How to Retain Your Best People

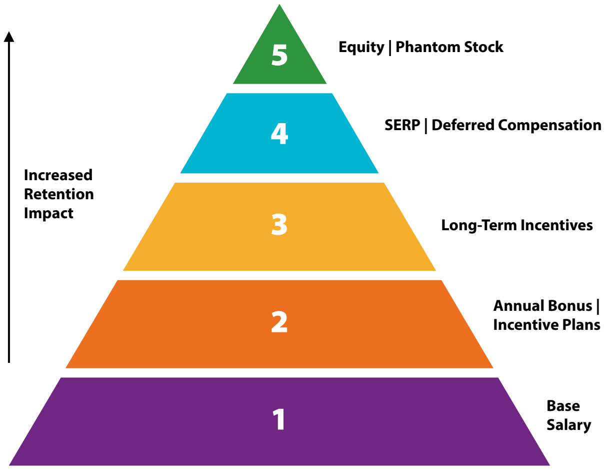
Replacing a top lender, compliance officer, or IT leader has never been more difficult or more expensive.

Banks invest significant time and resources recruiting, developing, and mentoring key and emerging leaders. Yet today, we regularly hear from CEOs and senior management teams about the increasing difficulty and expense associated with replacing talented employees such as lenders, compliance and BSA officers, and IT professionals.

The reality is that your best employees are being actively recruited by competitors and other industries. Retaining these individuals requires more than competitive salaries and annual bonuses. While those remain foundational, banks should also consider long-term compensation and retention strategies that create meaningful alignment and loyalty over time.

So, what does a more effective long-term retention strategy actually look like?

Long-term incentives build loyalty and drive performance



Stronger at the top = Greater retention and results

The cost of doing nothing continues to rise.

Replacing a top lender or key executive is no longer just expensive, it's disruptive to relationships, momentum, and long-term growth. Meanwhile, your best people are being recruited every day.

Retention isn't something to revisit later. It's something to get right now.

SERPs and Deferred Compensation Plans

One strategy is to provide a Supplemental Executive Retirement Plan ("SERP") or a nonqualified Deferred Compensation Plan ("DCP") designed to deliver supplemental retirement income for key executives. In many cases, the most effective approach may involve implementing both a SERP and a DCP together.

For example, a SERP could establish a foundational supplemental retirement benefit equal to 20% of the executive's final compensation. A DCP can then add a performance-based component that increases the total benefit by another 10% to 20%. The DCP portion may be tied to individual production goals, return on equity, earnings performance, or even stock price appreciation. These plans also typically include vesting schedules designed to encourage long-term retention. Benefits may become partially or fully vested only after the executive satisfies specified service or performance requirements.

While these plans provide a strong foundation, the real impact comes from how they are tailored to the individual.

Customizing Plans for Key Employees

Another effective approach is a deferred compensation plan (DCP) with in-service distributions. For example, consider a 35-year-old top-producing lender with children currently ages 2 and 5. The bank could establish a deferred compensation arrangement designed to provide annual distributions of $20,000 to $25,000 per child for four to five years beginning at age 18, helping offset future college or family expenses.

Importantly, the distributions could be conditioned upon the officer remaining employed with the bank throughout the payout period, thereby creating a strong retention incentive during the employee's most productive career years. In addition, if the officer were to die prematurely while still employed, the bank could provide survivor benefits to the family through the plan.

The plan can also be structured with performance-based features, allowing the bank to credit additional amounts when the officer exceeds production goals or other performance expectations.

To better align executive incentives with shareholder interests and prudent risk management, these plans are often designed with protective provisions and vesting requirements. For example, the bank may limit or suspend contributions in years when it reports a net operating loss or fails to meet regulatory capital requirements. Vesting schedules also play a key role. These schedules require the officer to remain employed with the bank for a specified period before becoming entitled to full benefits.

Beyond plan design, it's also important to think about how to protect the value you're building.

Helping key employees plan for their family's future while strengthening retention

Example:
35-year old top-producing lender
Children currently ages 2 and 5

Deferred Compensation | In-Service Distributions

	Child 1	Child 2
Child Age 18 payouts	Age 18	Age 18
Annual Amount	$20,000 - $25,000	$20,000 - $25,000
Payout Years	4 - 5 Years	4 -5 Years
Total Per Child	$80,000 - $125,000	$80,000 - $125,000

Distributions contingent on continued employment.
Survivor benefits provided if employee dies in service.

Non-solicitation Provisions

Many nonqualified benefit plans, including SERPs and bank-funded deferred compensation plans ("DCPs"), include forfeiture and non-solicitation provisions designed to protect the bank's customer relationships, employees, and overall franchise value.

Under these arrangements, an executive who voluntarily leaves the bank and subsequently solicits bank customers, referral sources, employees, or other business relationships may forfeit some or all future benefits otherwise payable under the plan.

When properly structured, these provisions can provide meaningful protection during the critical transition period following an executive's separation from service, while also reinforcing long-term retention and alignment with the bank's strategic interests.

Once the plan is in place, the next question is how to manage the cost over time.

Using BOLI to Offset Costs

SERPs and nonqualified deferred compensation plans are often informally financed with Bank-Owned Life Insurance ("BOLI"). This can help offset, and in some cases recover a portion of the plan's cost over time.

Even if the bank can't fully offset the cost, the expense should be viewed in context. The potential loss of revenue, disruption, recruiting costs, and relationship risk tied to losing a key executive can be far greater.

When designed thoughtfully, these strategies not only help retain talent but also support long-term stability. Retaining top talent is no longer just a compensation decision; it's a strategic one.

Nonqualified benefit plans play a central role in that strategy, but they are most effective when they are thoughtfully designed and tailored to the individual, the bank's goals, and its overall compensation philosophy.

The cost of doing nothing continues to rise. Banks that take a proactive approach to plan design and long-term incentives are better positioned to protect relationships, maintain continuity, and keep their leadership teams intact.

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