

PERSPECTIVE

A man with a beard, wearing a blue shirt, is looking out from a high-rise building. The building's glass facade reflects the sky and clouds. The man is positioned in the center of the word 'PERSPECTIVE', looking out from the 'S'.

CHANGES EVERYTHING.

Total Compensation Plan Elements and Strategy

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WIPFLI



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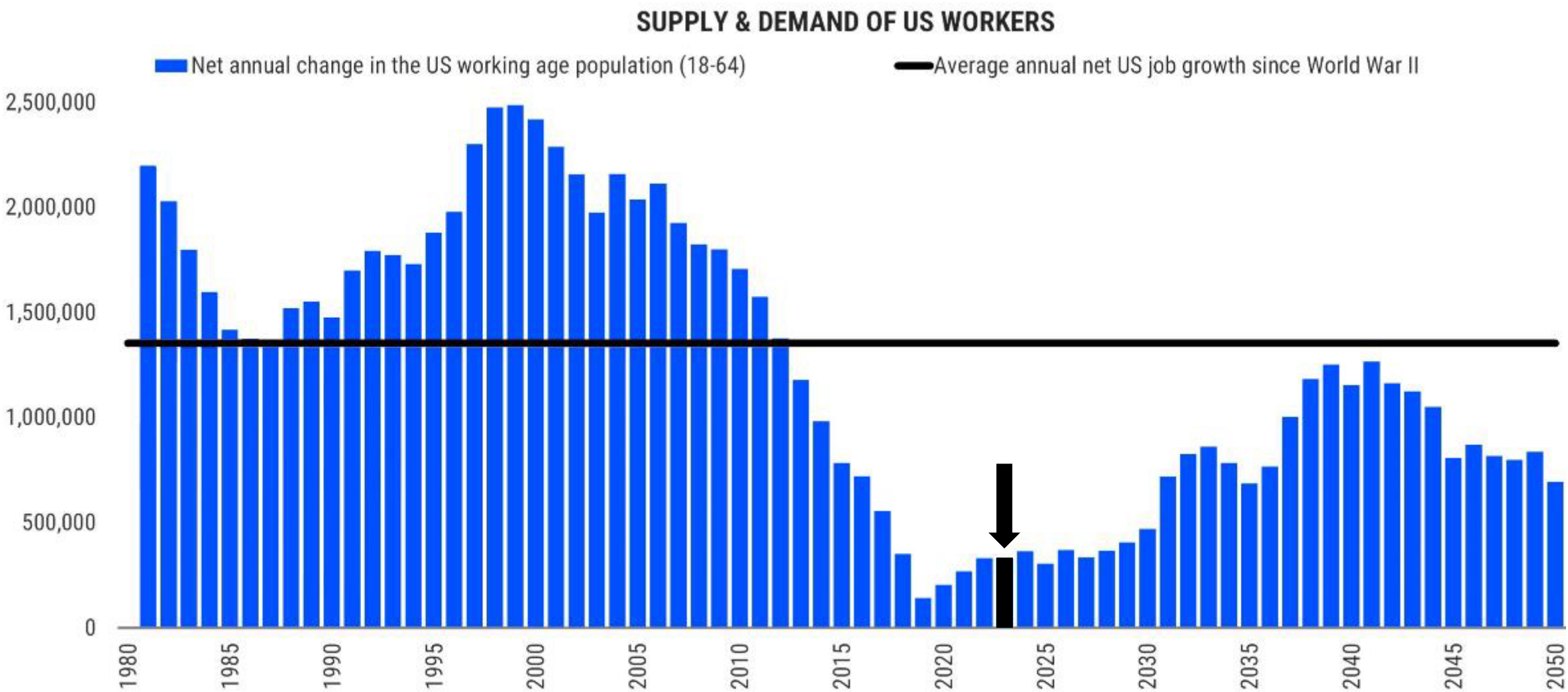
Robert brings to his clients 25+ years of leadership experience as an entrepreneur and executive in financial services, private enterprise, and agriculture. His clients have included financial institutions, technology companies, corporations, municipalities, and government entities. Robert is passionate about bringing clarity to his clients when they face complex business issues and regulatory matters.



