BoliColi

Executive Benefit Survey 2022 Findings

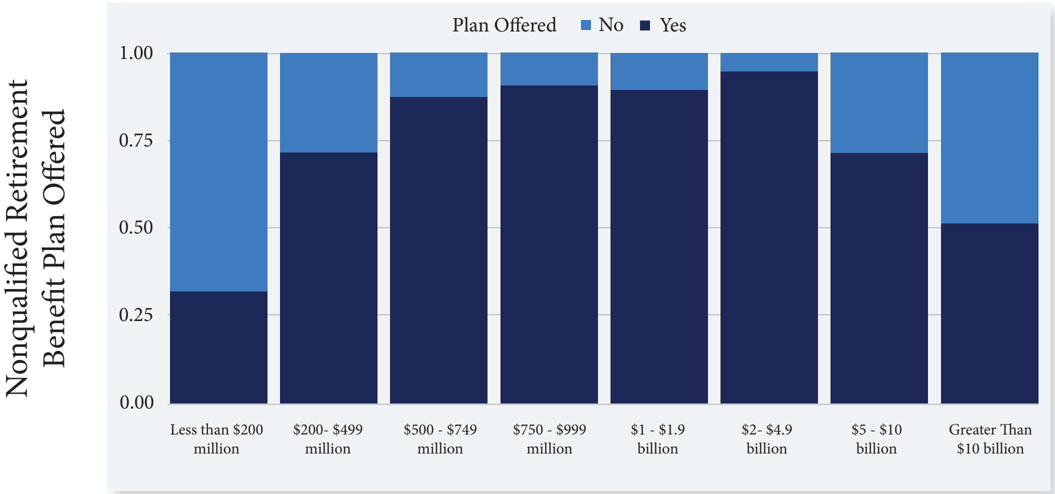
In this survey, we had 132 respondents, 55% were from Massachusetts and 71% were from New England. Eighty-six percent of respondents worked for private financial institutions, vs. 14% for public institutions. Fifty-five percent were existing clients of BoliColi.

Nonqualified retirement benefit plans (such as Deferred Compensation, SERP, or Phantom Stock) are very common, with over 82% of respondents answering that their employers offer them. Over 30% of respondents said their financial institutions are currently investigating Nonqualified retirement benefit plans (an increase of 13% from last year), and 37% of respondents had considered it.

Continuing the trend from the last four years, Nonqualified plans are typically more popular among larger organizations.

The reduction of usage of traditional SERP's at banks above $5B is because most are public banks that utilize stock options. Larger banks generally also utilize Long-Term Incentive Plans (LTIP).

Size of Financial Organization vs. Nonqualified Retirement Benefit Plan Offered



Size of Financial Organization

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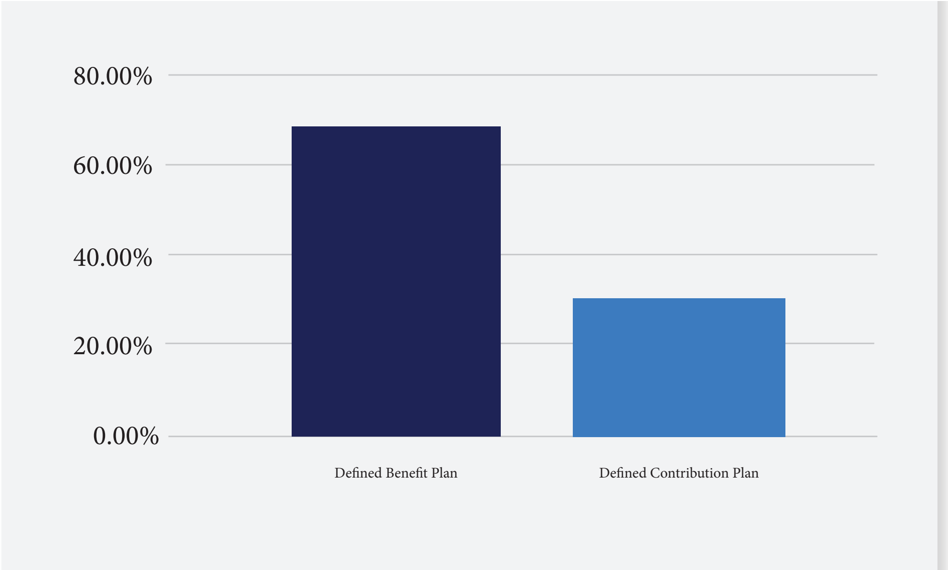
Which positions are provided a nonqualified retirement benefit plan at the bank?

The vast majority of banks have between one and six positions in a SERP.

It was most common for CEOs to receive nonqualified retirement benefit plans. Among the "Other" category, listed positions include SVPs, Chief Risk Officers, CTOs, Chairman and Directors. There are often differences between the nonqualified plans being offered to different executives. Both the level of benefit and approach generally changes for executive levels below the CEO. Often we are seeing legacy defined benefit plans continue for the top one to three positions and defined contribution plans utilized below that level. Note: There is no hard and fast rule as to who should be included in the plan. Each case is based on specific facts and circumstances. Our best advice is to ask "**Who are your mission critical executives?**".

Responses and Popularity of Types of Nonqualified Retirement Benefit Plans



The majority of nonqualified plans being offered are defined benefit plans, capturing 65% of the market. This is a 15% drop from last year. Defined contribution plans made up 32% of plans. This is a 12% increase over last year's results.

