M Benefit Solutions
Bank Strategies®
An M Financial Group Company

The Bottom Line

Executive and Director Benefits and BOLI

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Four Tips for Balancing Bank Salaries and Incentives

The VisionLink Advisory Group

If you run a banking business, you want to pay your people the least amount possible while still achieving maximum performance, right? You also want your associates to have an ownership mindset and be effective stewards of the bank's revenue drivers, correct? Likewise, you want your people to focus on meeting this year's targets while simultaneously moving towards the growth goals you're trying to achieve, agreed? Finally, you'd like to minimize guaranteed pay and tie as much of your employees' compensation as possible to actual results, is that right?

Simple! You just need to construct the right formula for balancing salaries and incentives and plug it into your pay strategy spreadsheet. Voila! You're done!

Okay, so assuming you haven't yet discovered that magic Excel formula, here are some tips that might help you find the right balance between salaries and incentives for your bank.

Tip #1: Identify and Communicate Clear Business Performance Targets

Presumably, your bank has a vision of the future enterprise that is in some way bigger and better than the present one. What are the markers that have to be met for that growth to be achieved? What are the leverage points in your business model that will allow that to happen? What kind of quarterly and annual targets need to be met (such as increased assets, revenue, profit) versus long-term results (margin improvement, return on equity, market share)? How is value created and then grown in your bank? Answering these kinds of questions is the starting point for developing an effective pay strategy that gives proper weight to guaranteed versus variable compensation. It also makes tip number two achievable.

Tip #2: Define a Clear Pay Philosophy

Based on the performance framework you have addressed in Tip #1, you next need to identify what your bank believes about how people should be paid. Exactly what should your employees be paid for? To what degree should employees share in the value they help create? How does that differ based on the tiers or roles you have for your associates? What balance do you believe there should be in paying for short versus long-term results? Which is more critical right now—or are they equally important? Where do you need to be vis-à-vis market

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pay to compete for premier talent in your geographic territory? Identifying a clear pay philosophy makes decisions about the balance between salaries and value-sharing (incentives) much easier. It gives you a "belief" framework within which to start envisioning specific pay strategies.

Tip #3: Create Pay Plan Alignment

Ultimately, there are about eight different compensation and benefit components that could make up your value proposition. They would include:

- Salary
- Annual Performance Incentives (short-term value-sharing such as bonus plans)
- Long-Term Incentives (equity sharing, phantom stock, profit pools, performance units, etc.)
- Sales Incentives (commission-based programs)
- Welfare Plans (health benefits)
- Executive Benefits (car allowance, supplemental life or disability coverages, etc.)
- Retirement Plan (usually 401(k))
- Executive Retirement Plan (usually deferred compensation or 401(k) mirror plans)

For a pay plan to be aligned, you need to determine which of those eight components will be included in your compensation strategy and how much weight will be given to each. Alignment occurs when there are specific pay plans that reinforce each of the outcomes you've identified with your bank performance targets. This can only be decided as you identify the purpose of each component as it relates to your performance framework (see Tip #1).

Pay alignment is at the heart of the balance issue when it comes to guaranteed versus incentive pay. This is why a pay philosophy is so important. That philosophy forces you to evaluate what you care enough about to reward. Those priorities become like a sketch you make before completing an oil painting. They tell you what needs to be emphasized and to what degree to create a whole picture that reinforces the outcomes you seek.

Tip #4: Build and Maintain a Total Compensation Structure (TCS)

A TCS is a framework you build for managing and analyzing all the components of pay and benefits you are offering. Ideally, it gives you an "all in one place" view of every employee tier, what plans they're eligible for and at what level. It allows you to evaluate the whole value proposition as opposed to each individual component in isolation. Within this framework, it is easier to make decisions and adjustments in specific pay plans because you can measure each against its impact on the whole picture.

When a TCS is built properly, it allows you to have integrity in how you operate your overall compensation strategy. In this context, integrity means there is continuity and consistency between the bank vision, its business model and strategy, the organization's pay philosophy, employee roles and expectations and specific rewards for achieving results. The structure provides the assessment symmetry needed to achieve the right balance between salaries and incentives—and every other part of your pay offering.

In the end, perfect design is rarely achieved in any bank's approach to compensation. However, if you apply the four tips just discussed, balancing salaries and incentives will become a more a manageable issue and less of an unattainable ideal.

For more information on how The VisionLink Advisory Group, an Advisor Firm of M Benefit Solutions, can assist your bank in developing a Total Compensation Structure, contact Russell McMillan (russell.mcmillan@mben.com; 503.414.7307).

Outlook Stable for Insurance Companies

Fitch Has Stable Rating Outlook for U.S. Life Insurers in 2016

Fitch Ratings announced that its 2016 rating outlook for the U.S. life insurance industry is stable based on the industry's very strong balance sheet fundamentals, strong liability profile, and stable operating performance. Fitch also said it views the industry's liquidity as strong, despite an increase in exposure to less liquid investments. Fitch stated these positive factors somewhat mitigate its concerns over persistent low interest rates, which it expects to continue to pressure interest margins and reserve adequacy in 2016.

Fitch expressed the belief that interest rates will rise by 100 to 150 basis points in 2016 but if rates decline to levels seen in late 2012, and remain there throughout 2016, the rating agency would likely change its outlook to negative based on a weakened earnings profile and the need for capital strengthening.

Moody's Outlook for Life Insurance Industry Remains Stable

Moody's Investors Service commented that despite the equity market correction in August, it continues to hold a stable outlook for the U.S. life insurance industry due to strong asset values, strong U.S. employment levels, continuing economic growth, and an expectation of rising interest rates. Moody's said these factors support its expectation for moderate revenue and earnings growth in the industry over the next 12–18 months.

Moody's noted it believes risks to the global economy (e.g., economic slowdown in China, tighter financing conditions in emerging markets) have increased in recent months, which may affect the Federal Reserve's ability to raise interest rates. If rates fail to rise and equity market volatility spikes, life insurers' financial recovery could reverse, prompting Moody's to change their industry outlook to negative. However, Moody's stated it does not expect this to occur.

In a separately published report, Moody's said a stress test of U.S. life insurers revealed improved performance since 2008 and demonstrated the industry's liquidity is adequate to absorb an unanticipated interest rate shock.

Upcoming Events

ICBA Community Banking Live National Convention

March 6–10, 2016
Ernest N. Morial Convention Center
New Orleans, LA

Please join us at Booth 809 on Main Street in the Exhibit Hall for Free Ice Cream!

FMS—The Finance and Accounting Forum for Financial Institutions

June 12–14, 2016
The Roosevelt New Orleans
New Orleans, LA

ABA National Convention

October 16–19, 2016
Music City Center
Nashville, TN

Advisor Firms

M Benefit Solutions - Bank Strategies is structured to provide our clients with consistent nationwide coverage. We have identified several Advisors with extensive experience in bank executive and director benefits and BOLI to provide consulting services to clients nationwide.*

Distributed throughout the country, these Advisors work with M Benefit Solutions and bank clients to design programs which meet each bank's specific needs and to ensure high quality administrative and compliance services.

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About M Benefit Solutions - Bank Strategies

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