# Are Your Executives Outliving Your Benefits?

## How Banks Can Offer Lifetime Benefits to Attract and Retain Key Talent

Compensation Advisors

A Member of Meyer-Chatfield Group

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*How Banks Can Offer Lifetime Benefits to Attract and Retain Key Talent*

Life expectancy has been steadily increasing for American white collar executives in recent years. A 65-year-old white collar man has a 45% chance of living past age 90, and a 65-year-old white collar woman has a 56% chance of living to 96 years. The Society of Actuaries reported that between 2000 and 2014, life expectancy for white-collar men aged 65 increased by about 3 years. During the same period, the life expectancy for blue-collar men went up by less than two years, showing that longevity is increasing at a faster rate for white-collar workers.

This is great news for white collar workers such as bank executives, but it's also the backdrop to a growing concern about retirement. As longevity improves for executives, the chance they will outlive their retirement benefits increases as well. Executives want to know that their benefits will enable them to maintain the same standard of living in retirement. As banks look for new ways to recruit and retain the best executive talent in the business, they should turn their attention to ensuring executives are competitively compensated. Retirement benefits that mitigate longevity risk are a must.

While you should consider the needs of your executives, your bank also must take into consideration the relative expense of the plans, including financing alternatives. Offering lifetime benefits can be risky for a bank if the chance of greater longevity isn't taken into account.

> **White collar executives are living longer, and this puts them at risk of outliving their retirement benefits.**

Efficiencies in all areas of the bank are a necessity today; you need to squeeze every dollar out of every corner. Meanwhile, recruiting the best executives and convincing them to stay with your bank is more arduous than it has ever been. In this guide, we'll explore how your bank can stay competitive by offering your executives benefits they won't outlive, while mitigating the financial risk associated with lifetime plans.

## The Problem: Executives Are Living Longer, and Traditional Benefits Aren't Adequate

Most executives are classified as highly compensated employees (HCE) according to IRC Section 414(q), and thus are more highly impacted based upon the percentage of compensation they can contribute to qualified plans. A typical employee may potentially receive up to five times more (contingent upon time served) as percentage of final pay than what a HCE could receive based upon qualified plans.

> **Many executives are not classified as employees but as “highly compensated employees,” and these employees are subject to higher taxation on benefits.**

**A variety of traditional compensation types aren’t sufficient to solve the problem:**

- 401ks
- SERPS
- NQDC plans
- Qualified plans
- Equity

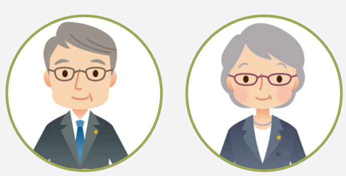
## What the Numbers Say About Retirement Benefits and Longevity

The population is living longer than in previous decades, and no one is planning for it. The result is a high probability that executives will outlive their retirement income.

## The Solution: Executive Retirement Plans with Lifetime Benefits and Fixed Costs

Your bank should ensure that executives are able to retire comfortably, but you may question whether you have the financial ability to absorb for benefit plans that close the gap. The solution is a plan with fixed cost, no variability on benefit levels, lifetime benefits, and reduced expenses. Enter LINQS+ (Lifetime Income Non-Qualified Solution), a benefit design structure that Meyer-Chatfield Group began developing in 2009 to specifically address the needs of their community bank clients.

LINQS+ is a patent pending executive retirement strategy specifically designed to provide a competitive advantage for financial institutions through innovative compensation designs to retain, recruit, and reward top industry talent at substantial cost savings. LINQS+ leverages the benefits of fixed annuities and underlying guarantees of insurance companies to deliver a stated lifetime retirement benefit to the participant. The design provides for both a fixed cost and benefit, thereby allowing the bank to have expense predictability and the executive to have financial planning predictability. The benefit is not contingent upon any market or forecasted returns.



| 65 Year Old White Collar | Male | Female |
|---|---|---|
| Expected age at death | 87.5 | 90 |
| Chance of living past 90 | 45% | 56% |

Percentage of income the average employee needs to retire — **85% of income**

The U.S. retirement savings gap is estimated to be between **$6.8 trillion and $14 trillion**.

