2019 PENTEGRA STUDY

Trends in Bank Benefits

PENTEGRA

The Pentegra 2019 Study on Executive Benefit Trends is based on a survey conducted during the first quarter of 2019 in which 83 banks nationwide participated and provided feedback.

Attracting and retaining talented employees is one of the biggest challenges facing banks today. Benefits can be a game changer.

For employers competing for job candidates, a comprehensive benefits package may tip the scales for a candidate who is considering multiple offers. Your total rewards package is also a key competitive resource for employee retention.

Benefits are an important component of that package. In fact, employees cite that a retirement plan is one of the most important benefits that a bank can provide. Which is why today, retirement plans are an important part of your bank's success.

Financial institutions across the nation share similar goals and challenges, but ultimately they need to attract and retain valuable employees in order to provide a high level of customer service and to enhance the growth and profitability of the institution.

We are pleased to share our most recent research on trends in bank retirement benefits.

Designing an effective retirement program for your organization starts with a review of your management philosophy, compensation strategy, the different types of plans available, an analysis of what your peers offer, and considerations such as demographics and the maturity of your institution.

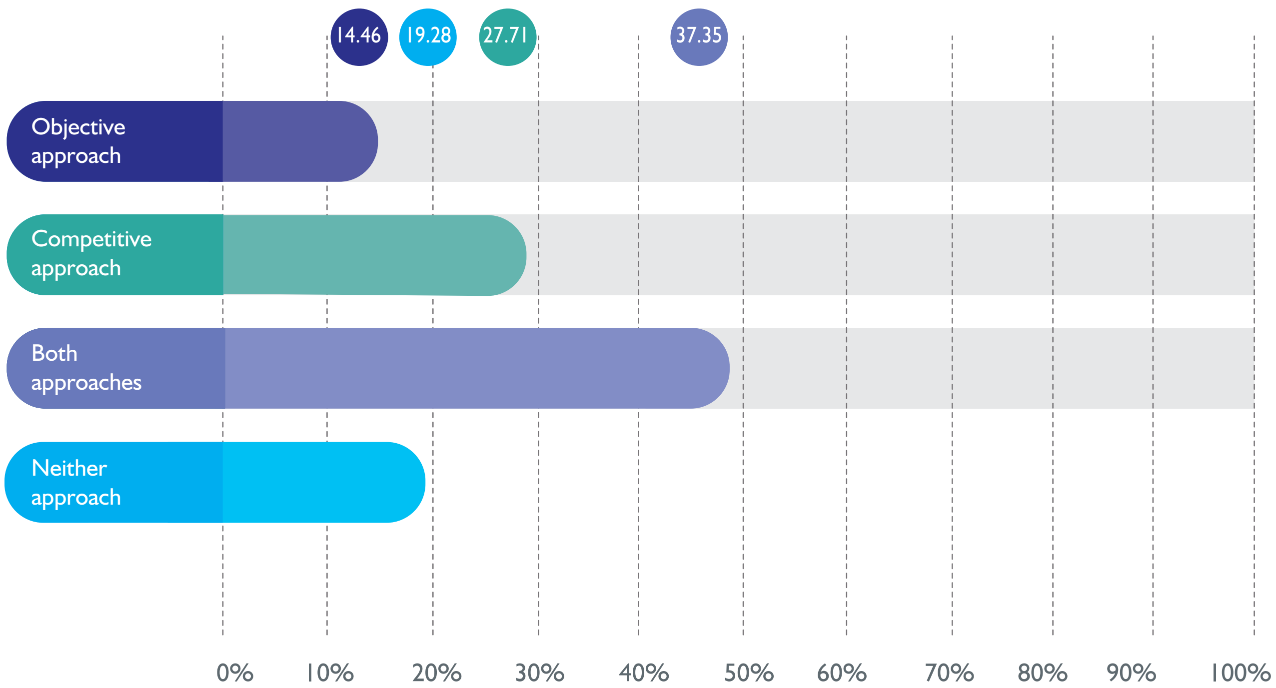
There are two basic approaches to consider in developing a benefits philosophy.