The impact...

- Of a well-designed base and incentive compensation program is to:
 - Attract employees within a highly competitive market
 - Align employees to strategic priorities of the bank
 - Motivate employees to achieve goals
 - Retain employees by rewarding goal achievement

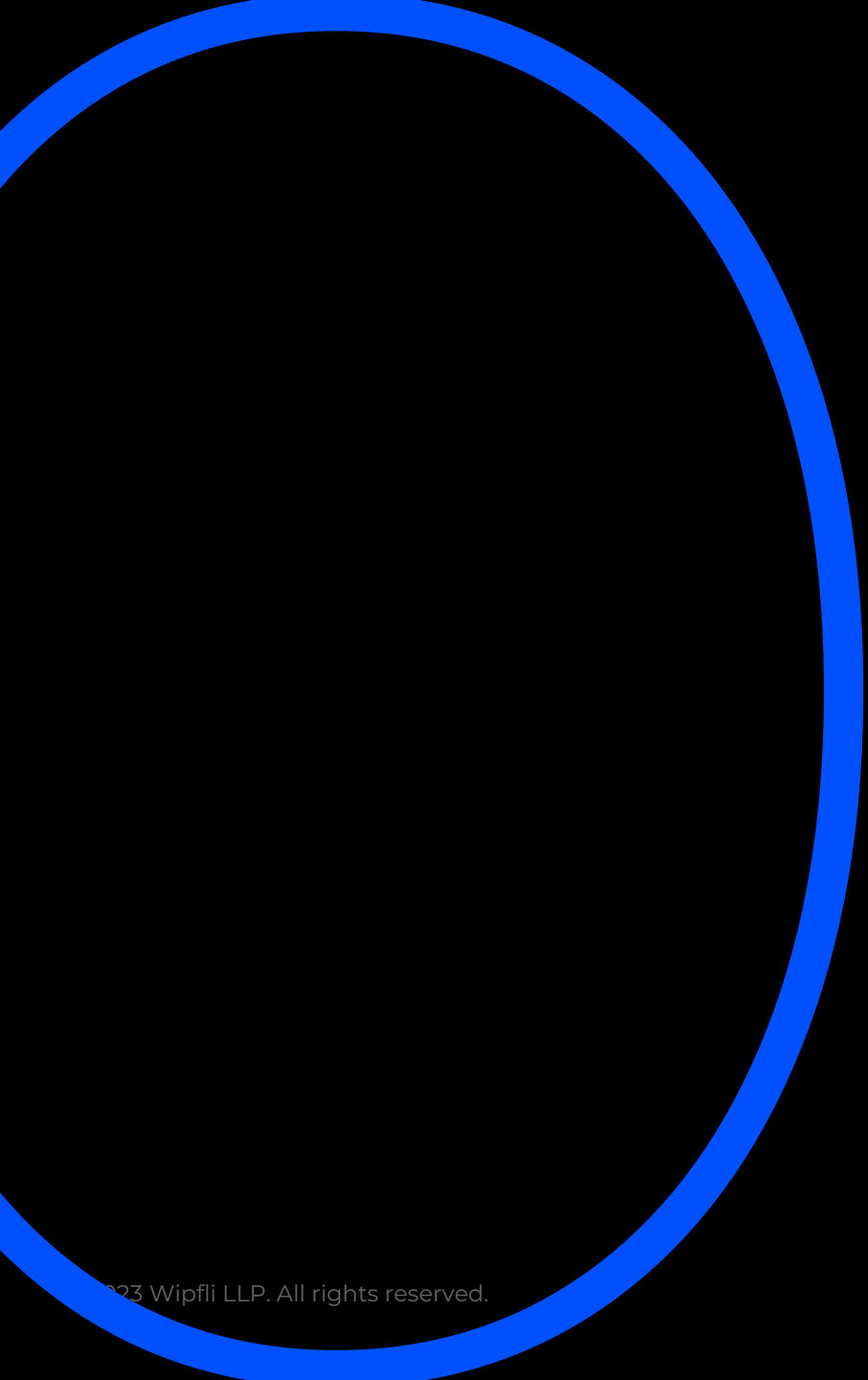
US labor supply faces long-term pressure



Source: US Census Bureau, International Database; US Bureau of Economic Analysis, Current Employment Statistics; TIP Strategies.

