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## **BANK NONQUALIFIED BENEFIT PLAN STUDY**

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Prepared by:

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## OVERVIEW OF STUDY

The goal of this study is to provide useful information to the banking community and to reflect common market practices pertaining to Nonqualified Benefit Plans. This information is intended to provide guidance for Banks and management to make decisions on these types of benefit plans and how they fit in as an important component of creating an effective overall compensation program.

Using Executive Benefit Network's (EBN) database of current clients (focused mainly on banks in the Midwest region), EBN compiled, analyzed and organized data to produce this study to provide findings useful to the banking community.

## THE NEED FOR NONQUALIFIED BENEFIT PLANS

Attracting and retaining key talent is of the utmost importance in an organization. Providing appropriate retirement benefits to key management is a critical way to recruit and retain that talent. Nonqualified Benefit Plans allow flexibility to offer different benefits for each role in the organization and allows the employer to make decisions based on their specific needs and goals.

## BANK FIGURES

Out of 121 banks studied, 79 of those banks (65%) have Nonqualified Benefit and/or Split Dollar Plans.

- 29 have Nonqualified Benefit Plans only
- 28 have Split Dollar Plans only
- 22 Have both a Nonqualified Benefit Plan and a Split Dollar Plan

Below is a breakdown of the types of Nonqualified Benefit Plans that those 51 banks have:

- 31 have a Defined Benefit SERP
- 12 have a Long-Term Defined Contribution Plan
- 6 have a Short-Term Deferred Cash Incentive Plan
- 11 have a Voluntary Employee Deferred Compensation Plan
- 1 has a Phantom Stock Plan

Of the 50 banks with a Split Dollar Plan, 38 offer a split dollar benefit only while actively employed by the bank (pre-retirement), and the other 12 offer an additional post-retirement benefit.

## BANK OWNED LIFE INSURANCE (BOLI)

Typically, the Nonqualified Benefit Plans are informally financed by an investment vehicle, such as Bank Owned Life Insurance. Approximately 96% of EBN's clients that have established a Nonqualified Benefit Plan have implemented BOLI for this purpose.

## NONQUALIFIED BENEFIT PLANS

A Nonqualified Benefit Plan allows an employer to offer additional benefits (supplemental retirement and other) to those employees who are most valuable to the employer. These plans are also instrumental in recruiting, rewarding and retaining these key individuals. Nonqualified Benefit Plans can be in addition to a company's regular qualified plan benefits. The company can *individually tailor* a plan to meet its needs and the particular needs of each of its key employees. Nonqualified Benefit plans are commonly designed *selectively*, without the requirement to provide the same benefit to all of the company's employees. The main categories of these plans are summarized as followed:

- **Defined Benefit SERP (Supplemental Executive Retirement Plan)** - This is an arrangement where an employer promises to pay additional income at a later date - retirement, disability or death. Typically, this is a defined benefit retirement payable for a certain number of years with 15 being the most common duration.
- **Long-Term Defined Contribution Plan** - This is a benefit plan in which the amount of the employer's annual contribution is defined. The contribution is typically based on a percentage of salary or bonus throughout employment. Benefits are paid out when fully vested or at termination of employment in either a lump-sum or a term previously agreed upon. The defined contribution amount is typically contingent on meeting certain individual and company performance or profitability criteria.
- **Short-Term Deferred Cash Incentive Plan (STDCIP)** - This benefit plan is similar to the Defined Contribution Plan except that each contribution has its own vesting schedule, with distributions at the end of each vesting cycle to the executive while they are employed (i.e. vesting = payment). The contribution can also be contingent on meeting certain performance or profitability criteria. Vesting schedules are shorter (3-5 years) and fit well with younger, future company leaders.
- **Voluntary Employee Deferred Compensation Plan** - This is an arrangement where part of an employee's income is voluntarily deferred and is paid out at a later date after the income is earned. The primary benefit of this deferred compensation plan is to defer taxes and account balances enjoy tax deferred build-up.
- **Phantom Stock Plan** - This is a benefit plan that gives selected employees many of the benefits of stock ownership without actually giving them any company stock. The phantom stock follows price fluctuations of the actual stock, paying out any resulting profits.