The first centers on an "Objective" Approach—that compensation and benefits are offered in order to fulfill a specific function, (i.e., to provide employees with sufficient retirement benefits). The adequacy of the benefits involves an analysis of what level of compensation and benefits allow an employee to maintain a certain standard of living.

The other is a "Competitive" approach—that attractive benefits and compensation packages are offered in order to attract and retain employees. Benefit programs should be viewed as an important component of total compensation. Adequacy of total compensation involves an analysis of wages and the level of benefits offered by competitors.

It is important to recognize that while these two approaches are different, they are not exclusive. The successful benefits program will reflect a blend of both philosophies.

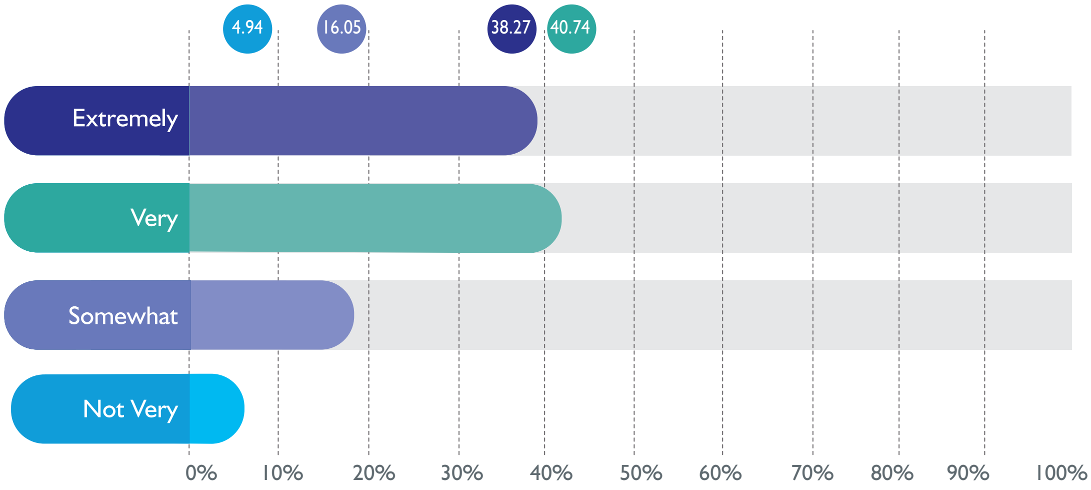
When it comes to retirement benefit programs and your bank's benefits philosophy, which best describes your bank's approach?



The successful benefits program will reflect a blend of **both philosophies.**

Competitive benefits not only help with recruitment but can also bolster retention. While a strong benefits package can become expensive, replacing an employee can be even more costly and time consuming if a company experiences regular turnover. Investing in a comprehensive benefits package can help mitigate the cost, time and effort involved in employee turnover and recruitment.

How important do you feel retirement benefits are to attracting, retaining and rewarding talent?



