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COMPENSATION

How to Retain Your Best People

You have invested heavily in recruiting and developing key and emerging leaders within your bank. We hear regularly from CEOs about the difficulty and cost of hiring or replacing positions such as lenders, compliance officers, BSA officers, private bankers, trust officers, wealth managers and financial executives in IT and treasury management. Your best people are being actively recruited by other organizations. Retention of these key employees is improved by having the right culture and by having the right compensation plans in place. While base salary and a bonus plan are a given, there are several other compensation strategies that should be considered.

For example, assume one of the key employees is a 35-year-old loan officer with children ages 2 and 5 years old. The bank could set up a bank-funded nonqualified deferred compensation plan (DCP) that pays $20,000 to $25,000 per child for four to five years when they reach age 18. The payments could be made contingent on the officer remaining with the bank throughout the distribution period. If the officer should die prematurely while in service, the bank could make payments to the beneficiary. If the officer's performance exceeds expectations, additional amounts could be credited to the deferred compensation balance.

Another alternative is to provide a supplemental executive retirement plan (SERP) or a DCP that provides supplemental retirement benefits. In some cases, it may be appropriate to do both a SERP and a DCP. For example, the SERP could establish a baseline supplemental retirement benefit of 20 percent of final compensation, and the DCP may provide a performance-based element that would add 10 percent to 20 percent more. The DCP can be tied to individual performance, return on equity or bank stock price. To protect shareholders, such plans often provide that no amounts will be credited to the executive's account balance if the bank incurs a net operating loss or does not meet regulatory capital requirements.

Nonqualified plans, whether SERPs or bank-funded DCPs, typically provide for forfeiture of benefits if the executive leaves and competes with the bank. If properly structured and presented, the plan can also restrict the executive's ability to compete for a specified period after separation from service. The forfeiture and/or non-compete provisions can be powerful tools in retaining your key officers over the long term and in enhancing growth and profitability.

The goal of any institution is to keep the core team together and to supplement that team through hiring, training and recruiting. Both the work environment and compensation arrangements are critical factors in achieving this goal. Nonqualified plans can and should be tailored to the person and the circumstances rather than using a cookie-cutter approach.

Such plans are typically financed with bank-owned life insurance (BOLI), which can help offset and recover a portion or all of the expense. Even if the bank is not able to purchase enough BOLI to accomplish that objective, the incremental cost should be weighed against the lost revenue or cost that may result if one or more of the key team members leaves.

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