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Notes: Updated as of March 5, 2021. Population estimates and projections are for the resident population. The US population components shown in the IDB may not match the official population components for the United States, in part, due to differences in how they are displayed (calendar year versus midyear-to-midyear estimates).



Total compensation:
Components,
philosophy,
strategy

Roles and drivers of total reward components



Compensation attract and retain staff

Base pay

- Wages/salaries

Variable/incentive Pay

- **Annual incentives** drive short-term results and behaviors
- **Long-term incentives** drive long-term results and behaviors

Benefits provide a sense of security and protection

- **Basic and supplemental benefits**
- **Supplemental retirement plans** also a retention lever

Perquisites retain staff

- **Well-being**
- **Performance and recognition**
- **Development and career planning**
- **Advancement opportunities**

Create a
compensation
strategy to guide your
decision-making in...

Crisis

Layoffs

\$\$

Planning

Inflation

Pay Increases

Recession

Compensation Philosophy Example

We believe that it is in the best interest of the Bank, our associates, and our customers that we serve to competitively and fairly compensate associates for the value of the work provided.

We have developed our compensation system to align with the following objectives:

- To recognize the value each associate brings to the Bank;
- To pay salaries that are equitable for work being performed;
- To be equitable in pay across departmental lines;
- To attract and retain fully qualified associates;
- To reward and motivate associates for goal achievement;
- To reflect a pay-for-performance culture;
- To increase associates' understanding of pay administration; and
- To increase manager accountability for administering pay.

Our compensation system is comprised of three key components: 1) Base Compensation; 2) Incentive Compensation; and 3) Benefits. Our compensation system will be objective and non-discriminatory in theory, application, and practice. The Bank has determined that this will be best accomplished by using external professional consultants.

Base compensation is designed to provide competitive compensation to associates for fulfilling the full scope of responsibilities and accountabilities as outlined in our job descriptions. Base compensation ranges for each position are established by researching industry and local salary survey data. Base compensation levels within the established range for the position are determined on the basis of an associate's ability to execute the full responsibilities of the position at acceptable standards of performance. Generally, the Bank will administer base compensation to reflect our pay-for-performance culture.

To support our pay-for-performance culture, an associate may be eligible for incentive compensation. Incentive compensation is designed to reward associates for supporting the Bank's strategic business objectives by achieving specific levels of individual, departmental and/or Bank performance as pre-determined by management. Participation in incentive compensation opportunities will be individually determined by the Board of Directors and/or CEO as appropriate. Not all individuals are eligible to participate. Targeted levels for incentive will be determined by reviewing industry and local salary survey data and will be administered at the market median.

The Bank believes in discretionary bonuses as individual performance situations warrant.

Our benefits will be reviewed on an annual basis to ensure they remain competitive within the marketplace and reflect those benefits valued by our associates. Targeted levels for benefits will be positioned at the market median as derived by review of industry and local survey data and discussion with the Bank's insurance representatives and other advisors.

The Bank will also provide flexibility in scheduling to assist our associates to allow them to engage in personal, family, and community activities.

