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The Versatile Compensation Tool Banks Need to Retain Key Employees

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Bank executives have some of the most highly transferrable, in-demand skill sets, leaving boards to decipher the best and most efficient ways to stay competitive while aligning the future of their organizations.

They must balance three pillars of a well-rounded talent strategy: attracting new executives, retaining mission-critical employees and aligning interests. These pillars can be boiled down to tying executives to the bank and tying the bank to the executives, creating a mutually beneficial program.

Tying Executives to the Bank

Aligning executive interests with other stakeholders is primarily achieved through a pay-for-performance strategy that provides the largest component of compensation through long-term incentives that reward executives for increasing the value of the bank and shareholder value.

Restricted Stock
This is a stock award to a plan/program recipient who is subject to vesting conditions that must be met before taking ownership. Some conditions may include continued employment for a pre-defined period or achieving bank performance criteria, such as asset growth, earning per share, return on capital or other financial performance goals. Some benefits of this strategy are that short of an insolvency event, there is always value, and the benefit is easy for participants to understand and assign value. One consideration for boards is that such a program is dilutive to shareholders.

Stock Options
An award of stock options provides plan/program recipients the right, but not the obligation, to buy or sell a stock at an agreed upon time, usually tied to a vesting schedule similar to time-based restricted stock. Stock options typically have an expiration period in which the recipient must exercise the option in advance of the stock options being awarded. These awards are aligned with shareholders' interest and reward performance and value creation. But they can be dilutive and complicated to understand, and carry an "all or nothing" value proposition.

Cash-Based Bonus
A cash-based award is similar to that of a "super-charged" bonus program, and can include a performance criteria and/or a time-based hurdle. Plan/program recipients receive a flat dollar amount or percentage of base salary after meeting the vesting criteria. These awards are immediately liquid, easy to understand and offer limitless customization. However, they create a cash expense for the bank, are the least tax-efficient approach and are not

always directly linked to shareholder performance.

Tying the Bank to Executives

Nonqualified deferred compensation (NQDC) plans offer a select group of highly compensated or management-level employees the ability to defer income on an unlimited, pre-tax basis. The basic framework can be expanded to attract and retain quality employees in situations where stock is not an option. Employers can address a variety of compensation goals with NQDCs.

Granting a Benefit

In a nonqualified program, a plan sponsor has a great deal of flexibility regarding employer-sourced contributions. For plan documentation purposes, we recommend structuring these contributions as "discretionary" to provide the most flexibility to the employer. This does not mean that a formulaic approach cannot be utilized. Contributions can be customized by the participant, and by contribution occurrence to best fit the organization's objectives.

Retention Vesting Schedules

Nonqualified programs offer great versatility when it comes to vesting schedules; they can be customized by participant and by contribution occurrence to fit the organization's objectives. One option is for the employer to grant a benefit to a participant using the deferred compensation plan, and attach a unique vesting structure to the grant.

Long-term incentives are great tools to retain critical talent and a major component to a well-rounded executive compensation plan. The flexibility of these programs allows banks to strategically customize and align them with organizational goals, while rewarding key executives for optimal performance. Implementing stock-based programs, nonqualified deferred compensation plans or a combination of both allows your organization to be better equipped to navigate today's competitive landscape.

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Kurt Snyder, vice president of business development, enables organizations of all sizes to address challenges and implement executive benefits solutions that are designed with goals in mind, centering around executive/employee retention, benefits equalization and retirement completion. Combining and connecting NFP expertise and solutions with the right advisors is a process that allows Kurt's experience and relationships with advisors to deliver tangible results for clients.

Tyler Brown's experience spans various organizations and industries, ranging in revenues from $1m to over $45b, concerning base pay, annual and long-term incentives, change-in-control, and director compensation among other topics. Additionally, Tyler holds a Compensation Analyst Credential, is Compensation Committee Certified, and holds a designation as a Professional in Human Resources and a Senior Professional in Human Resources.