Podcast 153 Win the Financial Game Chris Jones

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By Chris Jones

Lisa Hochgraf 00:03
You're listening to the CUES Podcast, episode 153.

Lisa Hochgraf 00:08
Welcome to the CUES Podcast, where leaders and experts discuss the top topics in credit unions today. I'm Lisa Hochgraf, senior editor at CUES.

Lisa Hochgraf 00:18
Today's guest, Chris Jones, talks about how supplemental executive retirement plans can help facilitate a triple win for an executive, their credit union and the credit union's members.

Lisa Hochgraf 00:30
Chris is a senior benefits consultant and partner with PARC Street Partners, a CUES Supplier member and the sponsor of the show. Previously, Chris and his team were affiliated with OM Financial. In the show, he describes the transition to becoming PARC Street Partners, including what is changing and what is not changing because of it.

Lisa Hochgraf 00:51
When Chris and his team said they wanted the show to focus on how executives and credit unions can "win the financial game," I had to ask for more. What financial game? Listen to the show to find out, including why Chris thinks that when executives and credit unions win the financial game members win it too.

Lisa Hochgraf 01:11
Chris also talks about 457(f) and split-dollar retirement plans. And when each could be the right choice for attracting, retaining and rewarding top executive talent. If you're an executive now or aspire to be one, or if you're a board looking to bolster your succession plan, this show is for you.

Lisa Hochgraf 01:30
So let's get started.

Lisa Hochgraf 01:33
Welcome to the show, Chris.

Chris Jones 01:35
Thank you so much. I really appreciate it, Lisa.

Lisa Hochgraf 01:38
So I'm pretty excited to be reading the news about your team. I'm reading that you were affiliated with OM Financial. And now you'll be known as PARC Street Partners. And that's going to be an independent financial firm. Can you tell us more about that big change and what really will change and what will stay the same going forward?

Chris Jones 01:59
I really appreciate you asking the timing is perfect. Our website went live on October 15. And we had our press releases at the very beginning of the month. So this has been all forming as we're speaking basically, PARC Street Partners Park is P-A-R-C. It stands for plan, attract, retain and compensate, which is really what we do. Straight because we're on a path. You know, we're all moving forward. So we wanted to use that reference. And then partners because that's the way we view our team. We serve all of our clients as a team effort. And so what we tell people is if you talk to whoever you want to talk to, we will help you get to where you want to go.

Chris Jones 02:36
So the name was really we went with the acronym, OM Fnancial Bill O'Connell and Joe Maloof, who were the owners of OM, when we first started. Bruce, my partner, and I first started with OM, that was about 11-12 years ago. They were both the primary, kind of running the firm we learned from them and work with them. Bill subsequently passed away, and Joe is long retired. And we've been, we always have to explain what OM Financial is. And it's funny. Some people will say ohm financial, is it own but no, it's not ohm financial.

Lisa Hochgraf 03:06
I'm one of those. I think that sometimes when I see it.

Chris Jones 03:09
Right. So when we were going through our restructuring, we also wanted to change the name to something that meant something towards what we did. And so that's the history of the PARC Street Partners. And we're very excited to be moving forward. The question about what really changes, the change is our name and our website. What doesn't change is the fact that for our clients, really nothing changes. You know, it's the same phone number, same address, same service, same everything. And we'll just continue to enhance enhance our ability to serve them in the most effective manner possible. So in one sense, it's changed. But in the other sense, it's really stability.

Lisa Hochgraf 03:48
It sounds like you've clarified what the company is, what it stands for, and you're renaming it something that really fits with how you think about it.

Chris Jones 03:56
That's what we were shooting for. So thank you.

Lisa Hochgraf 03:59
Awesome. Well, that's good news, then, isn't it?

Chris Jones 04:01
Good summation.

Lisa Hochgraf 04:04
So before the show actually started today, you and I were talking and you told me that every day is a gift. That's why we call it the present. So funny, because my next question is to ask you is if you have a personal or professional mantra that you live by that you could share with our listeners? Is that your mantra? Or is there another one that you would choose?

Chris Jones 04:24
If I had to choose a mantra, and when people first see me and probably the people around me have heard me say it 1,000 times, that would probably be the first mantra. It's just my perception of life. And it was something my grandfather, I think I was eight or nine when he really like there was no question I had to know it. It really is it. Listen, we all have challenges, and we don't know the challenges each of us have. We all have struggles. We are but this is a very precious gift and I want to live as intentionally as I can to honor that gift through my whole life. So if I had it Yeah, I think that's fair. That's that would be a mantra that I I would say, kind of a life philosophy.