Difference between base and annual incentive compensation

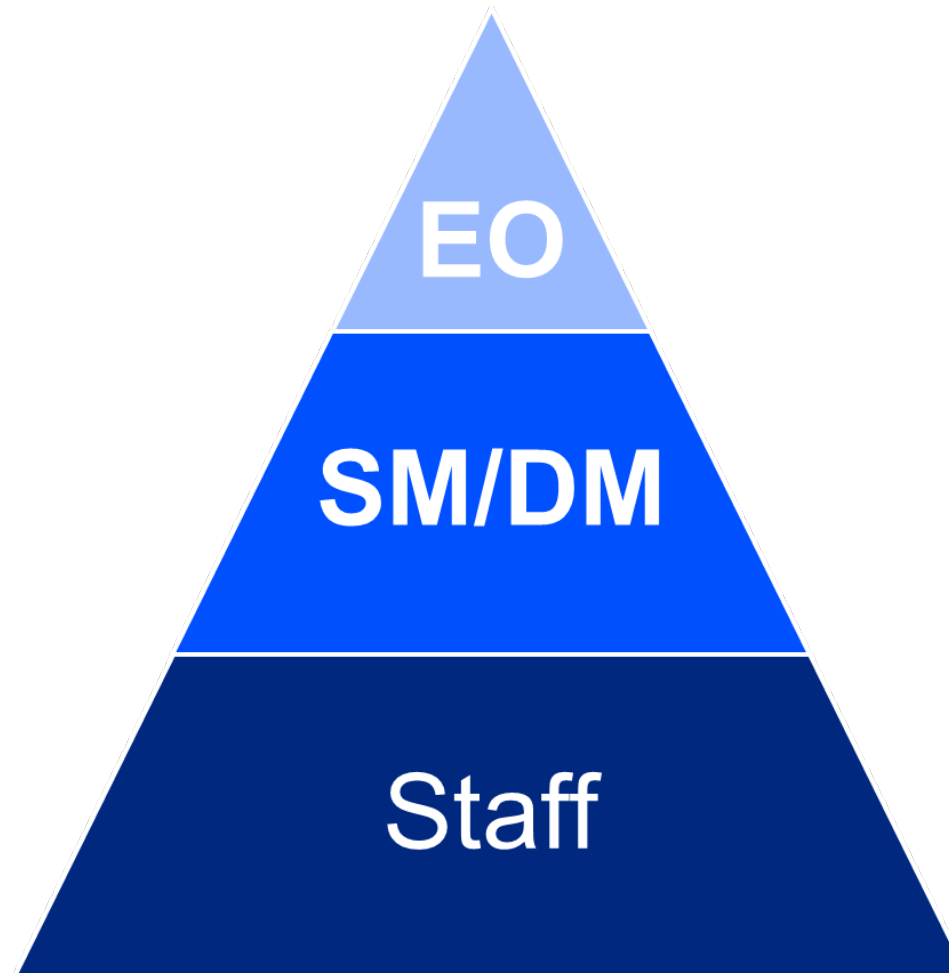
Base compensation pays individuals for performing and fulfilling the core role and responsibilities of the assigned position

Annual incentive compensation pays individuals for focus and attention on specific goal achievement as aligned with the strategic plan

Compensation strategy considerations

Compensation component	25 th Percentile (Lag)	50 th Percentile (Meet)	75 th Percentile (Lead)
Base salary			
Annual incentives			
Long-term incentives			
Basic benefits			
Supplemental benefits			
Supplemental retirement plan			
Perquisites			
Total compensation			

Base compensation strategy considerations



Total compensation mix

EXAMPLE ONLY							
	Base salary	Annual incentive	Long-term incentive	Benefits	Retirement	Perks	Total comp.
Executives/ senior management	Above market	Above market	Above market	Above market	At market	Below market	Above market
Management/ supervisors	At market	Above market	Above market	At market	At market	N/A	Above market
Employees	Slightly above market	At market	N/A	At market	At market	N/A	Slightly above market

Importance of plan design

Misaligned and/or flawed incentive plans encourage risk-taking behavior that may reward short-term gains without the consideration of long-term risks, thereby jeopardizing the safety and soundness of financial institutions



**Overview of
compensation
system design**

Overview of compensation system design

What you need to know

- Purpose and objectives
- Philosophy and strategy
- Building blocks

What you need to do

- Team and tools
- Research and analysis
- Documentation

What you need to say

- Communication
- Employee questions

Objectives of a compensation plan

- **Strategic alignment**

- Reflect bank's mission and values
- Support recruitment and selection strategies
- Motivate employees to help achieve program and bank goals

