

BankDirector.

Breakout 1:
**Future-Proofing Your
Bank Through Innovative
Compensation Strategies**

Flynt Gallagher

*Newcleus Compensation
Advisors*

#A0BA24

newcleus

FINANCIAL INNOVATION + INSIGHT

FUTURE PROOFING THROUGH INNOVATIVE COMPENSATION STRATEGIES

Flynt Gallagher

President, Newcleus Compensation Advisors

IT'S 2024 AND...

- the Pandemic is no longer driving wages and job-hopping
- the **Quit Rate** has dropped below pre-pandemic levels
- **Wage inflation** has slowed, but the labor market is still tight

WHAT THE PANDEMIC HAS TAUGHT US

- A “normal” labor market doesn’t exist anymore
- Keeping top talent is mission-critical
- Searching for top talent is expensive and disruptive

LABOR MARKET

Total Available to work

268 million

Total Want to work

167.5 million

Total Employed

161.2 million

62.5%

Total Unemployed and
Want to Work

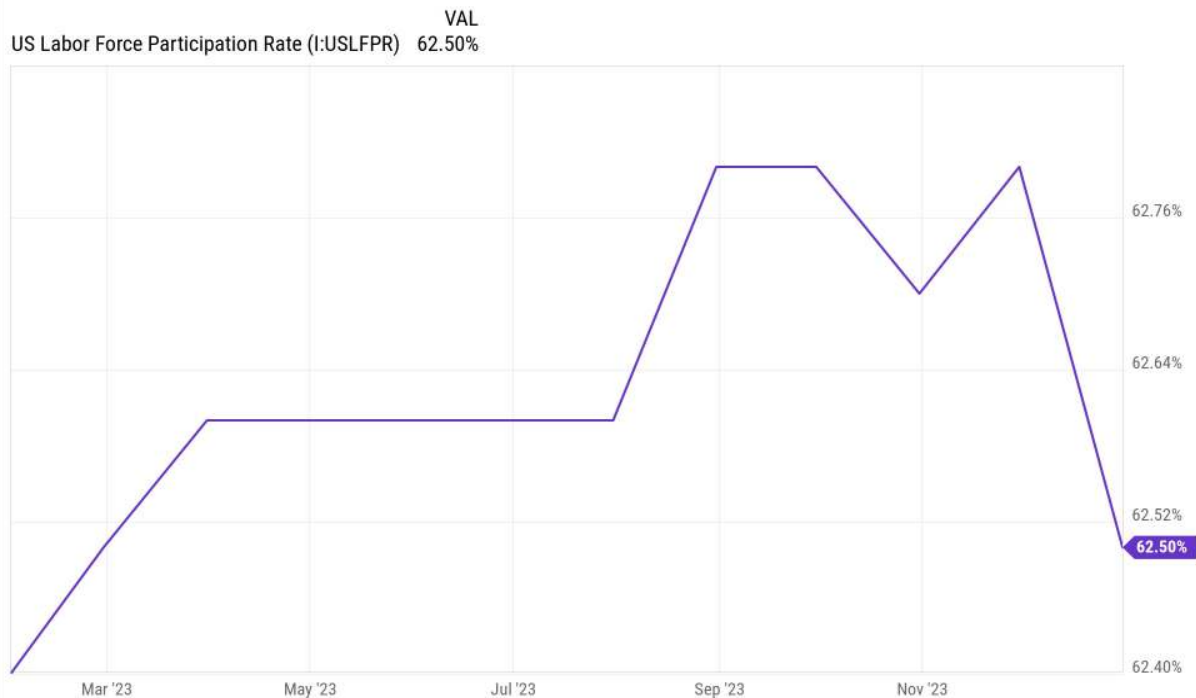
6.3 million

3.7%

Total Job Openings

8.8 million

1.4 to 1.0

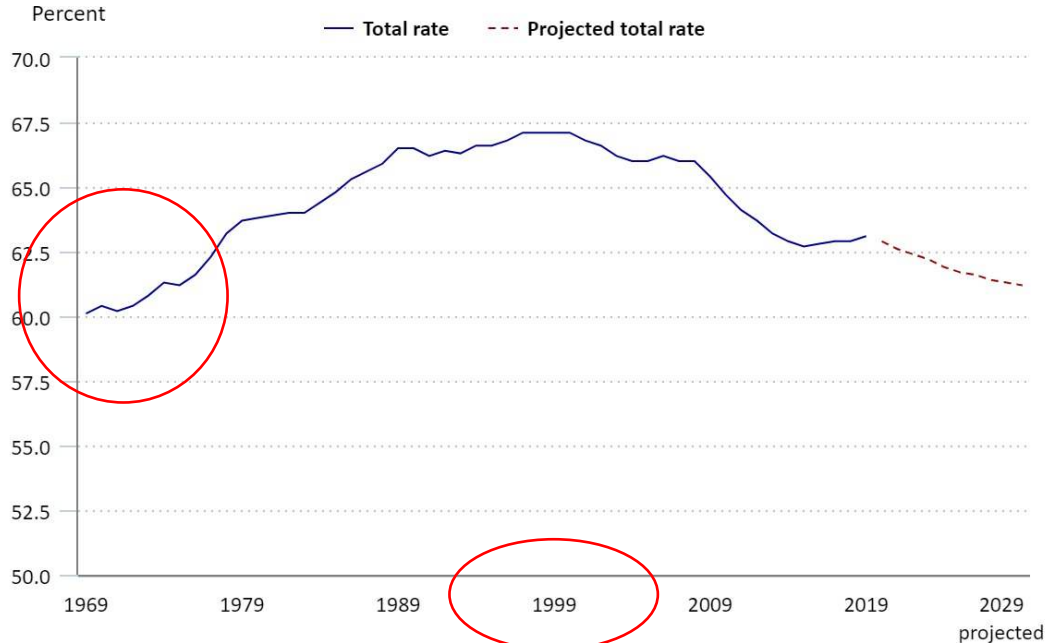


Jan 06 2024, 5:19PM EST. Powered by **YCHARTS**

EMPLOYER CHALLENGES IN THE JOB MARKET

Government data projects the labor force participation rate will fall over the next decade.

Figure 5. Labor force participation rate, overall, 1969–2019 and 2019–29 projected



Click legend items to change data display. Hover over chart to view data.
Source: U.S. Bureau of Labor Statistics.

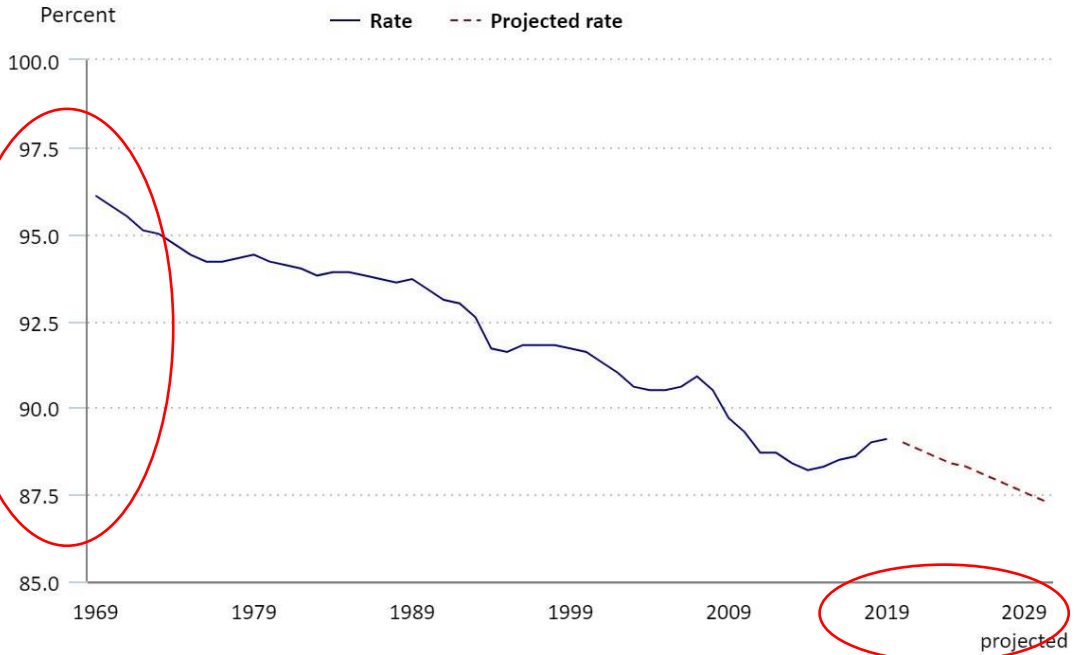


EMPLOYER CHALLENGES IN THE JOB MARKET

Men are exiting the
Labor Market...

Where are they going?