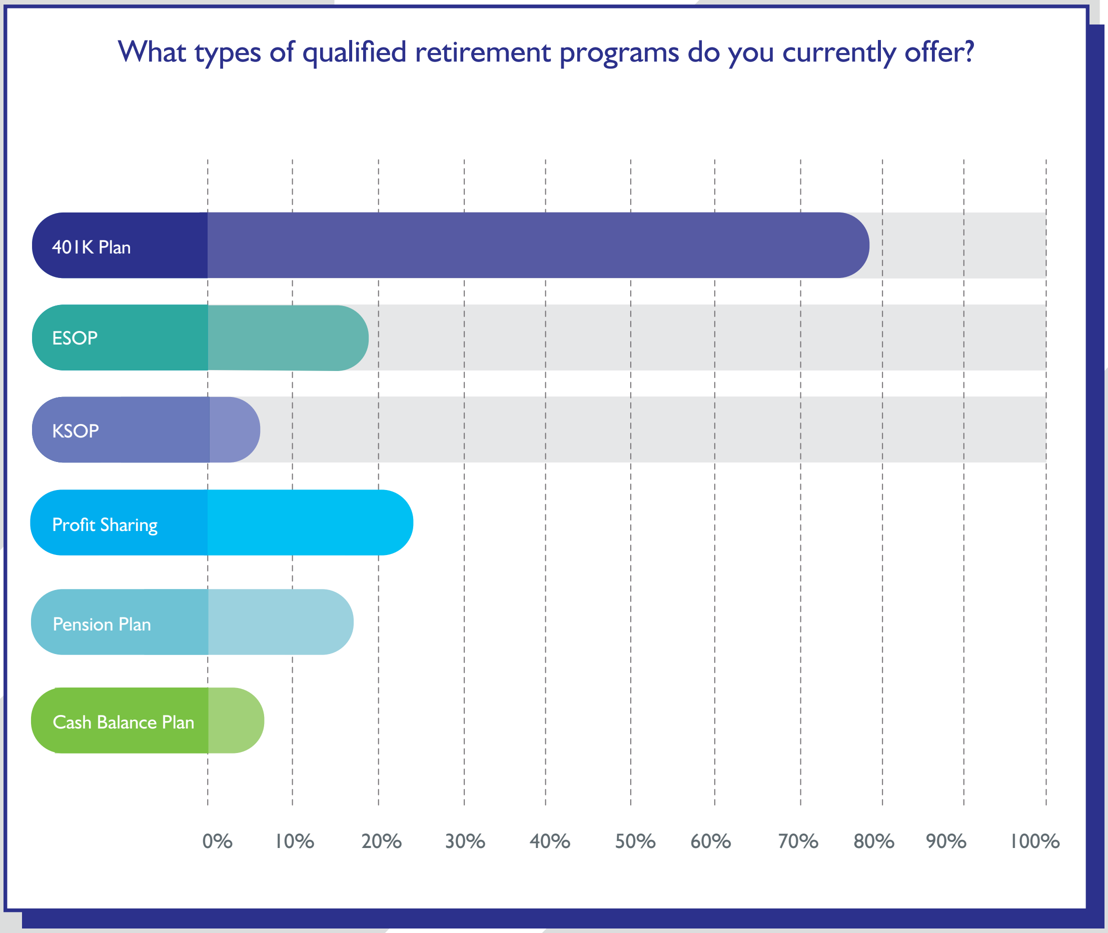
How would you rank the goals for your benefits program?

Competitive benefits not only help with **recruitment but can also** bolster retention.

Qualified retirement plans are a critical element in any benefit and compensation strategy, helping attract, reward and retain valuable employees, as well as provide key benefits to your bank.

Qualified plans may be either defined benefit plans or defined contribution plans. Defined benefit plans give employees a guaranteed payout and place the risk on the employer to save and invest properly to meet plan liabilities. A traditional pension plan is an example of a defined benefit plan. Under defined contribution plans, the responsibility to save and risk associated with investments is borne by the employee. The amount employees receive in retirement depends on how well they save and invest on their own behalf during their working years. A 401(k) plan is an example of a defined contribution plan.