Lisa Hochgraf 05:03
I love it. And I'm very glad to be here in this moment with you recording this show. So thanks again for being here.

Chris Jones 05:09
Thank you.

Lisa Hochgraf 05:10
I thought it was really interesting when you said that the team at OM Financial now PARC Street Partners voted to call this show "how execs and orgs can win the financial game together."

Lisa Hochgraf 05:21
First of all, the voting part was interesting. So your team got together and decided together. I love that. But then secondly, when I think of credit unions and their leaders, I don't usually think of a financial game so much. Can you tell me first about the democratic nature of this decision. And then also about the financial game that you find each is playing.

Chris Jones 05:42
The whole aspect of why we look at these things together as a team, the five of us we're out there, in the credit union industry, serving the industry, talking to people, there are times where one of us will just be better fit because of personality style or background or just history with the individual. So Bruce and I made a very intentional decision early on to really let the clients decide who they wanted to work with

and how they wanted to work with us. So what we tell people is you can call one of us, you can call any one of usm whoever you're most comfortable with, and we'll get whatever needs to get done, done. So as part of that, well, we have to look at each other the same way. And so we rely heavily on each other, we talk to each other regularly doesn't even come close. The best way to describe it, you know, this is what we do. It's not a job necessarily or even a career. It's probably closer to a way of life. You know, I do have clients that become friends over the years and board members that have become friends and like so I know if they call me on a Saturday, I'm picking up because if it's that important to them, it's that important to me. Everybody's got all of our cell phones, and if something's important, call us; we will respond promptly. It's just an obsession we have and that's, it's the way I would want to be treated. So that's the history of the team effort and why we really, we don't tell the client how to work with us. We ask them, How do you want to work with us? And then it's whoever you want to be part of that process. We're in. So.

Lisa Hochgraf 07:14
Awesome. I love that. Now, how many of you are on that core team?

Chris Jones 07:17
It's myself, Bruce Smith, Tim Strandquist, Timmy O'Hara, and Kirk Kordeleski.

Lisa Hochgraf 07:18
Nice, very nice, good group. So returning to the idea of the title of the show, how execs and orgs can win the financial game together, can you tell me about the financial game that you find execs and orgs are playing?

Chris Jones 07:38
Yeah, so I'm gonna give you some history on the reference, because I've been in the financial services industry since 1990. So this would be my 34th year. And we always talk to families, about, you know, how do you win the financial game of life? For a number of years, I did a class at my children's parochial high school on just how to win the financial game of life. And that reference of you know, how do you really win and what is winning meaning winning is very simple for an individual, when the money that your money is making is making more money than you need, you want. In other words, work is optional.

Chris Jones 08:11
But for an organization, just winning the financial game is really just about how do you achieve all the goals in a way that actually can be fun and exciting. And, you know, we should enjoy this ride if we can. So that's why the use of the term game comes in, because there's some gamification, some other books that have been out there, you know, over the years, that were kind of an affirmation of this philosophy.

Chris Jones 08:34
But what we do is hard. And what the credit unions do through this current financial situation is hard. I'm not suggesting anything's easy. But in the matter of us working together to achieve it, we can make that fun, or as much fun as we can, you know, as we work through these crisis and challenges. So

winning the financial game is really, you know it's a financial game. The credit union deals with finances. And then the game is just that we work together and we end and we feel like we can celebrate winning this thing on a regular basis. So that was really the history of it. And it's just keep the focus in a positive mindset.

Lisa Hochgraf 09:11
I love that. It's very positive focus, just like your mantra about thinking of today as the gift. That's really, that's really congruent. So talk to me a little bit, what do you and your team talk with credit union leaders about so that they know they're poised to win their financial game? And I think you told me that you feel that executives that feel like they can win their financial game personally, are more likely to focus on the credit union while they're at work.

Chris Jones 09:39
Right. The concept of this winning the financial game or, you know, as we win together, what we do, where we come into a credit union's life is very specific. We boast that we stay in our lane. We work with credit unions around succession planning. And the philosophy there is we liken it to a relay race. So when you're running a relay race, how do you win? Well rule number one is don't drop the baton. Now, it's great if you have four fast runners, but if you drop the baton once, you're not going to win.

