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More Top Managers Are Suffering the Sharp Pain of Salary Cuts

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Jim Rubenstein

Even though some credit unions acted months ago, now the recession and the NCUA income adjustments at the corporates are forcing CEOs and top managers to absorb—or at minimum seriously consider—sharp cuts in salary, bonuses and retirement benefits this quarter.

“You know I’m not trying to seek any kind of glory here, but knowing what we did early last year about the economy, I did suggest to my chairman that I’d be willing to pass on any salary increase for 2009,” confided Marc Schaefer, president/CEO of the \$1.2 billion Truliant FCU of Winston-Salem, N.C. Forgoing increases for other managers and staff has not been part of the compensation process at Truliant, said Schaefer, “since my board evaluation came late in the cycle in January and so I don’t think it’s fair for me now to tell other staffers that we ask them to give back their yearly increases.”

John Hirabayashi, president/CEO of the \$1.3 billion Community First CU of Florida, Jacksonville, said during the current corporate crisis “our first priority is to retain jobs to protect the culture because it is important that once the recovery starts we are ready.” But as for compensation, he is forgoing a bonus for 2009 and average salary increases for all staff have been slashed in half.

The original Community First compensation budget estimate called for 3% increases, now reduced to 1.5% and retirement contributions were cut in half. Comments by Hirabayashi, Schaefer and others came in a sampling of CEO opinions taken last week by Credit Union Times as industry talk mounted regarding CUs altering pay scales for 2009-2010 in the wake of the corporate assessment.

One California compensation consultant, Alec Berkman, head of Executive Compensation Solutions of Covina, warned CU managers and boards to be aware that “they are no different from any other industries sharing the economic pain” and look toward compensation reductions.

Moreover, the Eastern Financial conservatorship in Florida and the U.S. Central and WesCorp conservatorships are “a signal that the credit union movement anticipates an extended recovery from this challenging economic environment.”

The CEO of one large mid-Atlantic CU, who asked not to be identified, said he declined his salary bonus and increase for this year even though the CU is in a healthy capital position and made under \$4 million last year.

“Just like family, this is a time where we reach out to our brothers and sisters, whether it be in Florida or elsewhere who are hurting,” said the CEO, explaining that it would be “unfair or inappropriate for me to take an increase now.”

“When Dad gathers the family around and says we have to tighten our belts, he directs that to all the members,” opined the CEO.

On retirement packages, Berkman said his firm has concern about executives who are considering reductions in supplemental executive retirement plans and long-term executive incentive plans.

Section 409A of the 2004 American Jobs Creation Act of 2004, he noted, “does not allow plans to ‘stop and start’. In other words, canceling a retirement plan probably means not starting one again for three years. This could preclude the ability of an executive to make up for a gratuitous reduction in benefits.”

He continued, “The recent repudiation by the NCUA of executive severance and bonus plans in the conservatorships of the corporates based on those benefits being deemed ‘burdensome’ could indicate that the regulator could take a similar position as it sees credit unions in trouble.”

Still, he observed, “It is hard to tell what constitutes trouble these days. The very moves the NCUA has made in an effort to stabilize the marketplace has run a large percentage of credit unions into the red with concurrent and substantial decreases in net worth.”

“Moreover, there has been talk about the regulators backing away from the trend to look at the overall safety and soundness of a credit union and going back to more specific expectations for financial statement components,” he concluded.

Berkman’s observations arose as his firm began issuing its 2009 salary report, “The Survey: Compensation and Benefits in the Credit Union Movement.” He said response to the report has been brisk, with requests expected to double from the 2008 report.

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