*Sources: 2012 Aon Hewett study, National Institute on Retirement Security and Society of Actuaries*

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**Advantages of Using LINQS+**

- Provide significant cost savings to the bank and its shareholders
- Lifetime retirement benefits for executives increase retention of key employees
- Benefits are not contingent upon investment performance
- Carried as an asset on the bank's balance sheet while expensed over the working life
- Requires no medical underwriting
- Has been a proven methodology since 2011 in the marketplace
- Can integrate to existing executive retirement plans

## Sample the Power of LINQS+

For an executive aged 55, LINQS+ results in the average savings of 30% versus traditional 15-year SERPs. Savings significantly increase the earlier the plan is implemented.

| Participant | Age (EOY) | Benefit Start Age | Annual Benefit* | Benefit Paid (yrs) | Avg. Annual Expense During Service Period |
|---|---|---|---|---|---|
| Executive #1 | 35 | 65 | $50,000 | LIFE | $5,399 |
| Executive #2 | 40 | 65 | $50,000 | LIFE | $8,850 |
| Executive #3 | 45 | 65 | $50,000 | LIFE | $14,279 |
| Executive #4 | 50 | 65 | $50,000 | LIFE | $23,518 |
| Executive #5 | 55 | 65 | $50,000 | LIFE | $39,897 |

**Regulatory Guidelines for LINQS+**

January 2011 marked the official launch of the methodology, and LINQS+ has since been implemented in over 25 states. LINQS+ has been through national and state examinations since 2011 and continues to be implemented without any adverse regulatory pressure.

## LINQS+ Success Stories

Both public and private banks have implemented LINQS+ to save costs and offer competitive benefits. Banks that use LINQS+ find that it enables them to attract and retain the right executive talent. Just look at the stories of a public bank in Maryland and a private bank in Tennessee.

### *Case Study 1: $3B+ Public Bank (Maryland)*

**The Goal**

The MD public bank wanted to provide a supplemental executive retirement plan (SERP) benefit to "reward and retain" their top executives who helped the bank achieve its current success over the past ten years and provide a SERP benefit to "attract and retain" their next generation of executives.

**The Problem**

Due to the ages of some of the executives, the SERP benefit created large expense liabilities, so much so that SERP-type plans were dismissed as a potential benefit for all executives (ages 45-63).

**The Solution**

LINQS+ provided such a large savings for the younger executives that the bank was able to provide a SERP benefit to all the selected executives with a reasonable expense impact to the bank. Additionally, LINQS+ provided for a lifetime retirement payout over the 15 year payout structure originally considered.

**The Results**

Due to the implementation of LINQS+, the bank now has a well-balanced compensation portfolio that includes a competitive base salary, market cash incentive opportunities, equity (both stock option and restricted stock), and competitive benefits that include a non-qualified retirement benefit (LINQS+) for key executives. This structure has provided for strong retention and has given the bank the ability to recruit new talented executive officers.

### *Case Study 2: $350+ Private Institution (Tennessee)*

**The Goal**

Restructure the private bank's current SERP benefit to:

1. Fix the expense going forward
2. Enhance the benefit from a 10 year payout structure

**The Problem**

The bank's SERP benefit provided for a percentage of final pay, resulting in the bank accruing substantial unforeseen expenses due to growth in salaries towards the executive's retirement. Furthermore, the SERP benefit paid out for 10 years, beginning at the bank's retirement age of 62. This left a significant 10-year benefit shortfall if the bank executive lived even 82 years, which is below expected mortality for an executive.

**The Solution**

LINQS+ enabled the bank to:

1. Fix their expense going forward due to the direct hedging design of LINQS+ while also reducing their future expense by 28%
2. Enhance their existing retirement plan from fixed period to lifetime benefits

**The Result**

The bank saved over 28% of projected SERP expense while fixing the future expense to the bank, and the executives received enhanced benefits because a portion of their benefit became lifetime retirement income.

## Signs Your Bank Could Benefit From LINQS+

- Your bank needs to offer competitive benefits to recruit and retain top talent.
- Your SERP benefit is insufficient for the expected longevity of an executive.
- Your bank is overweight or underweight in equity.
- You're looking to enhance your efficiency ratio.
- You or your executives are concerned about outliving your income.

If any of the above apply to you, contact Meyer-Chatfield Group today to discuss implementing LINQS+ at your bank!

## About Meyer-Chatfield Group

Meyer-Chatfield Group has 20+ years of extensive experience helping banks and credit unions structure investment strategies that work and can help identify ways to offset the rising cost of benefits. Our mission is to help clients make financial decisions with confidence. We'll work with your unique requirements to determine low-risk, high yield solutions. With sound financial advice, you will be empowered to attract and retain the top talent you need to make your bank successful in this competitive marketplace.

We work in tandem with broker/dealer partners, estate planning professionals, tax attorneys, CPAs, registered investment advisors, wealth managers, and credit union officers to deliver a seamless, holistic, inclusive approach tailored to meet each client's unique compensation challenge.

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