Figure 6. Labor force participation rate, men ages 25–54, 1969–2019 and 2019–29 projected



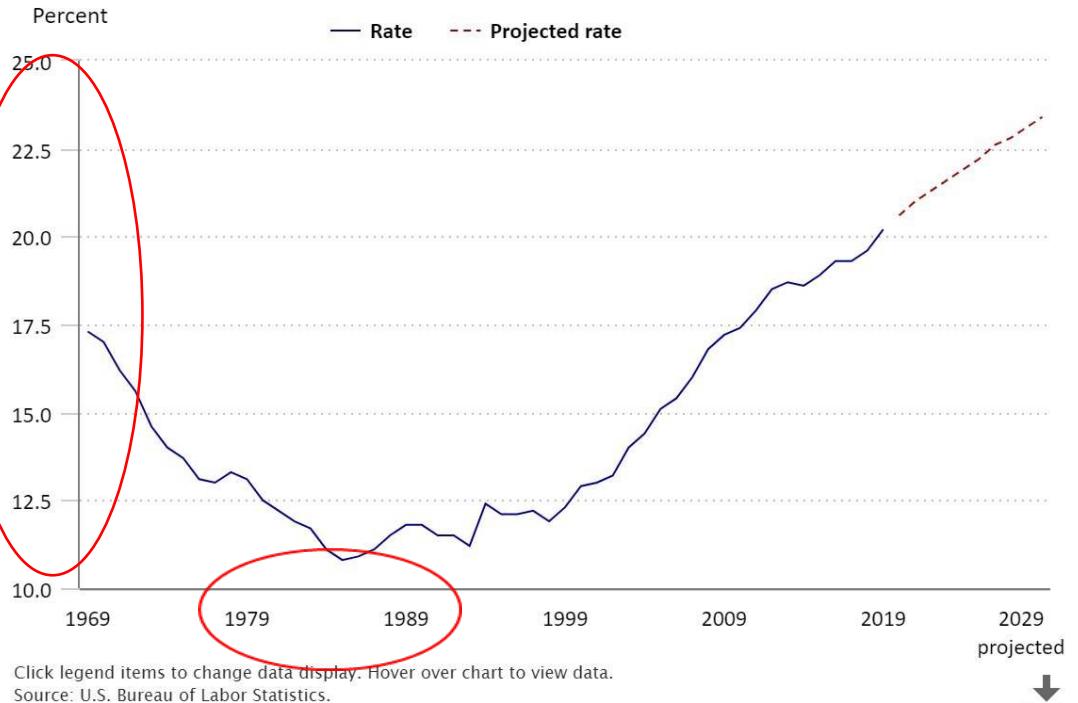
Click legend items to change data display. Hover over chart to view data.
Source: U.S. Bureau of Labor Statistics.



EMPLOYER CHALLENGES IN THE JOB MARKET

Ironically, Boomers are staying or re-entering the labor market

Figure 8. Labor force participation rate, ages 65 and older, 1969–2019 and 2019–29 projected



WHAT IS FUTURE- PROOFING?

Future-proofing is the process of anticipating the future and developing methods of minimizing the effects of shocks and stresses of future events.

While we can't predict the future, there are solutions and methodologies that can help you avoid the uncertainties associated with M&A.

FUTURE-PROOFING IS YOUR COMPETITIVE EDGE.

The right compensation programs provide,
increased employee



SATISFACTION



RETENTION



RECRUITMENT

The right compensation and benefit plans can make the
difference ...

Especially when M&A may be in your bank's future.

So, how do we future-proof our institutions?

Future-proof by finding out what your employees **VALUE**,
and providing **enough** of it to influence decision making.

So...what do they value?

THE ANSWER IS DIFFERENT FOR EACH
GENERATION.

EACH GENERATION IS MOTIVATED BY DIFFERENT EXPECTATIONS AND NEEDS

- Do we pay them the same?
- How do we manage them to achieve our objectives?
- Is it a Career or a Job?

GENERATION BASED PERSPECTIVE

Motivation...



and soon, Gen Alpha

2024 PROJECTED TRENDS

- MORE ZOOMERS, FEWER BOOMERS
Gen Z will surpass Boomers in the full-time workforce
- STICKY WAGES, SLIPPERY BENEFITS
Wages and salaries to continue increasing, non-cash benefits could erode.
- CASH ONLY
Equity compensation will decline for a second consecutive year.
- LAYOFFS' LONG SHADOWS
Layoffs in 2023 will echo in employee morale well into 2024.