Chris Jones 10:08
And so succession planning is really about effectively passing the baton from one successful leader to the next. There are lots of consultants in the industry that do executive coaching and assist the boards with effective board management, and we work with all of those. But where we come in is how do you effectively retain the rockstars that are key to your success or kind of anticipate transition to smoothly transition from one executive to the next executive, we come in right at that point.

Chris Jones 10:39
And the thinking here is, if I can ensure that I know what people's plans are, and when they're going to leave, and we have, you know, obviously we have backup plans in case things don't go according to schedule, in essence, but the longer I can keep the right people, the more successful the organization's going to be.

Chris Jones 10:57
And so if I can keep them for their career, that's fantastic. But sometimes I don't have the position for their career. Somebody wants to be a CEO, and my CEO is young, I can keep them an extra three to five years. We still win. And so that's where we come into their life. And where we're an expert in is the tools that really are implemented to support that intentional succession planning.

Chris Jones 11:19
When we're talking to a CEO and a board about implementing a supplemental executive retirement plan, whether it's a 457(f) or a split dollar, the two kind of primary directions you can go, we call it it's kind of like Wonder Woman's lasso of truth. When you're talking about money and specific timeframes and vesting schedules, there's no hiding. You really do know you say, Listen, we've had this happen where we said, Okay, we're going to put in a plan and the vesting is going to be fully vested at 65. And

the CEO raises their hand and says, I'm retiring at 62. And the board goes, well, we didn't know that. Well, it's really good. We had this conversation. But the reason we had the conversation was because we were talking about something real, the SERP and we were talking about real money, a real benefit and a real vesting schedule to achieve it. And so it just aligns everybody into the same outcome and reveals things that weren't really being discussed before. So it's really valuable.

Chris Jones 12:18
Sometimes there are surprises, it says, okay, you know, there's no reason to put in a SERP at this point. And that's okay, it accomplished its goal. But if we can do our job right and help with intentional succession planning, the boards can plan better in the long run.

Chris Jones 12:33
And then just one final thought I asked the question of boards when I do board chair presentations, which I've done frequently, I start off with a question that says how many board chairs in the room it said, keep your hands down, you don't have to reveal this, but how many board chairs in the room have gotten this phone call? Listen, I've been torturing myself all weekend. But I've got an offer I can't refuse. So I've got to let you know that I'm going to be taking a new position. And that was your CEO calling.

Chris Jones 12:58
And inevitably, somebody will, somebody will shout out, Yeah, I've gotten that phone call. Listen, if we can help avoid that phone call, that's worth its weight in gold.

Lisa Hochgraf 13:09
Indeed.

Chris Jones 13:10
It's the surprises kill you. It's the surprises that really hurt. Especially when people are leaving if you know health and other things you can't predict. But if we can create as much intention around the succession planning and is eliminate the surprises, everybody wins. And as we say, you know, the credit union is going back to the game question. If the credit union is winning the financial game, the executive should win the financial game. And as the result of those two, ultimately, keeping the member in the center is the member is winning the financial game. When the organization is healthy and moving forward, the member is winning.

Lisa Hochgraf 13:46
That's a triple win. It's not just a double win, but a triple win. I love that. So I imagine that a lot of the listeners are either CEOs or executives. However, there might be some folks out there that are a little less familiar with the two types of plans you mentioned as the main supplemental executive retirement plans. Can you talk a little bit about each just kind of say what they are and in what circumstance you might recommend them?

Chris Jones 14:10
Sure, these are high-level and then as you dig down, you can get more granular and take different paths. But the two primary are 457(f) or split dollar. Credit unions are nonprofit for pension purposes

and for all purposes, but nonprofits versus for-profits have very different nonqualified deferred compensation rules. In the for-profit world, like a stock company, the way they would retain and reward a key executive. They would grant stock options and those stock options would have a vesting schedule and you know, after the vesting's done, you get this springing wealth that enters your life.

Chris Jones 14:45
Well, nonprofits can't do that. The 457(f) is a very simply put, it's a time based bonus. So you have a timeframe, let's say 10 years and the executive is going to get a million dollars in 10 year. If they leave in nine years 360 days, they get nothing. If they're on the 10th year, all they have to do is be there, then they'll get that million dollars.

Chris Jones 15:06
So, I mean, as that approaches, it becomes more and more significant. In the first year, it probably doesn't seem that real, but in the ninth year, they're not going anywhere. So it does have the effect.'