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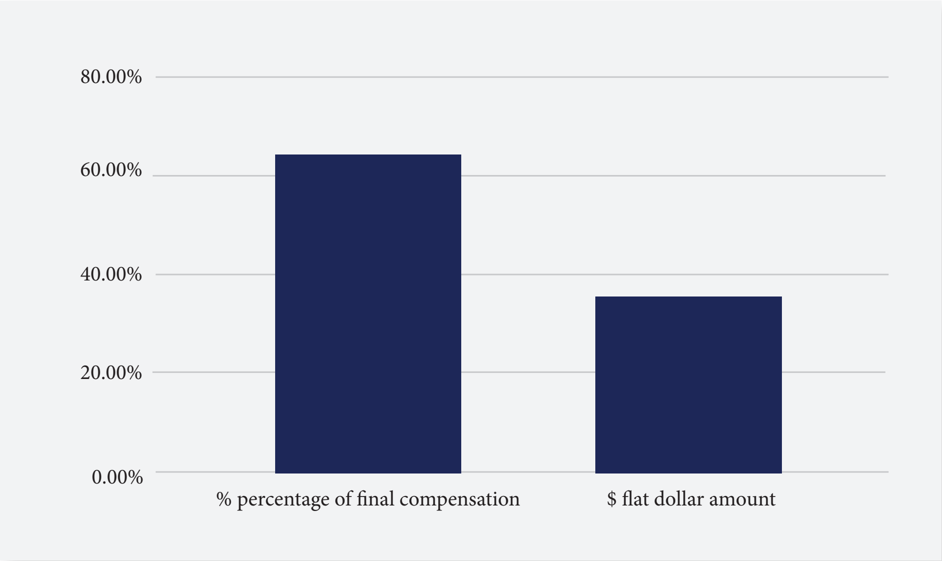
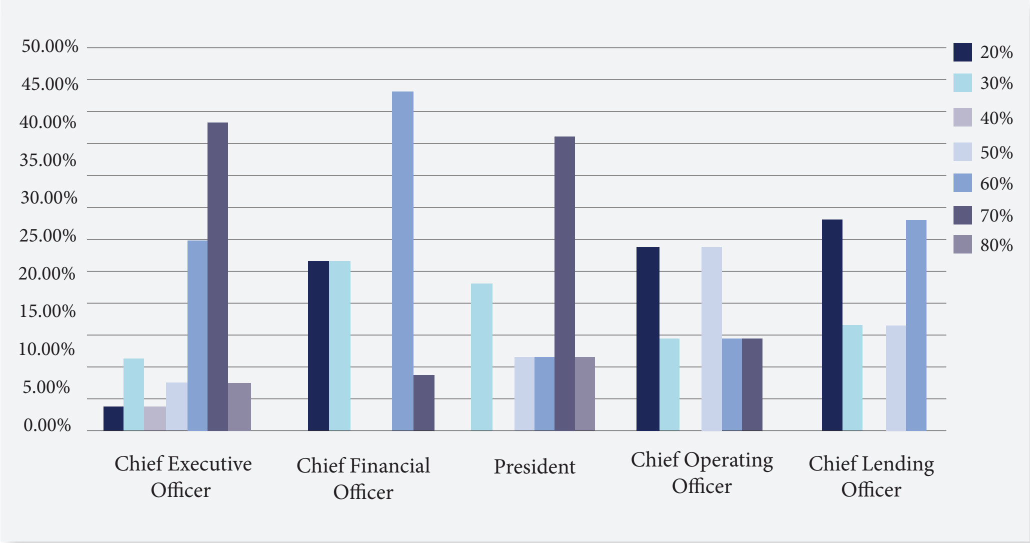
Is the defined benefit nonqualified retirement benefit plan a percentage of final compensation or a flat dollar amount? Example of flat dollar amount is $50k per year



Defined benefit plans were based on a percentage of final compensation 64% of the time, a decrease of 9% from last year. Among plans for CEOs, the median plan used a percentage of 65% but the most common plan used a percentage of 60% for all levels. The highest income replacement percentage seen in the survey was 80% and the lowest was 20% (Lower percentage plans generally do not have other offsets such as Qualified Plans or Primary Social Security). Other positions most commonly had percentages of 50-60%. The target percentage was always determined by the board among all respondents. The median percentage of final average compensation that the defined benefit nonqualified retirement benefit plans provided for CEOs was 65% and 60% for CFOs.

What Percentage of Final Average Compensation does the Non-Qualified Retirement Benefit Plan Provide?



Seventy-nine percent of respondents reported that CFO & CEO benefit levels were in the range of 60 - 70%.

At the CEO position, the average benefit level reported was 70%.

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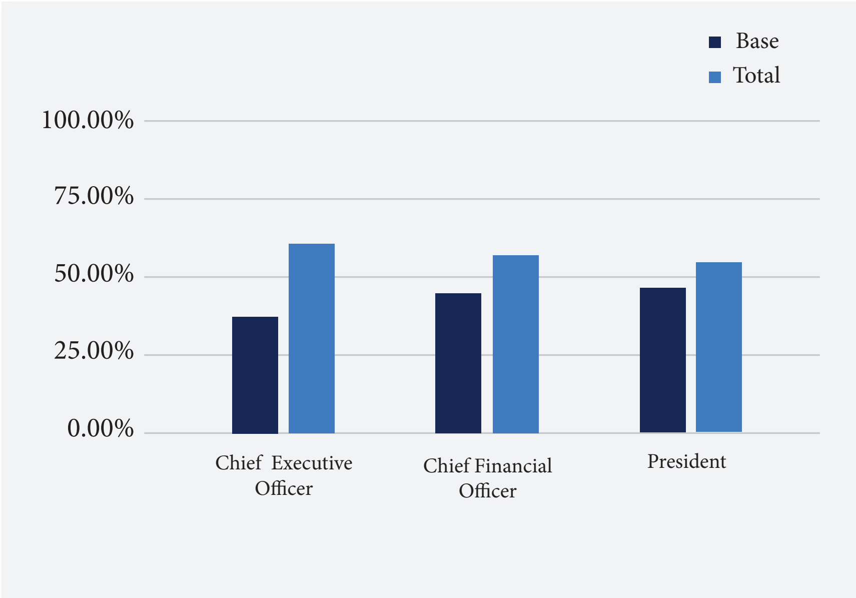
Is the defined benefit plan calculated on base or total compensation?