2024 PROJECTED TRENDS

- MISERY IN THE MIDDLE
Middle managers feel the squeeze from above and from below.
- RETURN-TO-OFFICE CARROTS, STICKS, AND CARROT STICKS
Treading line between gently reward and enforce RTO.
- SMALL IS FLEXIBLE
Less rigid remote work policies draws workers toward smaller companies.
- CAN I JUST TALK TO A PERSON
Automated customer service no substitute for peer-to-peer interaction.

CHANGING CONCERNS

The majority of younger workers prefer Wellness Benefits over Retirement Benefits



- **73%** consider Wellness Benefits before applying for a job.
- **53%** would leave their employer for Wellness Benefits

ALIGNING VALUES WITH COMPENSATION TOOLS



SALARY EXPECTATIONS

Driven by higher minimum wages:

- BOA
- Unions
- Amazon, etc.

...AND NOW



\$78,645

Minimum salary US workers now expect
at a new job

Bloomberg.com

College Graduates expect **\$98,600**

INCENTIVES: WHAT + WHY?

“Something that encourages a person to do something.”

Or, in relating specifically to compensation,

“Compensation that drives specific behavior.”

PERFORMANCE-BASED COMPENSATION

ANNUAL INCENTIVE PLAN

- Simple structure
- Objective metrics
- Competitive payout

LONG-TERM INCENTIVES

- Equity, cash or combination
- “Sticky dollars” - cliff vesting
- Tailor to meet participant objectives (vesting schedule)

NQDC/RETIREMENT PLANS

- Drives long term franchise value
- RETENTION - strategic vesting schedules

EFFECTIVE TOOLS

Deferred Compensation – Purpose + Use

1. RETENTION

- Must be enough to influence behavior
- Vesting schedule must be appropriately designed

2. RECRUITMENT

- Highly valued by industry key talent
- Efficient use of funds over a long period of time

3. REWARD

- Strategy to reward legacy performance

4. COMPLEMENTS ILLIQUID EQUITY GRANTS

- If equity is illiquid, SERPs are a great alternative
- Not be in a position of a forced sale

- **EXAMPLE:** Distributions coincide with Tuition needs
- **92%** of the Fortune 500 have Deferred Compensation Plans

Newcleus Peer Exchange
Number 1 Retention Tool

UNDERSTANDING DEFERRED COMPENSATION PLANS

- **REWARD, RETAIN, RECRUIT**

provides a program to reward, retain, and recruit key talent.

- **NO IMPACT**

on existing plans.

- **FREEDOM**

to select participants from highly compensated management.

- **NO IRS APPROVAL**

avoids most of the cost and administrative requirements associated with establishing a qualified plan.

- **CONTROL**

over plan features like benefit amounts, payout options, and vesting.

- **TAX-DEDUCTIBLE BENEFITS**

when paid to executive or his/her heirs.

EQUITY ALTERNATIVE

Performance-Based Long-Term Incentive Plan – Synthetic Equity

Year	Age	Salary	Annual Award	Crediting Rate	Annual Expense	Vested Payments	Balance at RISK
2024	43	100,000	20,000	-	20,000	-	20,000
2025	44	103,000	20,600	1,000	21,600	-	41,600
2026	45	106,090	21,218	2,080	23,298	-	64,898
2027	46	109,273	21,855	3,245	25,099	-	89,997
2028	47	112,551	22,510	4,500	27,010	-	117,007
2029	48	115,927	23,185	5,850	29,036	25,526	120,518
2030	49	119,405	23,881	6,026	29,907	26,291	124,133
2031	50	122,987	24,597	6,207	30,804	27,080	127,857
2032	51	126,677	25,335	6,393	31,728	27,893	131,693
2033	52	130,477	26,095	6,585	32,680	28,729	135,644
2034	53				-	135,644	
			229,278	41,885	271,163	271,163	

AT RISK

DEFERRED COMPENSATION ALTERNATIVE – LINQS+

Benefits to the Executive + Employer

LIFETIME PAYMENT STREAM

Employee *cannot outlive* retirement income.

BENEFIT IS GUARANTEED

Annual Benefit amount is NOT contingent upon investment performance.

RETIREMENT BENEFIT IS FIXED AT INCEPTION

Benefit varies **ONLY** by age at Retirement. Deferring retirement **INCREASES** annual benefit.

COST IS FIXED AT ADOPTION

LESS expensive than typical SERP. Cost does not change due to longevity.