## SPLIT DOLLAR PLAN

This is a benefit provided to an employee to share in the benefits of a bank/corporate owned life insurance policy. The policy is typically owned by the employer and, as a benefit, some of the death benefit proceeds are allocated to the employee.

## EXECUTIVE FIGURES

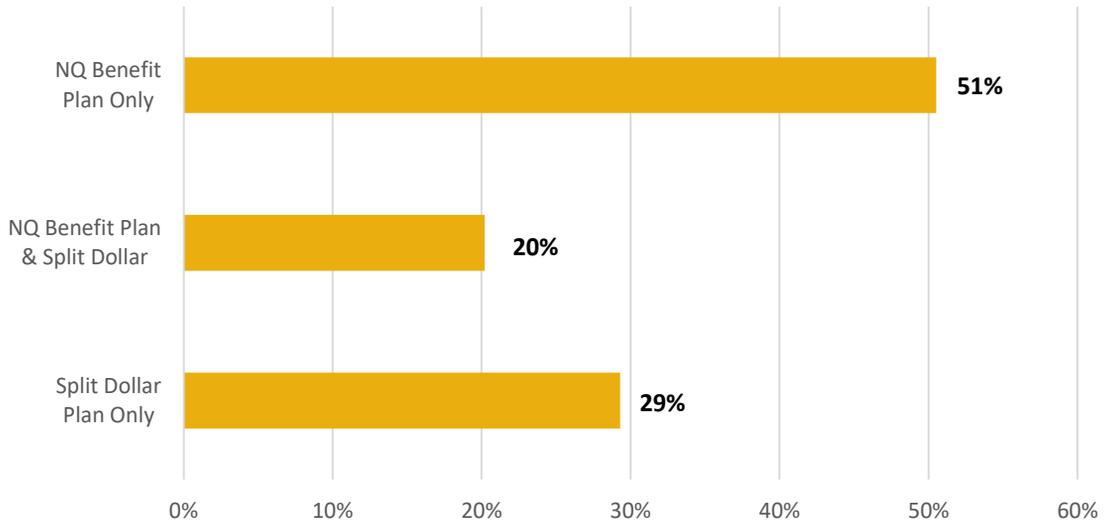
At the 79 banks that have Nonqualified Benefit and/or Split Dollar Plans, there are a total of 572 executives participating in the plans.

Below is a breakdown of the types of Nonqualified Benefit Plans these executives participate in:

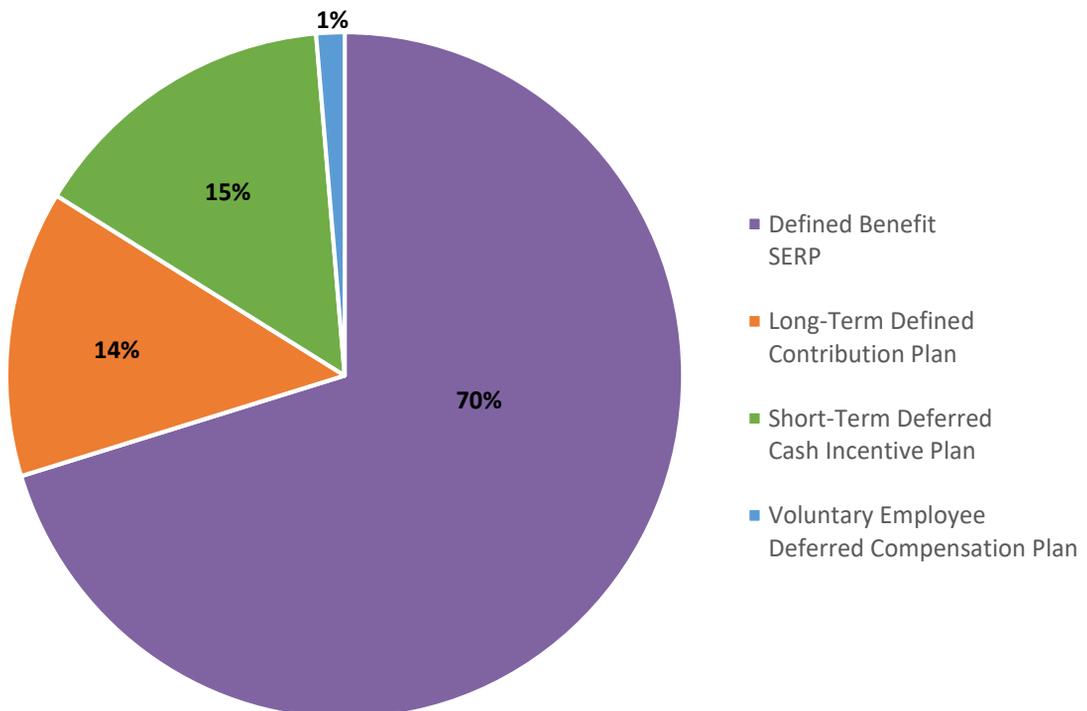
- **33% Defined Benefit SERP**
  - Average Benefit Amount: **\$48,080**
  - Average Duration of Benefit: **14 years**
  