For CEOs, 60% of defined benefit plans were calculated using total compensation. This was a 9% increase over last year's results.

Fifty-four percent of respondents said that employer provided qualified retirement benefit plans are an offset to the nonqualified retirement benefit plan, while 100% said the employer share of Social Security is an offset to the defined benefit plan.

At what retirement age is the defined benefit plan based?

The standard retirement age is 65, although we are seeing executives staying beyond stated requirement dates. However, for lump sum elections, low discount rates have played a factor in when executives decide to retire. Some boards and executives have negotiated a final benefit level in order to avoid this problem.

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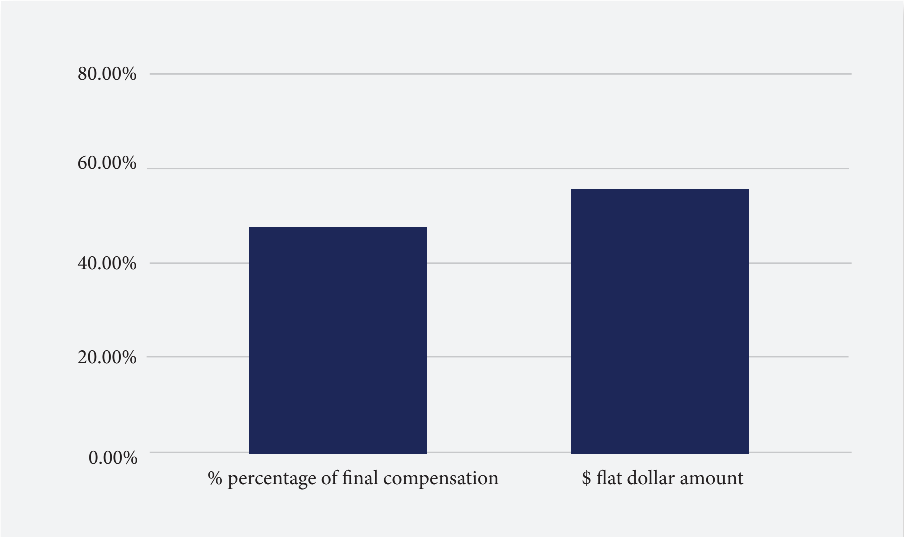
Is the annual contribution to the defined contribution plan a percentage of compensation or a flat dollar amount?

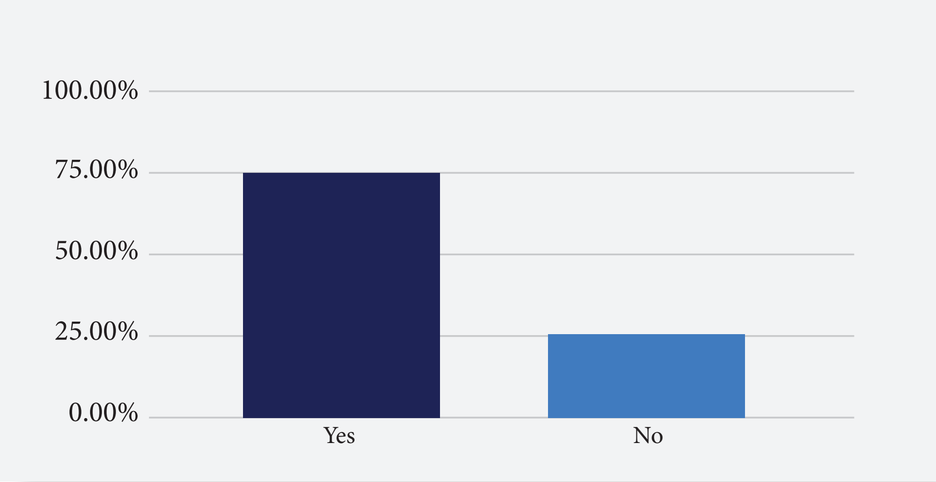


For defined contribution plans, it was more common to use a flat dollar amount (55% of the time). The median percentage of compensation contribution for CEOs was 40%, with other positions more often being in the 10-20% range.

For defined contribution plans, determining the appropriate contribution level is difficult. Some banks tie this to a target retirement income, others use a percentage of salary or flat dollar amount. Developing a rationale for this process is important for a consistent strategy with a compensation committee that is changing over the years.

Sixty-seven percent of defined contribution CEO plans were calculated as a percentage of base pay, while 33% were calculated as a percentage of total pay. Plans for other positions were even more likely to be calculated as a percentage of base pay.

Was a target retirement benefit used when determining the annual contribution?
Often the defined contribution amount is determined by projecting what percentage of final average compensation the projected account balance could replace at retirement age.



Seventy-five percent of the time a target retirement benefit was used when determining the annual contribution.

As an example: the initial flat dollar contribution amount of $75,000 annually provides a 70% income replacement at retirement in conjunction with other existing plans. However, it will not automatically adjust and maintain this 70% benefit level as a defined benefit plan would. The board can revisit the contribution level in the future and adjust if they desire to maintain the target of 70%. This accomplishes two things: First, it provides reasoning to future boards and others as to how the contribution level was determined. Second, it provides expense control of the program at the board level depending on the future performance of the bank and executive.

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After the benefit level has been determined, what other factors adjust or offset the benefit provided?