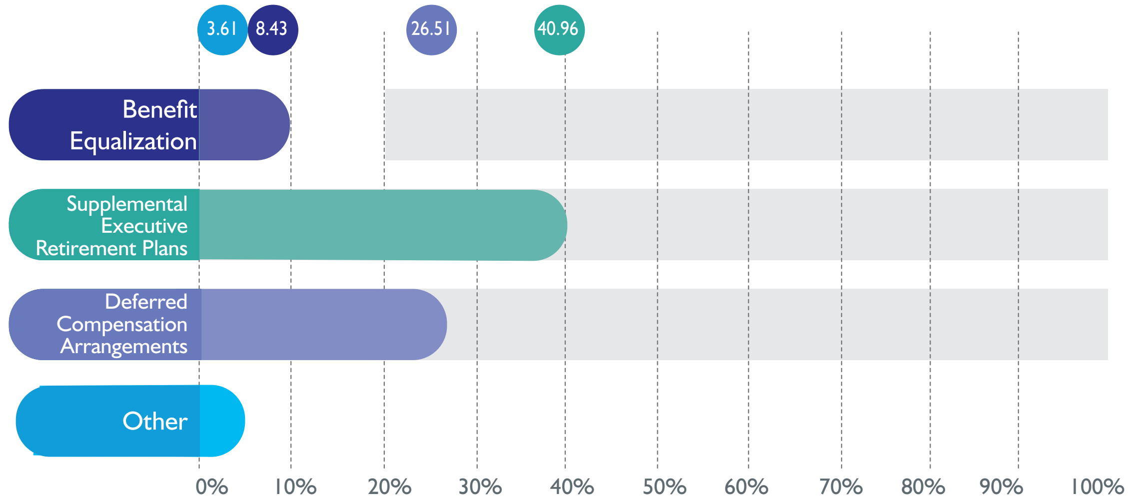
Qualified plans provide significant tax benefits for employers. One immediate benefit is that employers receive a tax break for the contributions they make on behalf of their employees. Businesses may also receive special tax credits and other incentives for starting a qualified plan.



Qualified retirement plans are a critical element in **any benefit and compensation** strategy.

Non-qualified, or executive benefit plans, can be used to expand the scope of a benefits package beyond a qualified retirement plan solution. Executive benefit plans reward a select group of employees without impacting costs on an employee-wide basis. These plans are often used to address the retirement income shortfalls resulting from qualified benefit plan limitations, while incorporating rewards based on targeted performance or other benchmarks. Executive benefit plans can be used to replace benefits lost due to Internal Revenue Service (IRS) limits on qualified plans, provide benefits in addition to those offered under qualified plans, as well as to defer compensation. Executive benefit plans can also be used to provide enhanced benefits in the event of a change in control.

Do you sponsor an executive supplemental benefits plan? If so which type(s) of executive supplemental benefit plan(s) do you sponsor?



If you currently have an executive supplemental benefit plan in place for your bank, what are the most important reasons for offering the plan?

1. Executive benefit plans are critical for our bank to compete for talent with our peers
2. Executive benefit plans are an integral part of our compensation program
3. Executive benefit plans are a key and effective tool for attracting and retaining top millennial talent
4. Employees in our industry expect an executive benefit plan

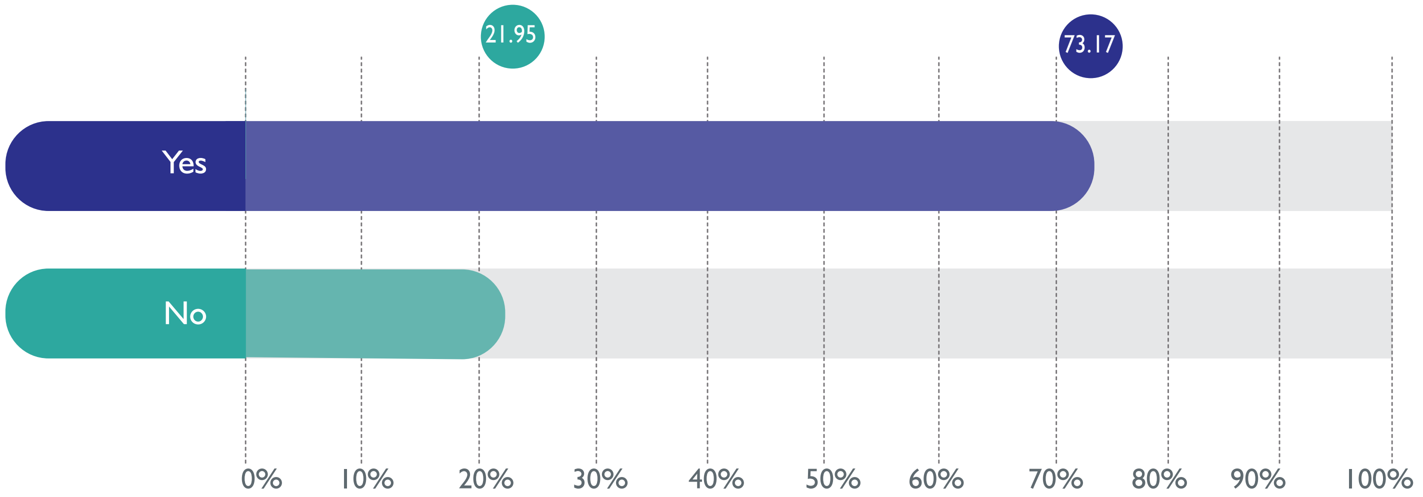
Non-qualified, or executive benefit plans can be used to expand the **scope of a benefits package** beyond a qualified retirement plan solution.