- **15% Long-Term Defined Contribution Plan**
  - Average Duration of Benefit: **8 years**
  - Average Corporate Contribution: **11% of salary**
  
- **4% Short-Term Deferred Cash Incentive Plan**
  - Average Vesting per Contribution: **4 years**
  - Average Corporate Contribution: **11% of salary**
  
- **13% Voluntary Employee Deferred Compensation Plan**
  - Average Benefit Balance at Retirement: **\$433,380**
  
- **2% Phantom Stock Plan**
  
- **45% Split Dollar Plan**
  - **36%** of the executives in a Split Dollar Plan are eligible for a Post-Retirement Benefit

## PRESIDENT AND CEO BENEFIT PLAN ANALYSIS

Of the 572 participants studied, 17% hold the title of President, CEO or President & CEO. The charts below illustrate the benefits provided to these 99 executives.

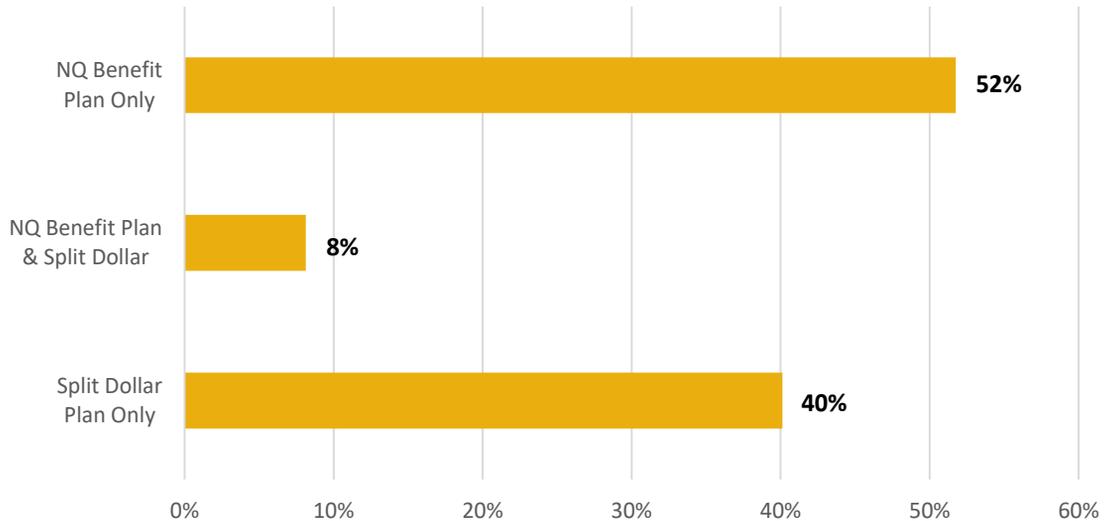


The distribution of Nonqualified Benefit Plan types amongst these executives is illustrated in the following chart:

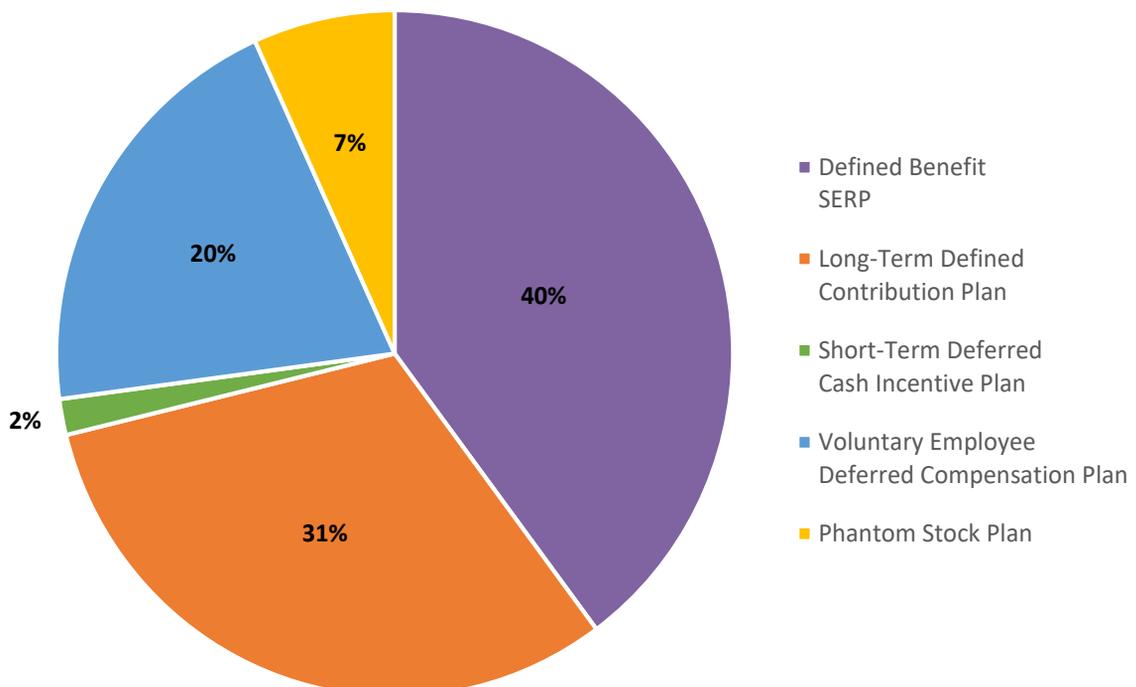


## EXECUTIVE/SENIOR VICE PRESIDENT BENEFIT PLAN ANALYSIS

Of the 572 participants studied, 30% are Executive or Senior Vice Presidents. The charts below illustrate the benefits provided to these 172 executives.

