Using 457(f) Plans to Recruit & Retain Executives

By Scott Albraccio

Picture this: you've worked hard to build a strong leadership team for your credit union. You have talented executives and you're confident that they will continue to lead your credit union to success. You think you're doing everything you can to reward and retain them…until you lose one of your executives to a competitor.

It could be devastating to lose a key leader. What more can you do to keep his or her on your leadership team? One option is offering a 457(f) plan.

457(f) as a tool for retention
A 457(f) plan is a great way to supplement income beyond salary for your executives. 457(f) plans are not subject to IRS limits on contributions, meaning your credit union can add an unlimited amount of funds to any of your executives' compensation packages; a great way to motivate and reward top performers.

More than half of all credit unions with assets above $100 million offer 457(f) plans to their executives.* Randolph-Brooks Federal Credit Union in Live Oak, Texas is one such credit union. Randolph-Brooks FCU uses 457(f) plans to help preserve leadership continuity to help in meeting the credit union's strategic goals.

EVP/CFO Robert Zearfoss explained the credit union's strategy. "To be competitive in the marketplace, it is something that we have to offer," he said. "Otherwise, our executives are going to be taken away by other institutions that have those programs."

A 457(f) plan can also help your credit union recruit new talent. By offering a 457(f) plan, you can compete with banks and other organizations that are able to offer more in terms of compensation.

Advantages of the 457(f)
A 457(f) plan can be customized to meet your needs, including the funding solutions and payout options. It offers flexibility in distribution, allowing you to tailor payout amounts and distribution dates. You can set payout options based on your executive's length of service, retirement, or other milestones. And, payouts cannot be made until vesting, allowing you to create more incentive for your executives to stay.

Zearfoss explained how implementing 457(f) plans helps his credit union retain their leadership team. "We use [457(f) plans] as a golden handcuff for the executives, because we have a good executive team," he said. "We want to keep them here."

Not just for CEOs
Your credit union can use a 457(f) plan for each member of your leadership team. Randolph-Brooks uses this feature to their advantage, with most of their executives having one.

"It's more than one executive that's key for our success," Zearfoss said. "We don't just cover the CEO."

Elements to consider
There are a few considerations to make when choosing to offer a 457(f) plan. As a non-qualified plan, 457(f) funds are subject to taxation at vesting – when the risk of forfeiture lapses. 457(f) plans are also subject to creditor claims, meaning bankruptcy or liquidation.

If you would like to implement 457(f) plans at your credit union, be sure to do your due diligence and work with a knowledgeable, experienced provider who can answer any questions you and your executives may have.

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**CUNA Compensation Survey for CUs with $100M+, 2016-17*