Chris Jones 15:17
There are some tax ramifications with a 457(f), that are just less it's all taxed typically as a lump sum. And so you're always paying the top tax bracket. So in a worst case, like California, you could get 47 cents on the dollar after the payout. And then for state credit unions for any payout that exceeds a total income for the executive of a million dollars in that given year, the credit union pays an excise tax of 21% on the payout of a million dollars too.

Chris Jones 15:46
So those two, the tax, the excise tax came in starting in 2018. And so they're great plans to buy a segment of time. And that's what we say about the 457(f). The split dollar, and there are multiple designs, we're actually just going through a design change or just went through a design change because of the dramatic change in interest rates, which frankly, were the greatest increase percentage-wise in interest rates in my lifetime, you know, over 500% increase in what under a two year period of time. So very dramatic has certainly has had significant effects on the credit unions.

Chris Jones 16:23
So as a result, we've done some design change. But in effect, what a split-dollar plan is, is you're splitting the interest of a life insurance policy between a death benefit and cash value between an executive and the credit union. And as a result, you can split that interest in different ways. In most of our designs or actually all of our designs, when we're using a true split dollar, the credit union gets paid back principal and interest on the loan and the executive's family gets the remainder. So the executive's getting a nontaxable benefit in retirement, getting a tax debt or a death benefit tax-free for their entire lifetime. And the credit union's basically all they're doing is making a loan and getting paid back on that loan. And so it's a much more tax-efficient way to solve the same problem, which is to create a financial incentive for everybody to align their interests to the same outcome and really, at the executive level.

Lisa Hochgraf 17:20
Can you say those are super interesting, and it's really clear that you understand them really, really well, including the tax implications and the rules associated with them, which I'm sure are massive. But

talk to me a little bit about a case when you would recommend the 457(f) versus a split dollar, when would you choose them?

Chris Jones 17:38
First we implement both frequently. We would use typically the 457(f) in a I'll give you a couple of examples. One is we have a merger or had a merger go on where the CEO said I need these people to be here through the merger. And so we put in a 457(f) with a three year timeframe.

Lisa Hochgraf 17:55
Okay

Chris Jones 17:56
Another one was a five year timeframe with the merger. And so all we were doing was buying a segment of time from that executive saying, listen, at the end of five years, you're gonna get one time your annual salary and a bonus. There, if they make it four years, they're not leaving the fifth year because they're getting double their comp in that year. That's not always that number, maybe 50%, or whatever it is, it's enough to accomplish the goal. So the 457(f) is when you're trying to buy a segment of time, or you have an executive that's really too young for them to even say, I want to be here for the rest of my career, the 457(f) can be much more efficient.

Chris Jones 18:32
We also have a few states where the 457(f) is the only option for the state credit unions. So we wind up using it fairly frequently. And then sometimes it's a standalone, sometimes it's a lead into a split dollar in the future.

Chris Jones 18:48
The split dollar, it's really simple. When an executive or the board is saying what do we need to do to make sure our credit union is this executive's career. In other words, we want this person for the rest of their career, then the split dollar is really much better solution. Because the way it works is the plan is on the books, typically for the rest of the executive's life.

Chris Jones 19:10
So you you want to do this for those people that are great in their career with you. And as a result, you know, it's very tax-efficient, but it stays on the books of the credit union as a loan or performing loan on the books of the credit union for the rest of that executive's life. So it's really if we're asking that question, what do we need to do to make sure our credit union is your career? Then we'll talk about the split-dollar plan. If we're not looking at that timeframe, then we're talking about the 457(f). And then sometimes when somebody is uninsurable, their spouse is uninsurable, the 457(f) is also the only option. So

Lisa Hochgraf 19:43
That's great. That added a lot of clarity to when an organization and an executive might be looking at one versus the other. Thank you.

Lisa Hochgraf 19:50
So far, we've been talking about using these SERPs for retention. But it would seem to me looking at this from the outside, that it could also be really appealing for an executive being hired in from the outside to say, Oh, this group has already worked with a SERP or they're already talking to me about a SERP as they're interviewing me. Does it also work well as an a talent acquisition tool?