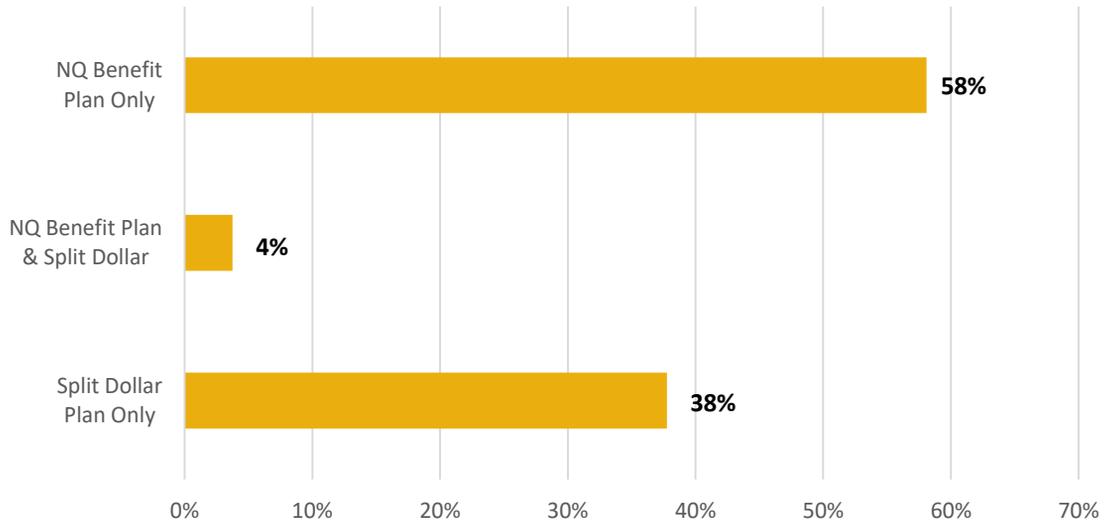


The distribution of Nonqualified Benefit Plan types amongst these executives is illustrated in the following chart:

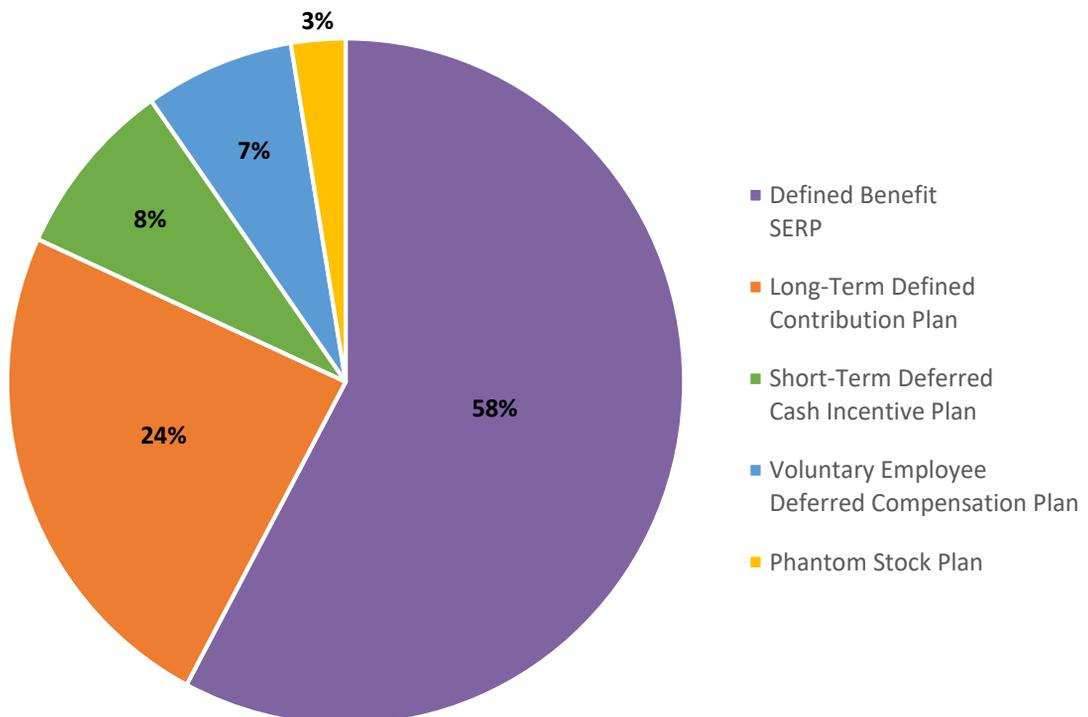


## VICE PRESIDENT BENEFIT PLAN ANALYSIS

Of the 572 participants studied, 42% are Vice Presidents. The charts below illustrate the benefits provided to these 241 executives.