ENHANCES RETENTION

Provides employees with considerable financial compensation.

COMPATIBLE WITH NEW OR EXISTING PLANS

Extends payments for **LIFE**. Does not change contingent events.

RETENTION - SERPS

Comparing LINQS+ to SERPS

Participant	End of Year Age	Benefit Start Age	Annual Benefit	Traditional SERP Cost (15 Yrs.)	LINQS+ Cost Lifetime	Projected Savings / (Cost)	% of Savings LINQS+	LINQS+ Benefit through Mortality	Additional LINQS+ Benefit
Exec Male	45	65	100,000	1,500,000	901,383	598,617	39.91%	2,100,000	600,000
Exec Female	50	65	100,000	1,500,000	924,680	575,320	38.35%	2,330,000	830,000
Exec Male	55	65	100,000	1,500,000	981,984	518,016	34.53%	2,100,000	600,000
Total			300,000	4,500,000	2,808,047	1,691,953	37.6%	6,530,000	2,030,000

LINQS+ is patent pending.

Come by our booth to see an actual comparison for yourself

Every dollar provided through LINQS+ generates **up to \$2 or more in return**

WELLNESS PLANS

EMPLOYER PAID

- Add-on to existing Health Insurance Plan
- Employer pays additional premiums for employees
- Range of virtual services, member discounts
- Employees encouraged to participate with awards of “points” and trinkets

COST NEUTRAL

- Combination plan of existing health plan and wellness plan
- No cost to Employer, possible decrease in immediate expense
- Broader range of services and discounts
- Employees REQUIRED to participate or will be unenrolled

IRS REQUIREMENTS MUST BE MET

THE COST OF WELLBEING

The impact of wellbeing extends far beyond how people *feel* -- it affects the number of sick days, job performance, burnout and likelihood of leaving. SOME of the costs of poor wellbeing:

- **75% of medical costs** due to preventable conditions
- **\$322 billion of turnover and lost productivity cost globally** due to burnout
- **15% to 20% of total payroll** in voluntary turnover costs, on average, due to burnout
- See me and I will tell you how to find a plan that provides great benefits at **NO cost**.

A WELL-DESIGNED COMPENSATION AND BENEFITS STRATEGY HELPS YOU COMPETE ... AND WIN

IN PERFORMANCE

- Structuring comp strategy in light with the bank's overall growth strategy encourages employee behavior by uniting compensation and performance – future-proofing through increased efficiency and a heightened advantage against competitors.

IN RISK MITIGATION

- Ensure ongoing financial health with a compensation strategy that matches your bank's financial constraints, balancing hiring and retention with increasingly conservative budget.
- Don't jeopardize financial health by pulling money away from important initiatives that can support growth – some comp solutions (LINQS+) can actually provide higher value benefits for less cost.

BECOME THE FINANCIAL INSTITUTION PEOPLE WANT TO JOIN AND STAY

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“

A highly engaged team/workforce
is the difference between a bank
outperforming its competitors and
one that fails to grow.

”

- Gallup

EXAMPLES OF REAL, COST-EFFECTIVE TALENT AND SUCCESSION SOLUTIONS



A Texas bank implemented a simple long-term deferred compensation plan to pay off tuition and keep a key young commercial loan rainmaker



A Massachusetts Federal Credit Union combined pre-retirement payouts and guaranteed life and death benefit protection, providing security for its CEO that firmed up his loyalty.



A bank allowed Executives to defer Restricted Stock Units into a Deferred Comp Plan, delaying Income Tax until Retirement while saving the expense of the stock appreciation



A California bank converted its SERP to focus on a lifetime benefit solution for the executive team, which ultimately saved money for the bank.

TRANSITION, CHANGE, ANALYZE... FUTUREPROOF

Future-proofing can take many forms, but the first step is recognizing this:

Your workforce is changing. A new generation is stepping up. Their demands and needs are different. NOW is the time to review your compensation plans to Preserve and Protect succession with appropriate Salaries, Incentives and BENEFITS.

THANK YOU.

The logo for newcleus features the brand name in a white, lowercase, sans-serif font. The letter 'c' is replaced by a solid orange circle. A registered trademark symbol (®) is positioned at the top right of the 's'. Below the brand name, the tagline "FINANCIAL INNOVATION + INSIGHT" is written in a smaller, white, uppercase, sans-serif font. The entire logo is centered on a dark blue background with a decorative pattern of small, light blue and orange dots at the top and bottom edges.

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