The majority of plans reduce the benefit for less than 20 years of service. Measuring service from date of hire is the most common approach 67% of the time.

Other factors that determine benefit level are the benefits provided by the employer; such as qualified pension, 401(k) employer match and primary Social Security.

At what age does the benefit first become partially vested?

Most plans become partially vested after three to five years with full vesting occurring in years 10-15. Full vesting generally occurs by age 63, regardless of vesting schedule. Ninety percent of plans are based on a retirement age between 63 and 67.

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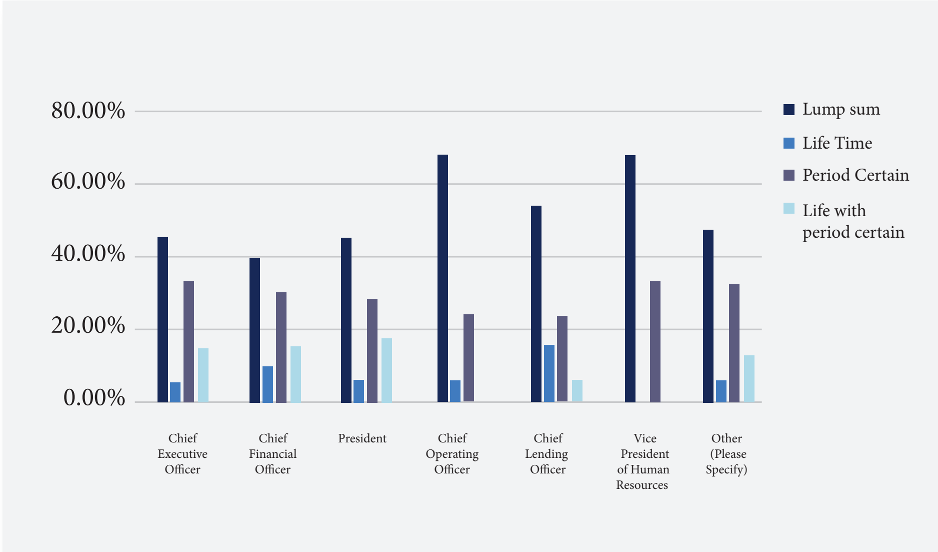
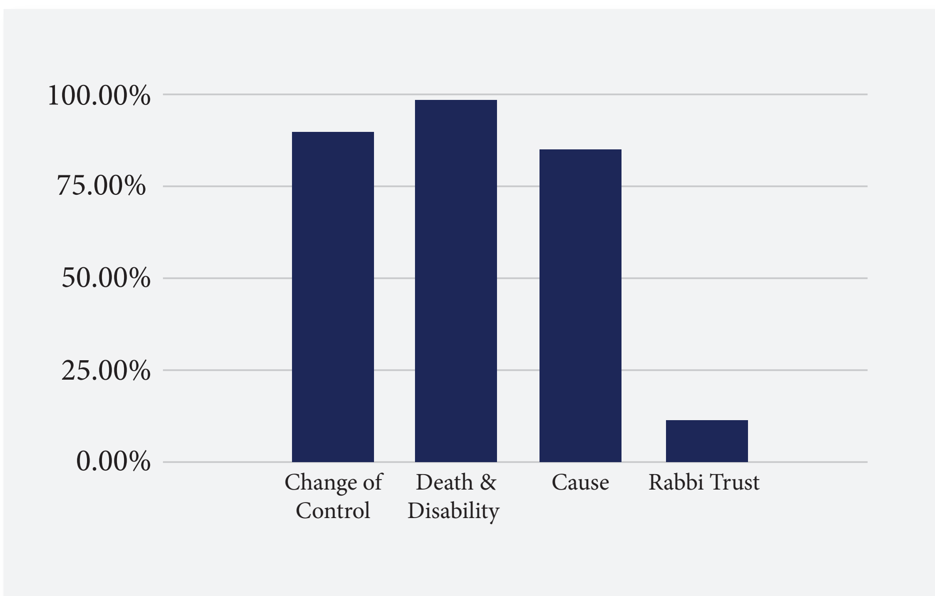
What is the form of payout that the nonqualified retirement benefit plan provides at retirement?



Although lump sum is still the most prevalent, many banks have moved new plans to period certain or life with period certain. Some boards have taken the approach that they want retired executives to still have an interest in the long term success of the bank for a period of time after retirement.

Within the nonqualified retirement benefit plan document, are there provisions for..?



Ninety-eight percent of plans having death and disability provisions, followed by 93% of plans having change of control plans, 85% having cause provisions, and 6% having rabbi trust provisions.

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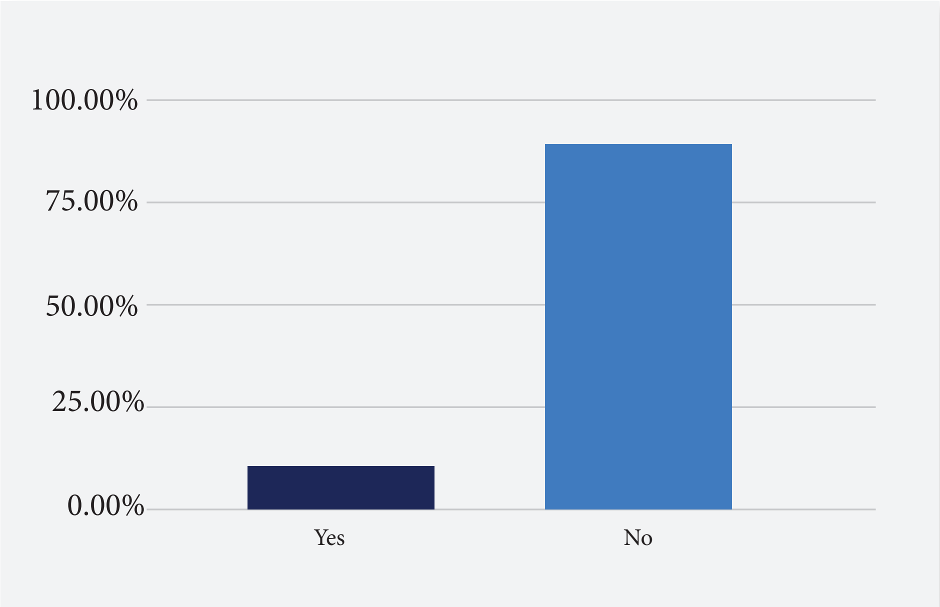
Does the bank offer any executives a Long Term Incentive Plan (LTIP)? An example of an LTIP includes a form of bonus that is generally paid out three to five years after being earned and the executive must remain with the bank to receive the payment.