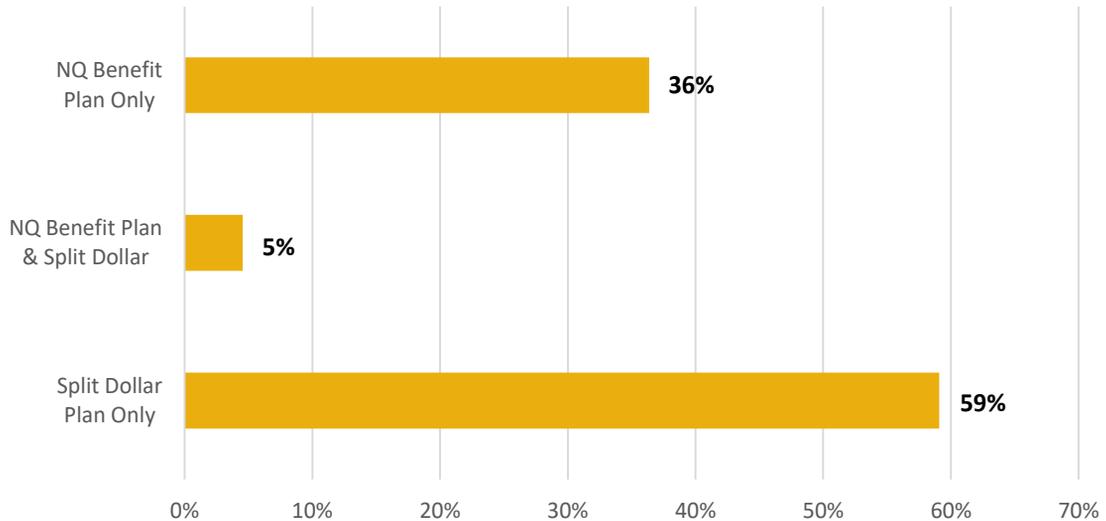


The distribution of Nonqualified Benefit Plan types amongst these executives is illustrated in the following chart:

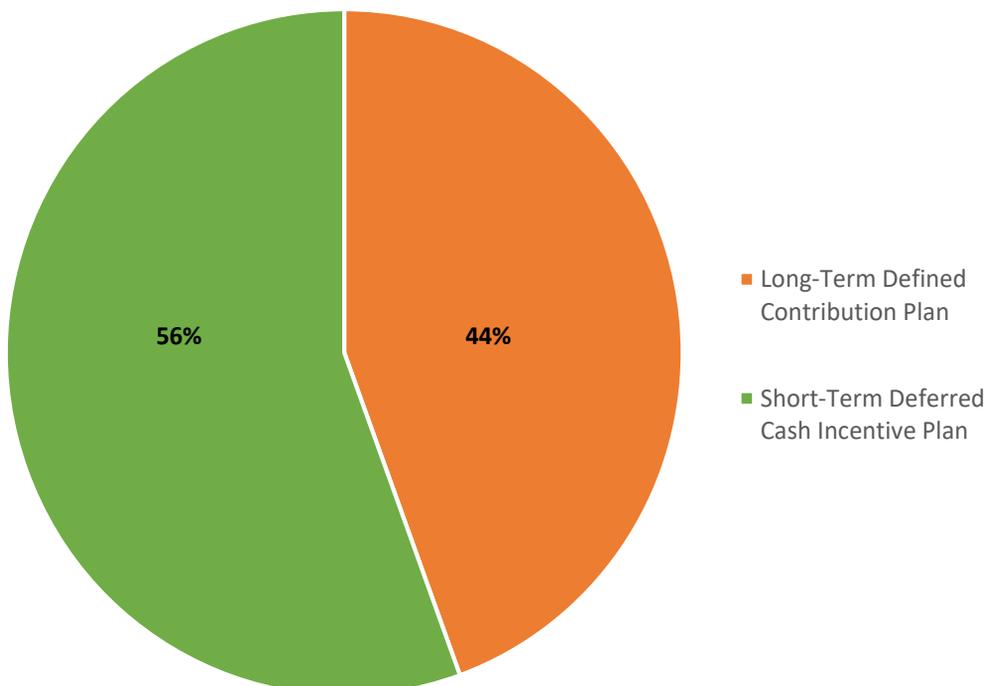


## ASSOCIATE/ASSISTANT VICE PRESIDENT BENEFIT PLAN ANALYSIS

Of the 572 participants studied, 4% are Associate or Assistant Vice Presidents. The charts below illustrate the benefits provided to these 22 executives.

