

Breakout III: Overlooked Benefits That Can Help Banks Provide Incentives For Their Key People

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Overlooked Benefits That Can Help Banks Provide Incentives For Their Key People

Are your most important employees appropriately protected?

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BankDirector®

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NFP®

The Challenges.

Where do they come from?



Group Benefit Shortfalls

- Pricing



The Cost of Delayed Retirement

- Regulation



The Cost of Replacing Key Employees

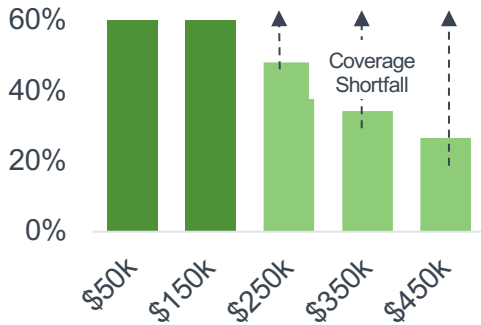
- Competition

Benefit Equalization & Restoration

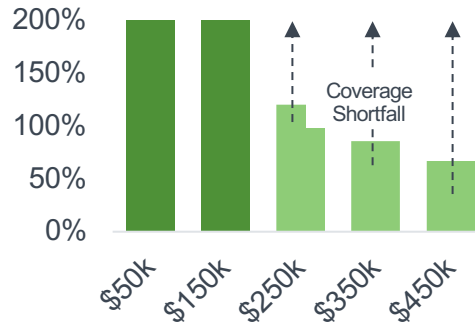
Addressing the unintended shortfalls of group benefit & retirement programs

Whether by plan design, or by way of regulatory limitations, group benefit plans can cause unintended reverse discrimination against highly compensated employees. The regulatory limits on qualified retirement plans, and plan design caps on group disability and life insurance programs create shortfalls that decrease the effectiveness of these valuable programs.

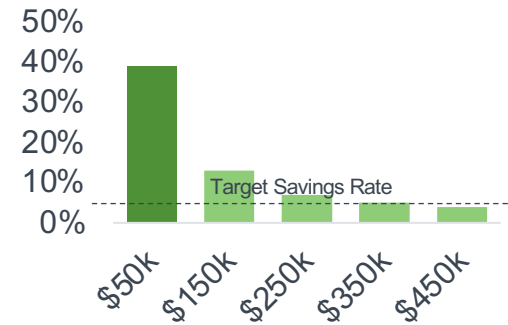
Group Long-Term Disability Shortfall
60% to \$10k per month



Group Life Insurance Shortfall
200% to \$300k max



Group Retirement Plan Shortfall
\$20,500 pre-tax contribution limit

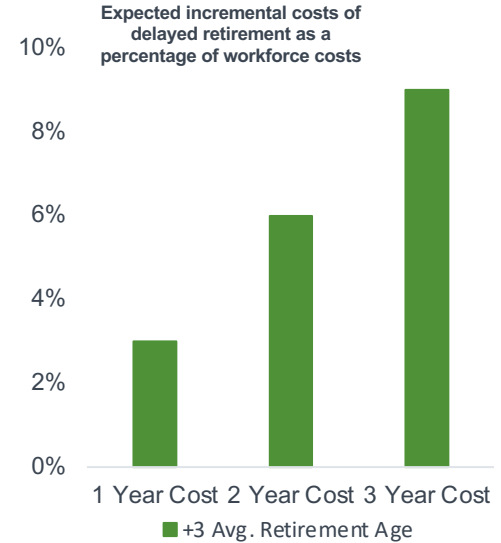
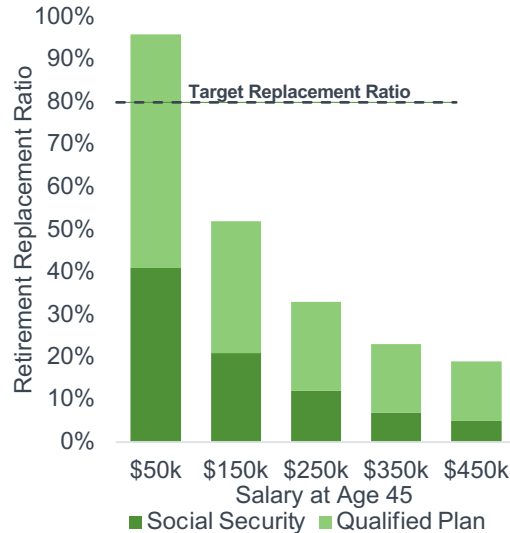