Sixteen percent of banks offered an executive a Long Term Incentive Plan (LTIP). This is up 7% over last year. As retention of key executives has grown, this approach has expanded. Generally this results in an executive having two to three years of earned bonus forfeited if they leave the bank.

Which executives have Long-Term Incentive Plans (LTIPs)?

Most banks are utilizing Long-Term Incentive Plans at the Senior Vice President level and above.

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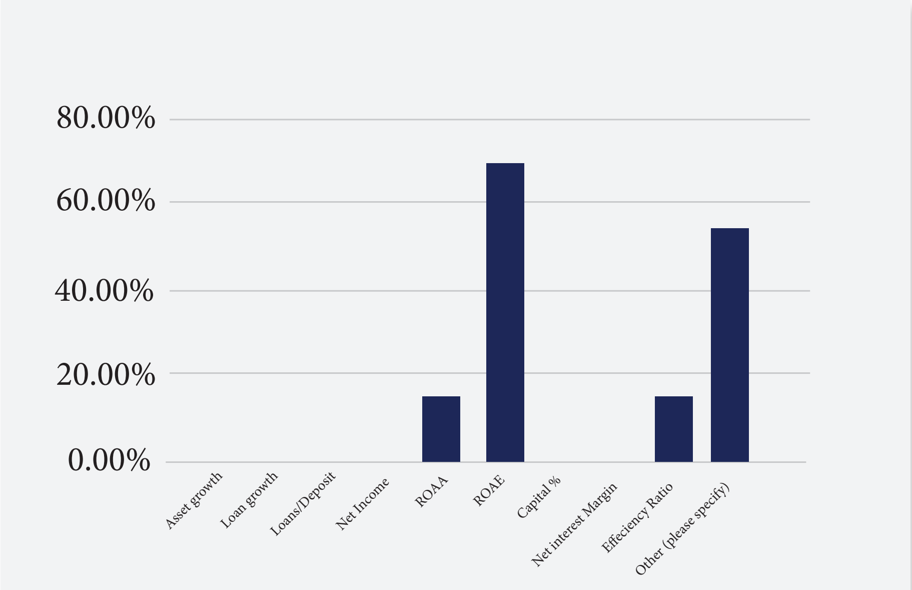
When does the Long-Term Incentive Plan (LTIP) payout occur?

Long-Term Incentive Plan payouts occur between years three and five, with some banks allowing executives to defer payment into a deferred compensation account. The LTIP payout was most likely to occur after three years.

Which metrics are used to determine Long-Term Incentive Plan (LTIP) payouts?



ROAE was the most common metric used to determine an LTIP payout.

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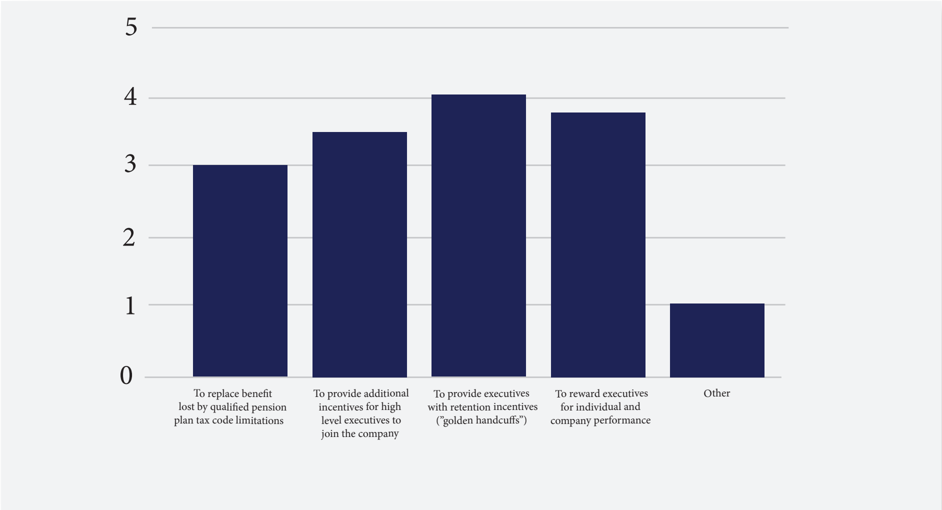
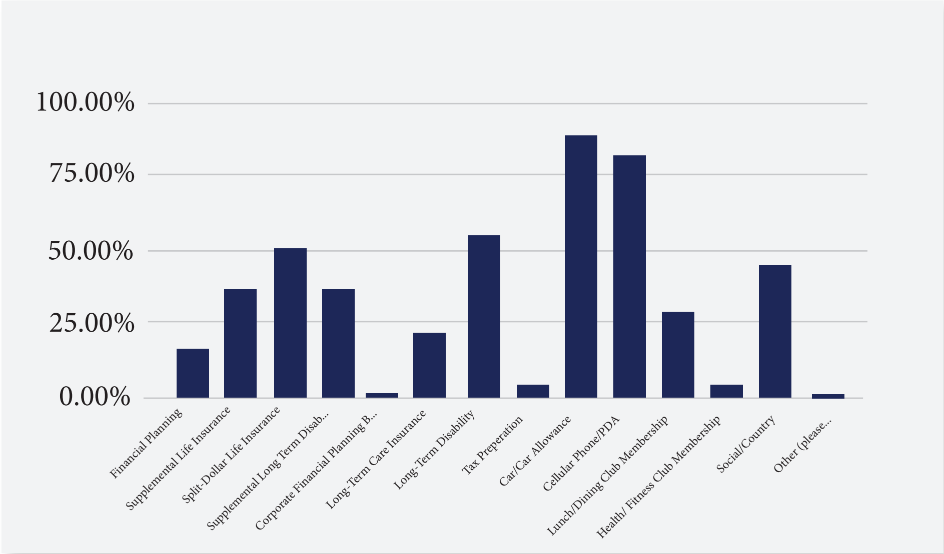
Please number the reasons for implementing the nonqualified retirement benefit plan in order of importance. (1 being the most important through 5 being the least important)