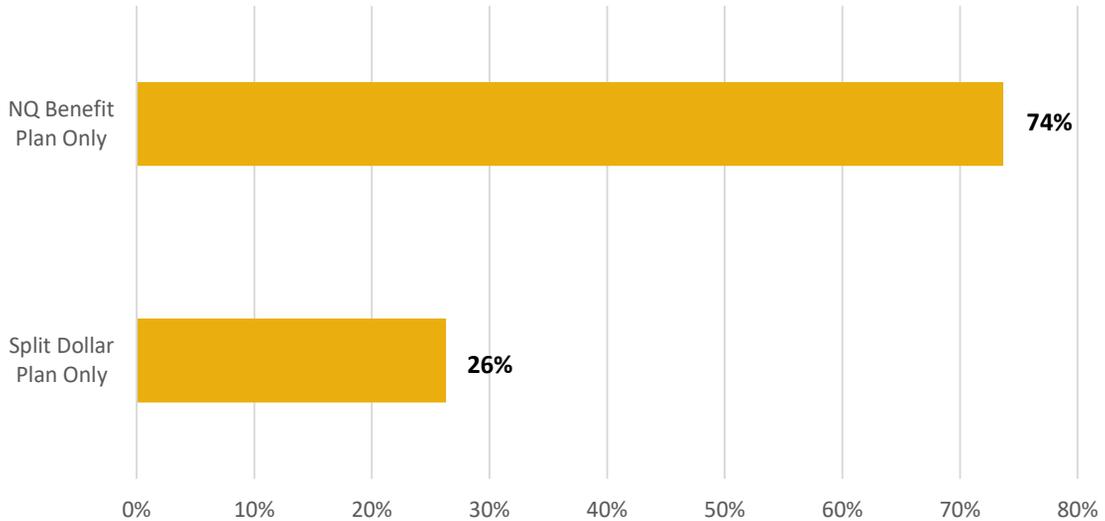


The distribution of Nonqualified Benefit Plan types amongst these executives is illustrated in the following chart:

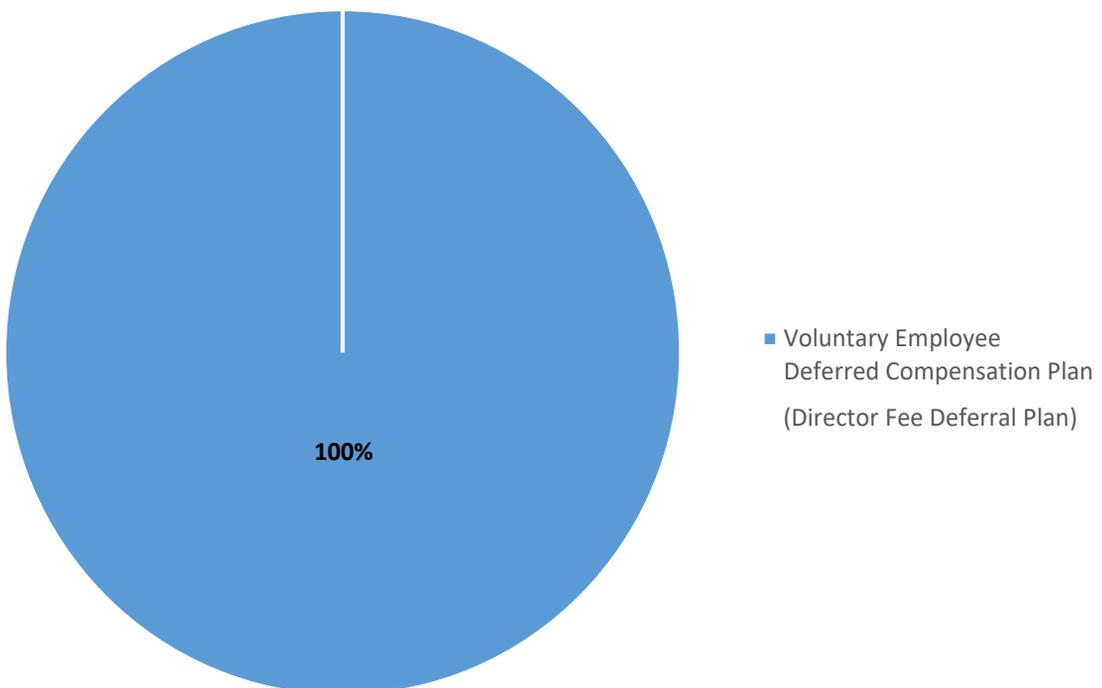


## DIRECTOR BENEFIT PLAN ANALYSIS

Of the 572 participants studied, 7% are Directors. These Directors are not employed by the Bank in any other capacity. The charts below illustrate the benefits provided to these 38 participants.