Chris Jones 20:15
It's actually becoming more normal in the recruiting process. So what's happening now and the recruiters are doing this as part of that hiring contract, is we'll see that a SERP typically doesn't have a ton of detail. We encourage that it does. But a SERP will be required to be in place within 12 to 18 months of the person's hiring. Sometimes that'll go as long as 24 months. And so you wait 12 months, because you should date first, you should make sure okay, I want this person for the rest of their career, even though when they're coming from the outside, you might know them, but you might not have seen them in action in your organization. And so we'll typically wait 12 months, and then it'll stretch anywhere between 12 to 24.

Chris Jones 21:00
For the implementation of the plan, though, yes, it's part of the recruiting process. Now it's part of the discussion. And then the other side is also the reward. So it's great for retaining, but we've had situations where Listen, the executive was already 62, they wanted to do something more to say you've made an unbelievable difference for our credit union. And they just hadn't had a way to do that in the past. So we've implemented plans for somebody who was older to create a benefit that they should have been able to build through their career. So they were there 20 years, they saved the credit union, they've accomplished growth, everything else. And so we've implemented many plans that were reward-based. It's not necessarily binary either. It can be reward and retention; you can merge some of these together as well.

Lisa Hochgraf 21:44
So that's good information. Thank you so much. I want to ask you, before we leave, is there a question that I haven't asked that you would like to answer for our listeners?

Chris Jones 21:54
So I always like to segregate those two, because people get them confused. Sometimes, you need to have the plan. And then the question is, do we need a SERP to support that? We think often you do, but the plan should stand on its own. So that would be the first aspect.

Chris Jones 21:54
I mean, it's a great question. What we want to stress is succession planning is a process. It's not a SERP. The SERP is a tool that is used to support the process. The succession plan should stand in and of itself, on its own. And then you may need a SERP to then solidify that plan or put some teeth in that plan to say, Okay, now we have the financial benefit that's tied to this plan that we have.

Chris Jones 22:39

The second is, a lot of times we'll come into credit unions and the board dynamic with the CEO, it varies so widely across the country, it's amazing. We would assume that, you know, the board CEO is talking to the board or the board chair at least weekly and there's high communication, that is not always the case. And so there are some times when we have to bridge that. You'll go back and forth. But the best-case scenario is when they're talking regularly, and we're part of that conversation. But if we're needed to bridge that conversation, we can do that, too.

Chris Jones 23:12
So that's a board dynamic that we think we help facilitate as part of the process. And when you look at the background of our team, if we added it up, 100 years of experience in the credit union industry, so that was something like

Lisa Hochgraf 23:24
Just a few years.

Lisa Hochgraf 23:25
And my background, I've hired executives for years, I've managed organizations. Bruce's background, CFA, chartered financial analyst worked on Wall Street. Tammy's background, she ran a CUSO. She also worked with CUES. So she, you know, she had background there. Tim was a recruiter for many years. And we always joke about we boast about the fact that we recruited a recruiter. So it's kind of funny because recruiters are our friend. But they're also kind of our enemy in the sense that when we put in a plan to retain somebody, the recruiters can chip away at that plan. And so what we tell people is, if you don't think your executives are getting called, they're getting called. Our goal, our job is to keep that call as short as possible.

Lisa Hochgraf 24:09
Tim can help advise you on just how well you can do that job.

Chris Jones 24:14
He's been a great partner. And then Kirk joined us about three and a half years ago. He was the CEO of the largest credit union in New York, knows the perspective from a CEO standpoint about not only why this needs to be done, but how it should be done. So the dynamic of how do you work with the board? So we brought the team together because we looked at people's background and experience and how we could ultimately be a partner with our clients to work with them and succession planning into the future. And we think all of those angles really give us a unique, not just perspective but a unique value proposition to the marketplace.

Lisa Hochgraf 24:52
Chris, thank you so much for your time today. Thanks for being on the show.

Chris Jones 24:56
Thank you. I really appreciate it.

Lisa Hochgraf 24:59

I would like to thank you our listeners for taking time out of your busy schedules to listen to today's episode of the CUES Podcast.

Lisa Hochgraf 25:06
And many thanks to Chris for sharing his deep knowledge of supplemental executive retirement plans. Learn more about PARC Street partners at PARCStreetpartners.com Park is P. A. R. C. Learn about how to become a CUES Supplier remember at cues.org/suppliers.

Lisa Hochgraf 25:25
Find a transcript of this episode as CEU management.com/podcast 153.

Lisa Hochgraf 25:33
You can also find more great credit union-specific content at CUmanagement.com. Thanks again for listening today.

Lisa Hochgraf 25:41
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