McDermott & Bull
an executive search firm

Compensation Components – Creating Value Beyond Base & Bonus

As we've shared in our past musings, the competition for talent continues to increase at exponential levels since the recession. And as a result of the marked increase in movement among the executive ranks, compensation packages are becoming richer and richer. As such, banks which cannot, or will not, compete on compensation are exposed.

Given the reality of today's market, we are advising our clients who are looking to attract and retain talent to create value beyond the base salary and incentive bonus, by looking to the totality of the compensation package. Earlier this year we commissioned Blanchard Consulting Group, a national compensation consulting firm offering guidance to public and private community banks, to help us construct a "menu" for clients to use as a reference point when determining the available components of a compensation package which can add the necessary value to attract or retain the right senior leadership.

On the following page Blanchard has constructed a "Total Compensation Components" menu, which includes a description of each compensation component, as well as brief examples and explanations. The components include:

- ***Base Salary*** – The "fixed" dollar amount paid to an employee;
- ***Incentive/Bonus/Commission*** – Variable compensation, typically based on certain performance metrics;
- ***Real Equity*** – Restricted stock and stock options;
- ***"Synthetic" Equity*** – Settled in cash with no actual shares granted – the value of the award is tied to valuation;
- ***Non-Qualified Plans*** – Retirement focused compensation for a select group of participants;
- ***Qualified Plans*** – Retirement plans provided equally without discrimination;
- ***Agreements*** – Legal agreements covering varying terms – typically Full Employment, or Change in Control; and
- ***Perquisites*** – "Perks" which are not true compensation.

Our hope here is to give our clients and friends a guide when working to be creative in their mission of building an executive management team to grow their institutions and build franchise value.

__McDermott & Bull__ is a full-service executive search firm with a dedicated __Banking Practice__ serving banks throughout the Western Region of the United States. The Firm's Banking Practice Group, led by __Rod McDermott__ and __Brandon Biegenzahn__, partners with boards and senior leadership teams to align talent strategies with business strategies at the executive management level. Clientele include the likes of First Republic Bank, Bank of Marin, East West Bank, Pacific Mercantile, Union Bank, Bank of the Cascades, American River Bank, BNY Mellon, Washington Trust Bank, and ANZ Bank.

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TOTAL COMPENSATION COMPONENTS

*** This table provides a general summary of the various total compensation components that are utilized in community & regional banks.*

Compensation Vehicle	Description	Examples & Discussion
Base Salary & Hourly Wages	This represents the "fixed" dollar amounts that are paid consistently throughout the year.	Typically, every employee receives this compensation component. The amount and positioning versus market will often vary based on experience, performance, compensation philosophy and the other compensation vehicles that are available and used by the organization.
Incentive/Bonus /Commissions	Variable compensation amounts that are typically paid in cash and often based on performance metrics. May also include one-time signing bonuses. The amount of incentive payouts typically varies by responsibility level and size of the Bank.	Best practices recommend performance-based incentives that are based on both company and department/individual goals. Discretionary bonuses and signing bonuses are prevalent, but are not performance-based. Commissions are often "uncapped", but often have asset quality modifiers included with production goals.
Real Equity	The most common types of real equity are restricted stock and stock options. Stock-settled stock appreciation rights are also utilized. Real equity results in actual grants of stock that directly impact the outstanding shares available and create real shareholder dilution when utilized.	The current trends are moving towards restricted stock and away from stock options, but both vehicles are still utilized. Basing grants or vesting on some type of performance metric has become a best practice. Holding and ownership requirements are becoming more prevalent.
"Synthetic" Equity	This type of equity is settled in cash with no actual shares granted. The value of the award is tied directly to the stock price or book-value of the company. These include phantom stock, stock appreciation rights, and restricted stock units.	"Synthetic" equity is most frequently used by private organizations, but may make sense for public organizations as well. Phantom stock is often used like a "full-value" share and appreciation rights work more like options. There is often vesting, but ultimately cash payouts.
Non-Qualified Plans	Generally, retirement focused compensation plans that allow companies to select a specific group of participants. These plans are most frequently paid for by the employer.	Typical examples include deferred compensation plans, salary continuation plans, and supplemental executive retirement plans (SERPs). The goal is generally to provide executive level employees with retirement income and to act as a strong retention device.
Qualified Plans	These plans must meet governed rules and be provided equally without discrimination. Most frequently, qualified plans are focused on retirement compensation.	The most prevalent qualified plan is a 401(k) plan, but other examples include profit sharing plans, employee stock ownership plans (ESOPs), and pension plans. Pension plans have fallen out of favor and the focus has moved to 401(k) plans with employer contributions.
Agreements	The most prevalent type of agreements are full employment agreements and/or change in control (CIC) agreements. These are legal documents that cover various terms.	The two primary focal points of agreements are CIC severance payouts and non-compete periods. Recent trends have suggested the need for justification for CIC payout amounts and non-compete lengths. IRC 280G issues and "clawbacks" should be considered with agreements.
Perquisites	These are typically items that aren't thought of as "true compensation", but have a cost to the company and provide value to the employee. They are frequently offered to executives and fall into the other compensation category.	The most common perquisites include such items as car allowances, club memberships, life insurance, disability/long-term care, etc. The general industry has seen a decline in perquisite prevalence, but they are still utilized frequently.