The distribution of Nonqualified Benefit Plan types amongst these participants is illustrated in the following chart:



## EBN KEY TAKE-AWAYS

The following thoughts summarize EBN's findings in conducting this study:

- **Defined Benefit SERPs** - Consistent with our 2014 study, this is still the most prevalent Nonqualified Benefit Plan for Presidents/CEOs.
- **Long-Term Defined Contribution Plans** - Banks are offering more of these plans as compared to Defined Benefit Plans to executives below the President/CEO level.
- **Short-Term Deferred Cash Incentive Plans** - These are growing in popularity, especially among AVPs and younger VPs. The shorter term payments and vesting works well with younger employees.
- **Phantom Stock Plans** - Banks appear to be trending away from these types of plans, primarily due to complexity of communication to plan participants, challenges in valuation of Phantom Stock units, as well as the extensive administration requirements and correlating costs.
- **Director Plans** - Directors are typically only offered a voluntary deferred compensation plan offering the opportunity to defer director fees.
- **Split Dollar Plans** - These plans are prevalent among all executive levels and are often used to provide Key Employees with a meaningful benefit for the employee while the Bank enjoys the tax-free earnings advantages of BOLI. The amount of benefit is also very flexible and requires minimal upkeep once the plan is in place.
- **Bank Owned Life Insurance** - Almost all banks use BOLI to informally finance the cost of implementing Nonqualified Benefit Plans. While BOLI is often viewed as a long-term investment vehicle, banks are also using BOLI to offset costs for plans like the Short-Term Deferred Cash Incentive Plan.

## ABOUT EXECUTIVE BENEFITS NETWORK (EBN):

As the leading industry advisor, EBN specializes in the customized design, administration, and informal financing of Nonqualified Executive Compensation and Benefit Plans (Deferred Compensation Plans), as well as the procurement of Bank Owned Life Insurance (BOLI) programs to attract, retain, and reward key executive talent. We emphasize the importance of education and build long-lasting relationships with clients in all 50 states, and we have access to the highest rated insurance companies in the nation. We believe that no two companies are alike in their needs; therefore, customization of executive benefit and compensation plans is paramount to a successful program. EBN has been helping companies recruit and retain their employees for over 18 years and can assist you in making these critical decisions.

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David is the Co-Founder of Executive Benefits Network and a 32-year veteran of the financial services industry. David is a frequent speaker across the banking industry as an expert in the area of Nonqualified executive benefit plans and Bank Owned Life Insurance programs. David is the Chairman of The American College Foundation, Board member of the Association of Advanced Life Underwriters (AALU), Trustee of the Village of River Hills, President of the Milwaukee Country Club, and Past-President of the Milwaukee Winter Club Youth Hockey Organization. He is a member of the Wisconsin Bankers Association, Indiana Bankers Association, Illinois Bankers Association, Bank Holding Company Association, the Society of Financial Service Professionals and the MDRT Association's Court of the Table.



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Pat is a Co-Owner and Managing Director of Executive Benefits Network and a 19-year veteran of the financial services industry. Prior to entering the financial services industry, Pat worked as a senior accountant in audit for KPMG in the bank service area and as an attorney for Michael Best & Friedrich LLP where he concentrated on general corporate and securities law. Pat's career focus is in the BOLI/COLI marketplace, as well designing creative strategies for executive compensation planning, business succession planning and estate planning. Pat is a shareholder and Director of a bank in Iowa and is an active member in the State Bar of Wisconsin. He is a frequent speaker in industry meetings and seminars. He is a member of the Community Bankers of Iowa, Iowa Bankers Association and Wisconsin Bankers Association.