The most common reason to implement a nonqualified retirement benefit plan was to create "golden handcuffs", followed by rewarding executives for their performance. Providing additional incentives for high-level executives to join the company and replacing the benefits lost by qualified pension tax code limitations were also highly rated.

Do any of the executives at the bank have access to the following benefits?



Executives at financial organizations reported access to a wide variety of benefits, the most common being car/car allowance and cell phone (83% and 78% respectively). The least common benefits reported were tax preparation, corporate financial planning benefits, and a health/fitness club membership.

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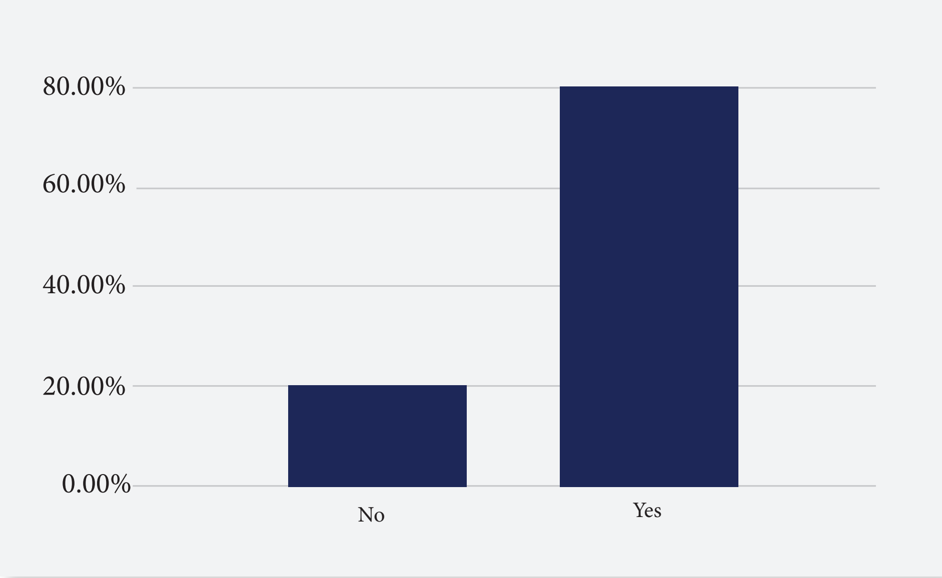
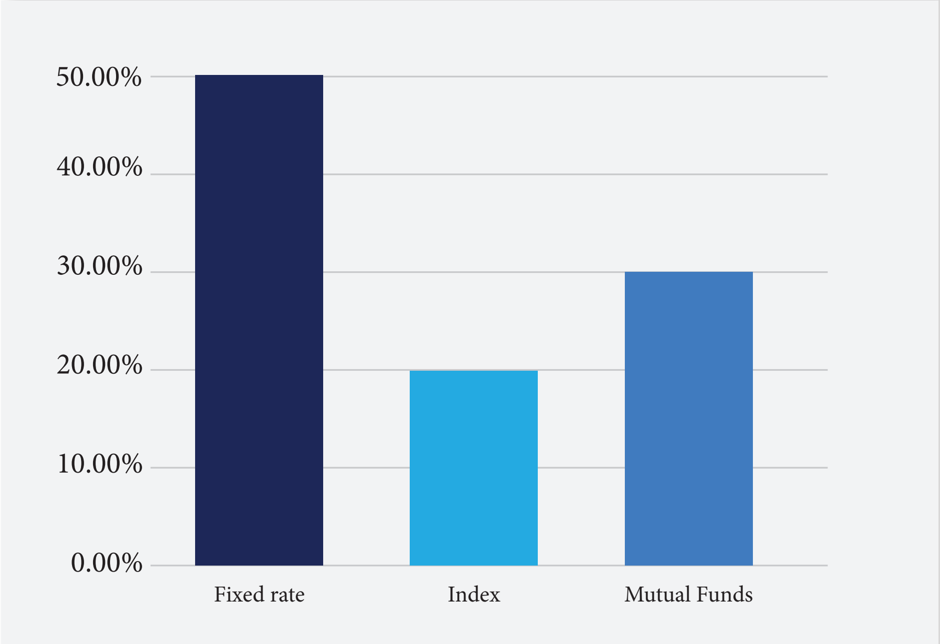
Does the bank offer executives the ability to voluntarily defer income on a pre-tax basis through a deferred compensation plan?