- **Top talent**

- Attract and retain qualified employees
- Provide wages comparable to similar work in organizations you compete with for employees

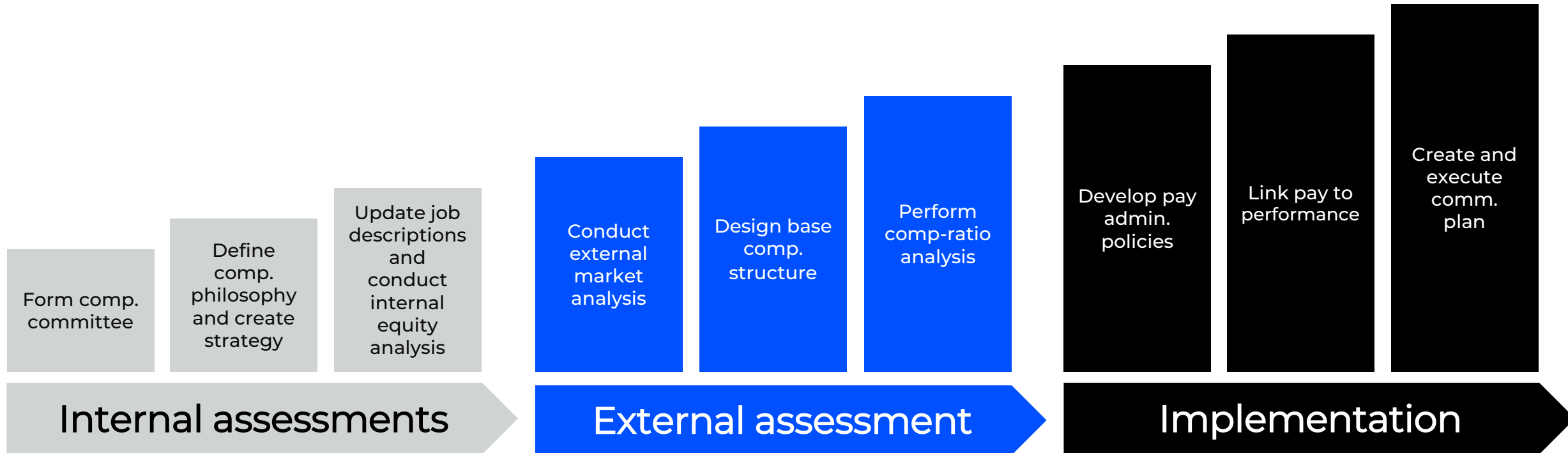
- **Fair and equitable**

- Recognize the value each position and employee brings to the bank
- Pay salaries equitable for work being performed
- Pay equitably across departmental lines

- **Consistency and accountability**

- Increase understanding of pay administration
- Minimize inconsistent administration of pay
- Increase manager accountability

Building blocks of a base compensation plan design



OS

Trending topics

Cross industry competition

- Due to labor force shortages and wage pressures, organizations are competing cross industry for talent
- Most significant wage pressures are on front-line positions resulting in continued staffing challenges for organizations
- What can you do?
 - Be aware
 - “Out of sight, out of mind” concept will not make you an employer of choice and will likely lead to turnover

NOW HIRING



Pay compression release considerations

- Evaluate needed market adjustments and bring all employees to the new minimums of the range and assess associated financial impact
- Determine the factors to be used to release compression, e.g., length of service, performance, placement in range, etc.
- Calculate financial impact for all employees and create response strategy