Retirement Completion

Addressing the costs of delayed retirement

IRS Regulation restrict the amount of that can be contributed to tax-deferred plans like 401(k). A common rule of thumb is that retirees will need 70-80% of their final income to maintain their standard of living during retirement. Highly compensated employees may only be able to replace 30-50% of their salary — creating a Retirement Income Gap. Executive benefit solutions & Nonqualified deferred compensation plans can help bridge the gap, giving you an essential recruiting and retention advantage.

Even diligent after-tax savers may have trouble reaching a reasonable replacement ratio, which may result in delayed retirement.



In addition to the burden on the employee, delayed retirement has a significant impact on the total workforce cost of the employer.

Executive age 45 contributes 10% of their pretax salary to a qualified plan. Employer matches \$0.50 of the first 6% contributed. Salary increases 3% per year and contributions are limited to the maximum allowed by law. Contributions grow tax deferred at 7% annual interest. At normal retirement (age 67), the account balance is paid out in 4% installments. Values shown include income from Social Security, and historical contributions to a 401(k), but assume no other sources of income. All values shown are hypothetical, are not guaranteed and for demonstration purposes only. They are not indicative of any security available for sale and your experience will be different from that shown here. Past performance cannot predict future results. Referenced Source: Prudential: Why Employers Should Care About the Cost of Delayed Retirements



The Cost of Replacing Key Employees

Build programs to creatively attract and retain top level talent.

In any employment environment, attracting and retaining top level talent is challenging. The costs to replace a highly compensated executive is estimated to be **200% - 400%** of the annual salary associated with that position. Considering the competitiveness of the upper end of employment market, attracting and retaining key employees is of utmost importance.

Sources: Society for Human Resource Management (SHRM) & Center for American Progress

ROI™: Return On Employee Investment™ How to Achieve It and How to Benefit From It; Sage HRMS White Paper

THE FOCUS ON TALENT

CEOs GLOBALLY		US CEOs	
Attract and retain talent	1	Attract and retain talent	1
Accelerate pace of digital transformation	2	Modify business model	2
Improve cash flow	3	Develop "Next Gen" leaders	3
Develop "Next Gen" leaders	4	Improve cash flow	4
Modify business model	5	Prepare for financial instability	5
Streamline processes	6	Employ mergers, acquisitions, divestitures	5
Focus more on sustainability	7	Streamline processes	7
Become more customer-centric	8	Accelerate pace of digital transformation	8
Lower costs	9	Mitigate cyber risk	9
Prepare for financial instability	10	Become more customer-centric	10

Note: 917 CEOs responded globally.

Source: The Conference Board® C-Suite Outlook 2022



Supplemental Disability Program Details

The Facts About Disability

1 in 4

Of today's 20-year-olds will become disabled before they retire¹

90%

Of disabilities are caused by illness, not injury²

1 in 5

Workers will be disabled for 5 years or more during their working careers³

1.Social Security Administration, Fact Sheet, October 2015

2.Council for Disability Awareness, Long-Term Disability Claims Review, 2014

3.Commissioner's Disability Insurance Tables A and C, assuming equal weights by gender and occupation class.

Your most valued people aren't Highly Compensated by accident – these are your **KEY VALUE DRIVERS**, and without competitive benefits, they will naturally look for alternatives.

Many of these Highly Compensated Employees (HCEs) do not realize limitations in GROUP coverages.

Caps on maximum benefit allowed causes your HCEs to have less income protected, as a percent of compensation, than rank-and-file employees: The higher the income, the lower the income replacement percentage.