Twenty percent of organizations offer executives the ability to voluntarily defer income on a pre-tax basis through a deferred compensation plan. Some of these arrangements are simply voluntary deferrals of base and bonus compensation which is credited with interest based on the highest CD rate offered. Other plan designs function more like a 401(k) plan with similar investment choices. Often these are referred to as "mirror 401(k) plans".

How is interest credited for deferrals made into the deferred compensation plan?



Of those, 50% reported that the interest credited for deferrals was put into fixed-rate funds, but index funds and mutual funds were also common.

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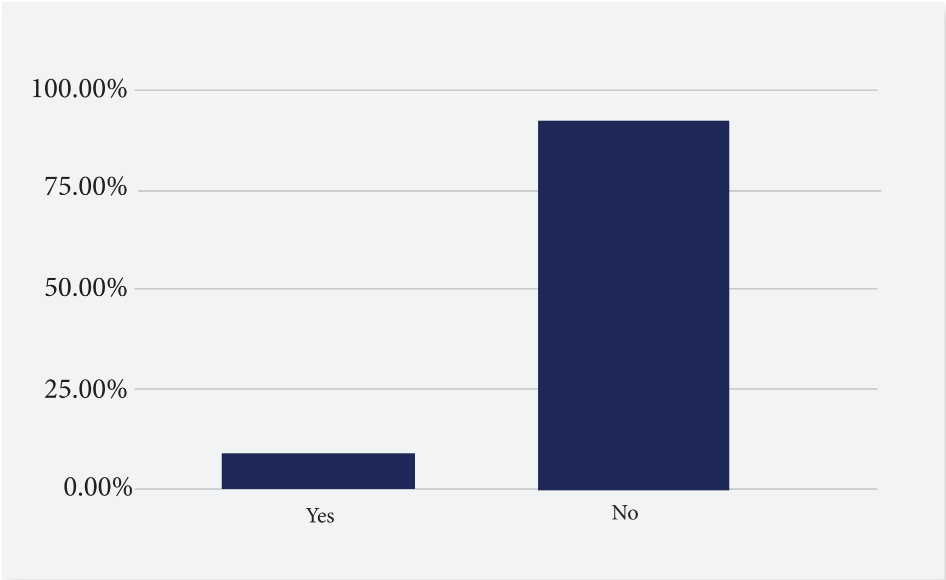
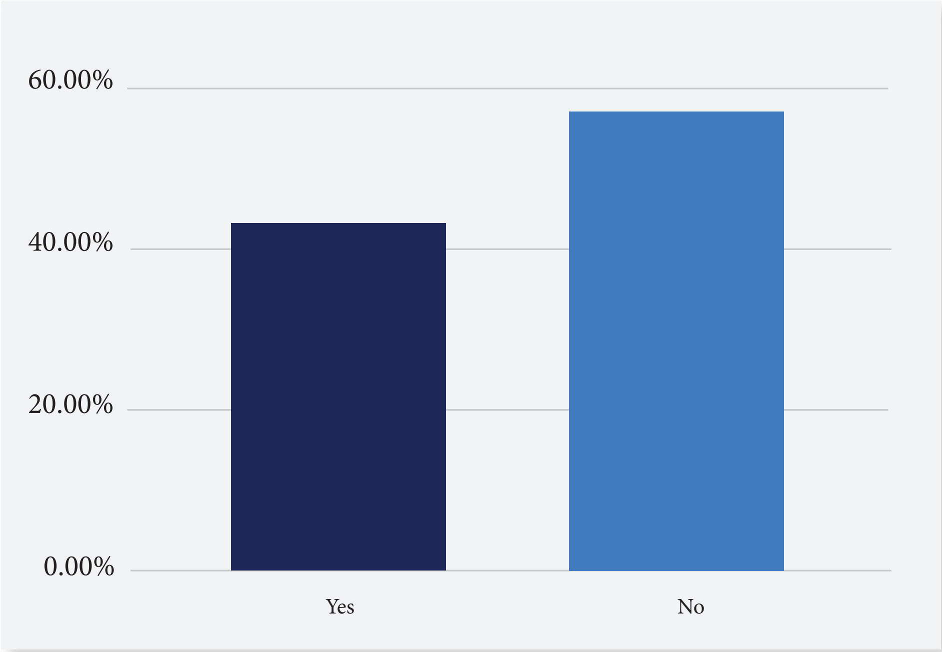
Does the bank provide any matching contributions within the voluntary deferred compensation plan?



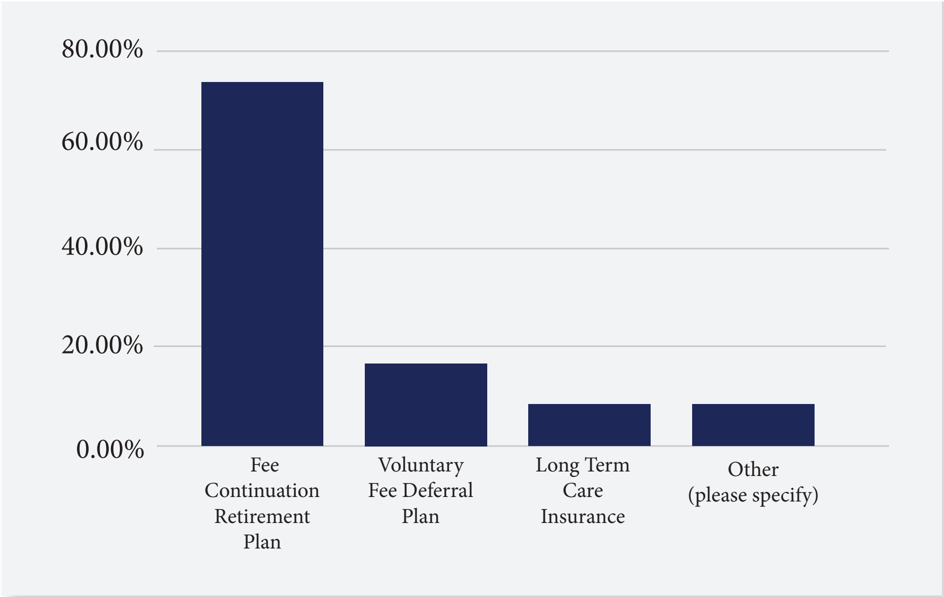
Ten percent of organizations said that the bank provides matching contributions with the voluntary deferred compensation plan.