		Length of Service Calculation Model*					
		For Employees in Ranges 1-3					
		*A DIFFERENT CALCULATION WOULD BE NEEDED FOR OTHER RANGES					
		Position-in-Range					
		Category 1 +Below Min	Category 2	Category 3	Category 4	Category 5	Category 6
		(0-93%)	(94-96%)	(97-100%)	(101-104%)	(105-112%)	(113%+)
Length of Service Category		0.00	0.00	0.00	0.00	0.00	0.00
9.1 years +	0.00	5.5%	4.5%	4.0%	2.0%	0.0%	0.0%
		0.000	0.000	0.000	0.000	0.000	0.000
6.1-9.0 years	0.00	4.5%	4.0%	3.5%	1.5%	0.0%	0.0%
		0.000	0.000	0.000	0.000	0.000	0.000
4.1-6.0 years	0.00	3.5%	3.0%	2.5%	1.0%	0.0%	0.0%
		0.000	0.000	0.000	0.000	0.000	0.000
2.1-4.0 years	0.00	2.5%	2.0%	1.5%	0.5%	0.0%	0.0%
		0.000	0.000	0.000	0.000	0.000	0.000
1-2.0 years	0.00	1.5%	1.0%	0.0%	0.0%	0.0%	0.0%
		0.000	0.000	0.000	0.000	0.000	0.000
0-0.9 years	0.00	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
		0.000	0.000	0.000	0.000	0.000	0.000
	0.00						
Cell totals:		0.000	0.000	0.000	0.000	0.000	0.000

Tips for addressing pay compression

01

When you find wage compression, create a strategy to address it

02

Create hiring budgets and review pay equity as positions become open

03

Develop pay administration policies

04

Determine measurable factors that can be used to release pay compression



Pay transparency

- The degree to which employers are open about **what, why, how, and how much employees are compensated**, and their comfort-level with employees sharing pay-related information with others
- This can **extend beyond just base pay** to include variable pay and other rewards components as well as other facets and/or means to attain rewards (e.g., promotions, recognition, development, and performance assessment)

Benefits of pay transparency

- Demonstrates executive commitment
- Opportunity to educate managers and employees on the complexities of compensation
- Studies have shown the more training/education employees and managers receive on the pay process, the more comfortable they are with their pay, and less likely to leave for that reason
- You don't have to share every employee's rate of pay – just being transparent about your process and communicating the “how and why” is the key
- It's a journey and is hard work; it is imperative you understand your bank's culture and readiness

Varying levels of pay transparency

Nonexistent	Minimal transparency	Moderate transparency	Significant transparency	Extreme transparency
We don't share pay-related philosophies, policies, or practices with employees	Employees have limited access to or understanding of pay-related philosophies, policies, and practices	Employee access to pay-related information is generally limited to their own salary range, pay determination factors, rewards opportunities, etc.	Pay transparency is viewed as an essential element to organizational success and critical to achieving a culture of fairness; employees have access to broad pay-related information such as salary structure for all/most positions, merit budgets, job evaluation methods, etc., and have significant understanding of how pay and rewards are determined for themselves and the broader organization	Fairness and transparency are embedded in our value system; employees fully understand pay philosophies, policies, and practices, and have access to individual pay and reward levels for all/most of the workforce
4%	35%	46%	13%	1%

Problems with pay transparency

- Most employees lack context and raw numbers don't tell the whole story; a myriad of complex factors influence pay
- Studies show that most of us want to know what others make, but don't want others to know what we make
- Assuming organizational maturity and readiness to disclose pay information



Pay transparency matters because:

01

Promotes pay equity for everyone

02

Saves times during talent acquisition

03

Encourages market competitiveness

04

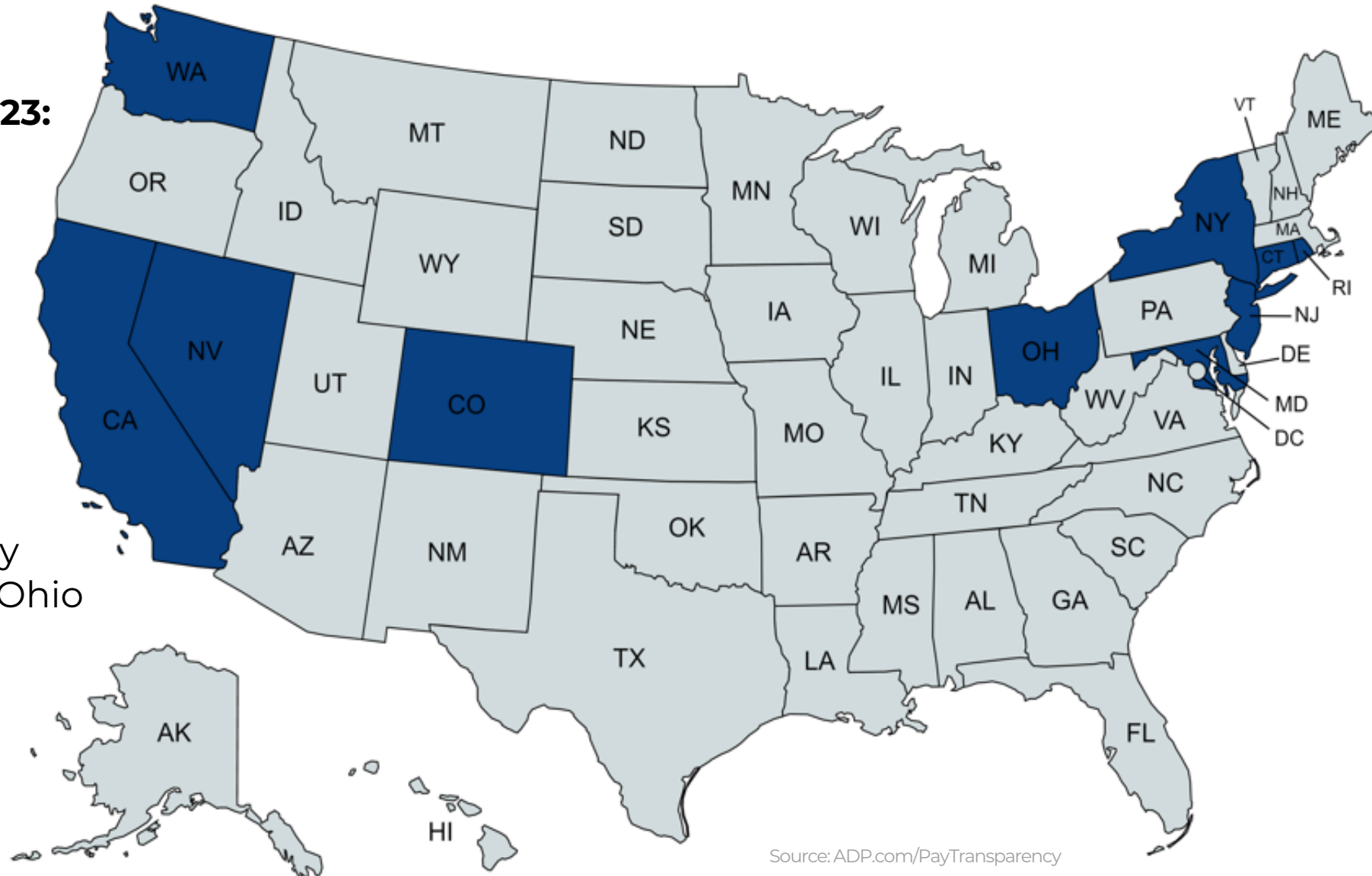
In some states/localities, it is the law



States and localities with pay transparency laws

Announced as of April 2023:

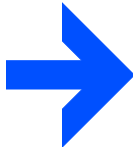
- California
- Colorado
- Connecticut
- Maryland
- Nevada
- Jersey City, NJ
- New York
 - New York City
 - Ithaca
 - Westchester county
- Cincinnati and Toledo, Ohio
- Rhode Island
- Washington (state)



Corporate governance

01

Form an informed compensation committee composed of outside directors



02

Compensation committee/ Board of Directors should have an active role in designing and reviewing plans on an ongoing basis and specifically for executive incentive plans



03

Ensure all decisions impacting compensation risk are approved by the committee



04

Allow committee access to external experts




05

At the time payments are approved, have the committee conduct a “postmortem” opportunity to discuss necessary adjustments for the next plan year



Tone at the top governance guideposts

- 
- **Ensure alignment with strategic plan and budget**
 - **Protect shareholder interests**
 - **Embrace goal setting and measurement**
 - **Create a culture of accountability**

Questions?