Before Disability

- 401k Contributions & Retirement Savings Maximized.
- Personal Asset Accumulation & Savings continues
- Unaware of coverage limitations :.
 - Often covers Base Salary Only (no bonus or other forms of compensation like NQDC or 401k match)
 - Maximum Coverage Caps placed to keep group coverage economical.
 - Increasing group plan maximums to alleviate shortfalls is expensive – *what happens for one, happens for all.*

After Disability (without Supplemental coverage)

- Family Lifestyle changes to accommodate loss of function.
 - Spouses stay home, families often need to hire help.
- Retirement Contributions & Company Match suspended.
- Benefits - disabled employees often go on COBRA at a greatly increased cost.

Company-wide group disability plans provide adequate coverage for the majority of an employee base. Group plan caps and maximums can hinder the amount of protection provided to highly compensated employees, creating a coverage shortfall. Increasing group plan maximums to alleviate shortfalls is expensive. Supplemental Disability Insurance programs are affordable options that specifically target employees effected by group plan shortfalls.



Employee Highlights

- Provides maximum income replacement ratios.
- Individual DI rates are permanent to age 67.
- Can be offered as guaranteed standard issue, meaning no medical exams.
- Contracts and discounted rates are portable if the employee leaves.
- Plan can include an additional Catastrophic Benefit and cover all forms of compensation including equity.



Employer Highlights

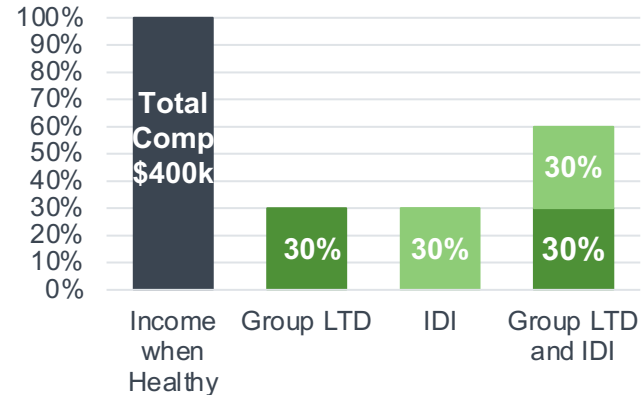
- Packaged pricing discounts are available with many group LTD carriers when individual DI is added.
- Competitive bidding is high with group LTD carriers when the maximum benefit isn't increased.
- LTD rate volatility is reduced when risk is spread among a combination of group LTD and individual DI.



How it Works

The company plan provides 60% of base pay up to \$10,000 per month

This graph illustrates an employee earning \$400,000



Benefits to the employee:

- Maximum income replacement ratios - up to 70-75% of TOTAL compensation.
 - Plan can also include an additional Catastrophic Benefit (100% Income Restoration)
- Permanent Rates - to age 67 – LTD rates generally renewed on a periodic basis.
- IDI often issued as GUARANTEED STANDARD ISSUE - meaning no medical exams
- *Individually Owned* contracts and discounted rates are PORTABLE at separation
- Plan can be designed to cover ALL FORMS of compensation
 - Eg. NQDC Distributions, 401k Match, LTIP, Equity Distributions ... *TOTAL COMP!!!*

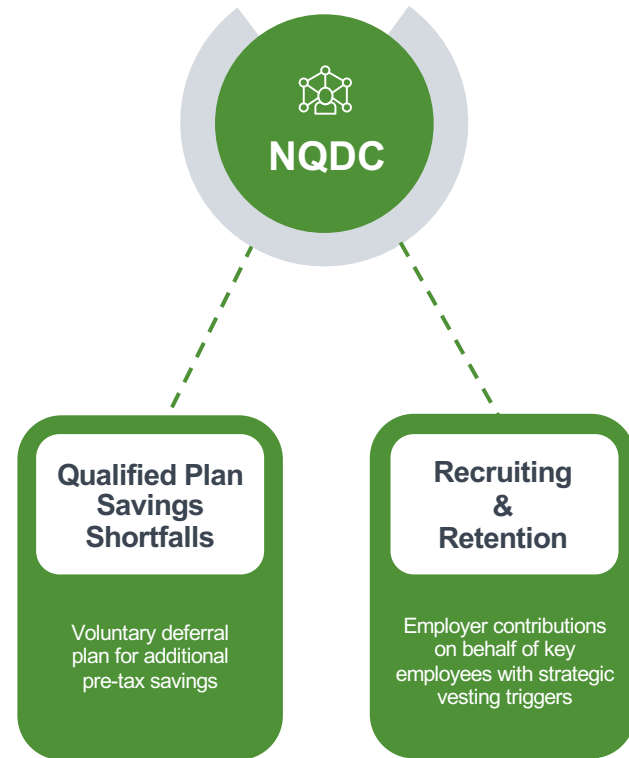
The background of the slide is a photograph of a group of five business professionals in a courtyard. They are standing in a circle, looking at documents and talking. The scene is dimly lit, with a blue tint. There are plants and a globe in the background.