Does the financial organization provide any nonqualified retirement benefits to the director/trustees?



It is common for financial organizations to provide nonqualified retirement benefits to the director/trustees (43% of the time, a 1-year decrease of 2% and 2-year decrease of 15%).

Which of the following nonqualified benefit plans are provided to directors/trustees?

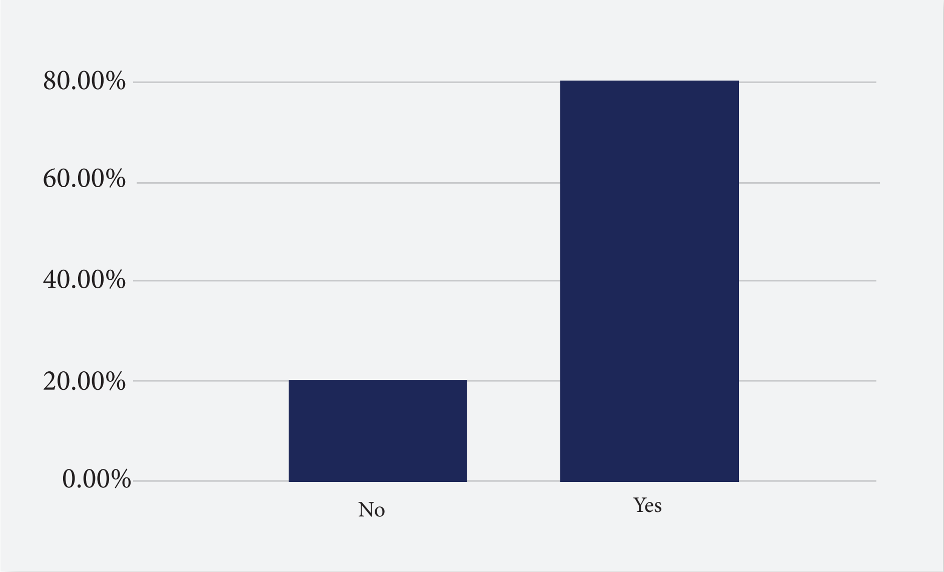


In those organizations, a bank-provided fee continuation retirement plan was offered 63% of the time, a voluntary fee deferral plan was offered 36% of the time, and long-term care insurance was offered 8% of the time. An example of a fee continuation plan: 50% of current fees will be payable at retirement age 75 for a period of 10 years. We have seen very few long-term care programs implemented as many insurance companies are not offering this product and have exited this business based on poor claims history. The most common percentage of average final fees that the Director Free Continuation Plan provided was 50%.

How long are the Director Fee Continuation Plan benefits payable?

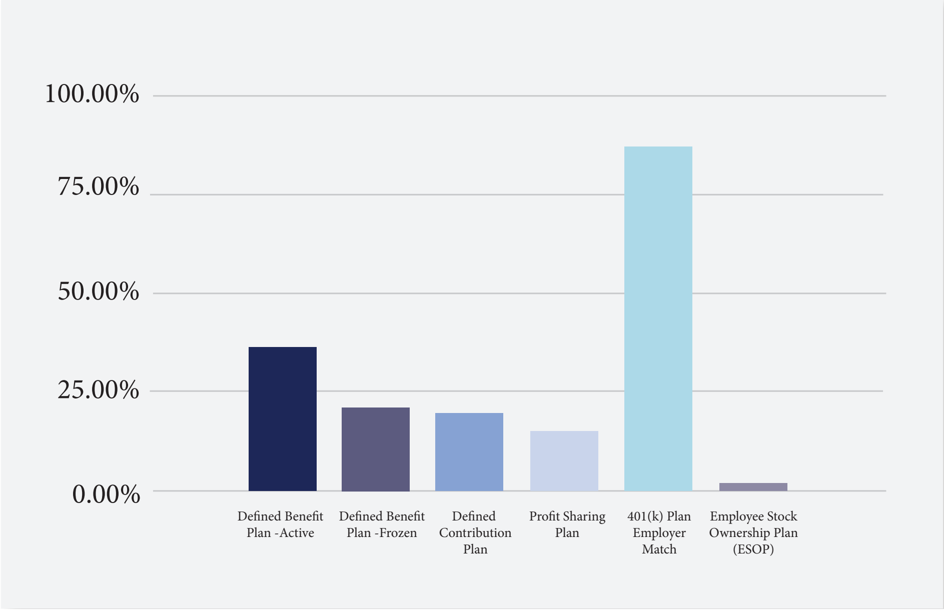
Ninety-five percent of plans offer a 10 year payout.

Has the bank reviewed the nonqualified retirement benefit plan documents for Internal Revenue Code 409A compliance in the past five years?



Most banks have reviewed the nonqualified retirement benefit plan documents for Internal Revenue Code 409A compliance in the past five years..

Which of the following qualified plans does the bank offer?



The vast majority of financial organizations surveyed offer 401(k) plans for their employees. Defined benefit plans (active) come next at 37%, defined benefit (frozen) at 23%, defined contribution plans at 21%, and profit-sharing plans at 12%.

Most organizations are content with their offerings, but 7% are considering making changes to their qualified plans.

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