0% of employee contributions.
- The 2020 average effective potential match contribution is 3.4%, which is up 0.1% from 2019.
- Graded vestment plans average 5 years in length with 20.0% vestment each year. The second most popular is immediate vesting (29.5%).

Total Assets	Average Credit Union Matching Contributions			Average Credit Union Non-Match Contributions
	Match %	Cap %	Effective Match	
$0 -$499.9 million	75.7%	4.9%	3.1%	3.6%
$500 - $999.9 million	95.4%	4.2%	3.8%	4.7%
$1 billion or more	84.5%	5.1%	3.3%	5.5%
Overall	85.2%	4.7%	3.4%	4.6%

Our data shows that 48.7% of credit unions allow a non-matched contribution to the staff retirement plan. 26.3% of those with a non-matching program report that the contributions are part of a separate profit-sharing plan or similar performance plan, while 42.1% reported that the contributions are fixed amounts each year that are determined based on the discretion of the Board of Directors and other involved managers. The average non-matching contribution in 2020 is 4.6%, which is 0.1% less than in 2019.

Defined benefit plans, or pension plans, continue among 28.8% of credit unions, of which only 61.3% allow new hires to participate. 60.7% of credit unions with a pension plan opt for five-year cliff vesting and have a life-only annuity form of payout.

Section 7: About D. Hilton Associates

For more than 30 years, D. Hilton Associates, Inc. has been the leader in credit union executive recruiting and compensation advisory. The firm employs 35 full-time employees in five major practices: compensation consulting, executive recruiting, strategic services, retention and retirement plan design, and board leadership.

Our commitment to clients is straightforward:

- You will have access to the best data from which to make decisions
- You will make strategic business decisions, not compensation decisions
- You will not let compensation become an emotional decision

With more than 100+ years of collective industry experience, D. Hilton consultants are results-driven, independent that focus on custom solutions for our clients. We cherish our autonomy. We do not accept third-party endorsements, which allows us to be true thought leaders.

D. Hilton clients have access to our compensation consultants throughout the coming year to assist with budget planning, performance management issues, market pricing of new or reconfigured jobs and general human resources issues. If you are not a current client, D. Hilton Compensation Services can create and implement compensation and incentive plans that allow you to attract and retain high performers.

The D. Hilton goal has always been to provide our credit union clients with a thorough knowledge of the issues and best practices in the financial services industry, as well as practical solutions to client-specific concerns and challenges. Should you, your fellow executives or your volunteers have any questions related to D. Hilton's services, please see our website at www.dhilton.com or contact John Andrews at (800) 367-0433 ext. 124.

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