409a / NQDC Program Details

What is NQDC?

Nonqualified Deferred Compensation Plans (NQDC) are a flexible corporate sponsored solution that provide an opportunity for key executives to efficiently accumulate additional assets for future financial needs. Through this program, participants can voluntarily elect to defer a portion of their compensation, and/or receive employer-based contributions on a pre-tax basis, in excess of qualified plan limitations. The plan can solve two problems for an organization – 401k voluntary savings limitations, and retention.

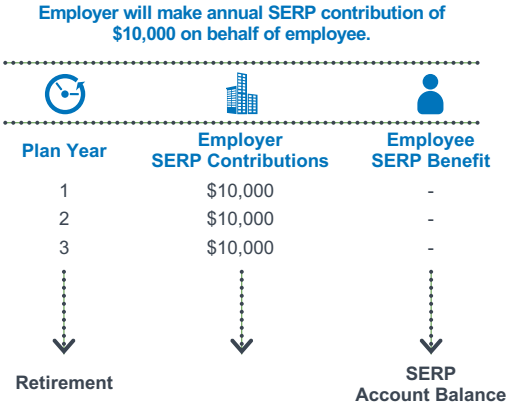
One Program Solves Two Problems



Common Supplemental Executive Retirement Plan (SERP) Benefit Structures include “Defined Benefit” plan or a “Defined Contribution” plan.

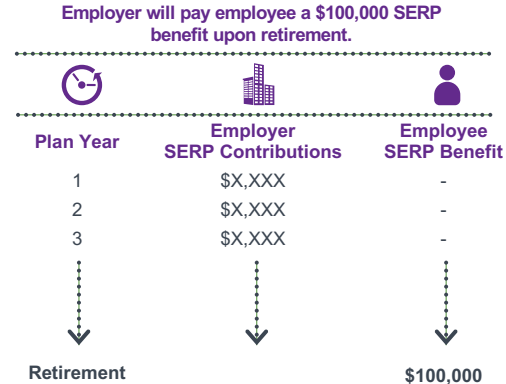
DEFINED CONTRIBUTION

The company promises to annually contribute a stated amount or a percentage of salary until retirement into an account created for each participant. At retirement, the accumulated account value is distributed in installments to the executive as retirement income.



DEFINED BENEFIT

The company can pay a stated amount at retirement, or structure the plan so the amount paid at retirement is based on a percentage of final pay and years of service.





Community Bank Profile

- Assets: \$560 Million
- ROE: 10%, ROA: 1.7%

Problem | Need

The CLO is being recruited and this bank wishes to retain him/her to ensure the future health of the bank and protect future earnings.

What's at Risk?

The CLO could walk and take all or a portion of the portfolio to the new bank. Disruption, loss of productivity, costs to replace, etc.

EXAMPLE: If the officer takes 50% of his portfolio, the bank will lose \$3,262,500 of annual revenue.

At this point, the bank decided to move forward with a personalized incentive comp plan to retain the bank officer.