Bank Owned Life Insurance (BOLI) can be used to implement a more cost-effective strategy to offset some or all of the expenses related to a retirement plan and other employee benefit programs. BOLI offers a bank the opportunity to maintain a high quality and competitive retirement program without negatively impacting the bank's bottom line.

BOLI is often used by financial institutions to informally fund corporate obligations in connection with certain types of employee retirement benefit plans by purchasing life insurance policies for a group of eligible key employees. BOLI is a single premium life insurance policy which covers a select group of key employees and/or bank directors. The bank is the owner and beneficiary of the policy. Generally speaking, the top 35% most highly compensated employees and eligible directors may be insured.

Typically, a bank's objective is to use BOLI to earn more income by owning a tax-free asset. The tax-adjusted cash value growth typically produces a return greater than some alternative investments. BOLI is a tax efficient investment, which brings additional income to the bottom line.

Do you utilize BOLI as a benefits financing vehicle for your employee benefit plans?



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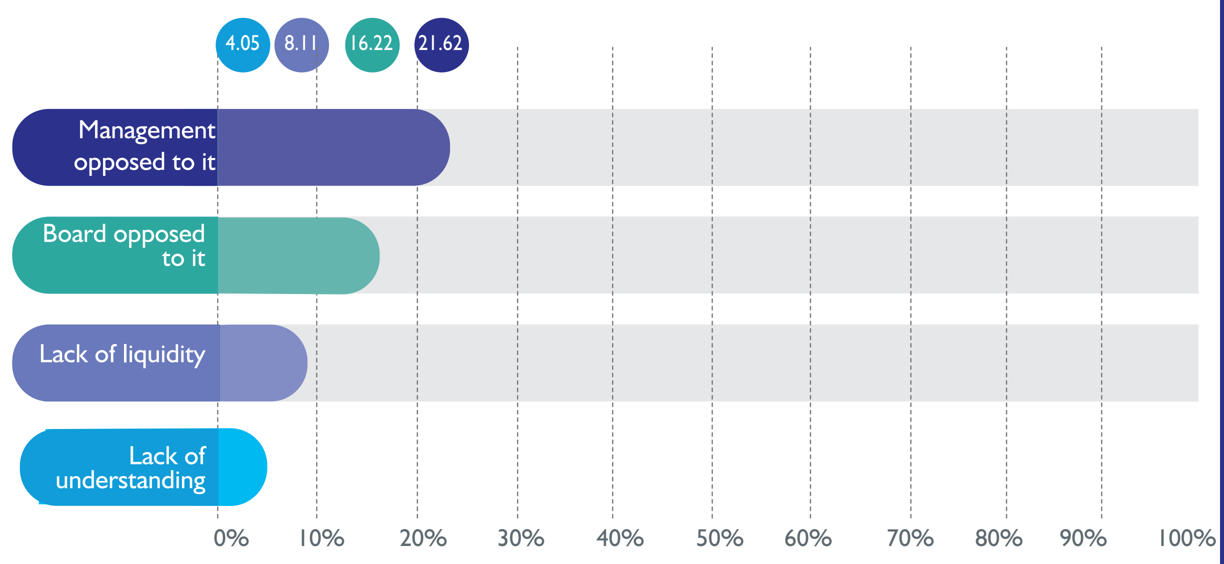
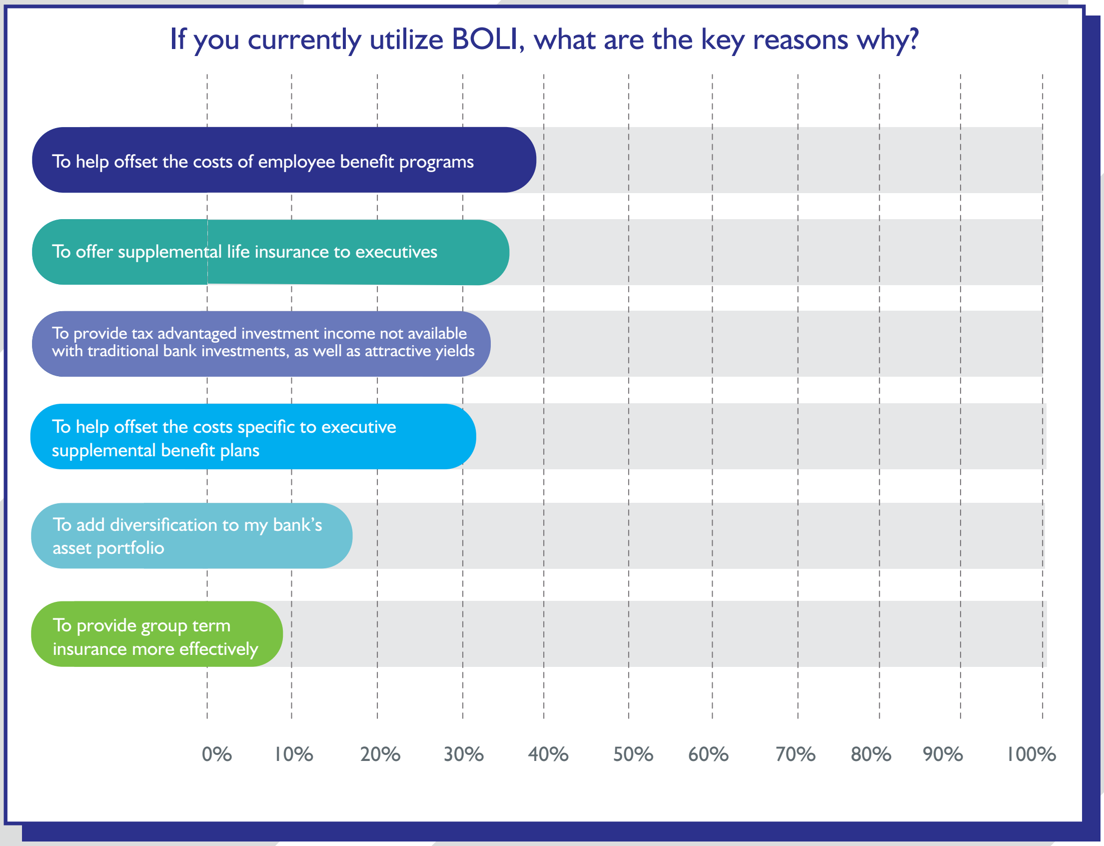
Banks purchase BOLI not only to offset benefit expenses, but also to improve current earnings. BOLI, as a tax-free asset, will typically earn more net income than a taxable asset like a bond: For example, a taxable bond earning 2.20% with a marginal tax rate of 30%, yields only 1.55%. BOLI first year net yields are approximately 3.55%, or 200 basis points more.

BOLI is a long-term asset so a bank should only buy an amount that they are comfortable with relative to their liquidity. Although BOLI can be surrendered and the cash value returned to the bank, it can take 4 to 6 weeks and there may be a tax penalty. Most banks have several forms of liquidity including retail and commercial deposits, amortization of loans, cash flow from the securities portfolio and other sources.

If you do not currently utilize BOLI, what are the key reasons why?





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2 Enterprise Drive, Suite 408 Shelton, CT 06484-4694 800•872•3473 tel 203•925•0674 fax www.pentegra.com