Assumptions:

- Age 37
- Current salary | \$125,000
- Two children | 3 and 7
- Withdrawals for college | \$25,000\year for 4 years
- Incentive Contribution | 8% of salary
- Crediting rate | ROE
- Planned retirement age | 65

Case Study 1: Retain and Reward Chief Lending Officer

Withdrawals of \$25,000 per year for 8 years for a total of \$200,000 (Ages 49-56). At retirement, the following payments are projected:

Age	Projected Account Balance
50	\$213,000
55	\$281,000
60	\$505,000
65	\$877,000
Projected Annual Benefit	\$78,000 (for 15 years)
Total Benefits	\$1,370,000

- This assumes the bank contributes every year, but this amount could vary if performance measures aren't met.
- The plan document may state that the account balance is forfeited if the officer competes with the bank.

NFP® Case Study 2: Disability Supplement for SERP



Community Bank Profile

- \$500M Private Bank

Benefits to key officers

- SERP for the top 6 officers that paid 30% to 40% of final pay for 15 years at retirement to help restore the retirement benefit shortfall
- Pre-retirement death benefit was same as retirement benefit funded by BOLI
- If disability occurred, participant would receive accrued liability balance only and not meet expectations of retirement benefit

Solution:

- Implemented a supplemental disability plan in addition to the group supplemental disability plan to help fund the retirement benefit if disabled
- Offered a long-term care plan for participants

- Take inventory of key “rainmakers” or critical administrative people, those you cannot afford to lose
- Identify and quantify discrimination in various plan types such as:
 - Group life insurance
 - Group disability plans
 - Retirement benefit shortfalls
- Evaluate retirement plans versus benefit payments made while employed to younger workers.
- Evaluate BOLI or other funding sources to offset benefit costs/expenses
- Model various design scenarios and to determine cost and participant benefits
- Review existing nonqualified plan agreements for compliance and changes needed to benefit amounts based on past assumptions. Many times, original benefit assumptions are not met due to increased compensation.



Strength in Numbers

Our Commitment to Executive Benefits

2,400+

corporate clients in 49 states with participants in 90 countries

102,000+

insurance policies under administration

124,000+

participants in plans we administer

37,000+

executives insured with individual disability

4,300+

executive benefit plans

\$20B+

assets in plans we administer

\$8.3B+

plan liabilities we administer

180+

individuals committed to our clients



About NFP

NFP is a global property and casualty broker, benefits consultant, wealth manager, and retirement plan advisor enabling client success through expertise, investments in technology and strong industry relationships.

Our Mission

To **empower** organizations and people to overcome challenges and uncertainties with tailored solutions driven by active listening, hands-on guidance, specialized expertise and human connections.

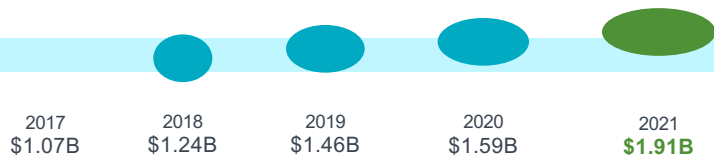
Community Engagement

We invest in **national nonprofits and dozens of local charities**. These organizations share our commitment to advancing equity, supporting those in need and making a meaningful impact in our communities.

Diversity, Equity, Inclusion and Belonging

We aim to **cultivate** enterprise-wide diversity, equity, inclusion and belonging (DEIB) systems and cultures that permeate every aspect of the business and empower all stakeholders to succeed.

Global Revenue



Industry Leader

- #2** retirement plan aggregator firm (Investment News)
- #5** largest benefits broker by global revenue (Business Insurance)
- #7** largest US-based privately owned broker (Business Insurance)
- #9** best place to work in insurance (Business Insurance)
- #10** commercial lines agency by 2020 P&C and commercial lines revenue (Insurance Journal)
- #10** largest P&C agency by total 2020 P&C revenue (Insurance Journal)
- #13** global insurance broker (Best's Review)
- #13** largest broker of US business (Business Insurance)





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The background of the slide is a dark, semi-transparent image of a group of five people in a meeting. They are standing in a circle on a wooden deck, looking at documents and talking. The scene is dimly lit, suggesting an indoor or evening setting. The text "Thank You!!" is centered over this image.

Thank You!!



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