Executive Compensation at Credit Unions vs. Banks

Banking interests have increasingly attacked credit unions for offering “excessive” compensation to their CEOs and have pointed to executive compensation as a reason to eliminate the credit union tax exemption. However, these criticisms ignore some important context:

- **The credit union tax exemption has nothing to do with executive compensation** and was primarily based on credit unions’ structure as nonprofit, member-owned financial cooperatives with restricted fields of membership.
- In competitive markets with scarce talent, academic studies confirm that there are typically **no differences between for-profit and nonprofit salaries** in similar industries, so we should not expect significantly lower salaries at credit unions compared to banks.
- Whether for-profit or nonprofit, larger more complex organizations need to pay higher salaries in order to attract and retain qualified employees. And **credit unions tend to be much larger than other nonprofit organizations**, with average assets of $246 million versus only $3.5 million at the average nonprofit.
- Despite competitive pressures, **credit union CEOs still earn approximately 10% less than bank CEOs at similarly-sized institutions**.
- Furthermore, **bank CEO compensation packages consist of a significantly larger percentage of performance-based compensation**. This is critical because research shows that high performance-based compensation can lead to excessive risk-taking and unethical behavior.

**Findings: Total Compensation**

Bankers’ criticism of executive compensation at credit unions tends to highlight only one or a handful of the highest paid executives while excluding the vast majority of credit unions. For the first time, CUNA undertook the task of compiling a large sample of credit union and bank CEO compensation information in order to compare compensation packages on average at similarly-sized institutions. We find that executive compensation at banks is significantly higher than at credit unions: **on average, overall compensation of bank CEOs is approximately 10% higher than credit union CEOs at similarly-sized institutions.** Furthermore, bank CEO compensation packages consist of a significantly larger percentage of performance-based compensation: approximately 24% of bank CEO compensation is variable (bonus, stocks and options) versus only 8% at credit unions.

This is important because evidence suggests that performance-based incentives encourage short-term planning, excessive risk-taking and unethical behavior. These incentives also likely contributed to the financial crisis of 2008 to 2009, when bank delinquency rates rose to three times that of credit unions. Banks continue to rack up fines for misrepresenting thousands of mortgages leading up to the financial crisis, mortgages that led to large bonuses for bank employees and executives. On the other hand, the higher fixed salary at credit unions allows their CEOs the flexibility and creativity to focus on intangible goals—such as financial education, economic and democratic participation, and innovative products and services that serve their members’ needs.
Findings: Total Compensation

- The average total overall compensation for bank CEOs in our sample is $1,030,000 versus $438,000 for credit union CEOs. Focusing only on institutions with between $1 billion and $3 billion in total assets, total compensation for bank CEOs is $1,226,000 versus $992,000 for credit union CEOs. Finally, controlling for asset size, time trends and regional differences, bank CEOs continue to earn 10% more total compensation than credit union CEOs.
- Annual compensation—which we define here to include base pay plus performance-based compensation—is 15.7% higher among bank CEOs relative to credit union CEOs.
- Total compensation minus retirement and deferred income is 13.0% higher among bank CEOs relative to credit union CEOs.
- These results generally hold even after controlling for CEO gender, tenure, retirement, regional differences, asset size and macroeconomic time trends.

Findings: Sources of Income

- An estimated 7.5% of credit union CEO income is based on performance versus 24.3% of bank CEO income.

Credit Unions vs. Banks
Sources of Income as a Percentage of Total

<table>
<thead>
<tr>
<th>Source of Income</th>
<th>Credit Union</th>
<th>Bank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Income</td>
<td>72.9%</td>
<td>61.7%</td>
</tr>
<tr>
<td>Base Salary</td>
<td>9.6%</td>
<td>6.2%</td>
</tr>
<tr>
<td>Performance-based</td>
<td>7.5%</td>
<td>24.3%</td>
</tr>
<tr>
<td>Other Income</td>
<td>10.0%</td>
<td>7.9%</td>
</tr>
</tbody>
</table>

- Controlling for asset size, regional differences and macroeconomic time trends, we find that:
  - Performance-based income is approximately five times higher for bank CEOs relative to credit union CEOs.
  - There are no statistically significant differences in base salary between credit union and bank CEOs.
  - There are no statistically significant differences in retirement and deferred income between credit union and bank CEOs.
  - Bank CEOs receive approximately three times higher other income relative to credit union CEOs. Other income includes things like perquisites, educational assistance, transportation, disability premiums, club dues and insurance premiums.
Appendix: Data & Methodology

Data Sources
The data for our research comes from publicly available executive compensation data for state-chartered credit unions and publicly traded commercial banks. Bank compensation data was manually retrieved from DEF 14A forms that publicly traded banks are required to file with the Securities and Exchange Commission (SEC) and are available on the SEC’s EDGAR website. In order to focus on institutions of similar size, we only include banks with less than $3 billion in assets in our sample (only 1% of credit unions have more than $3 billion in assets). Credit union executive compensation data was pulled from IRS 990 forms made available on Amazon’s Registry of Open Data on Amazon Web Services (AWS). All state-chartered credit unions are required to file 990 forms annually with the Internal Revenue Service (IRS); however, federally chartered credit unions are not required to disclose compensation data. The credit union and compensation data were combined and merged with NCUA and FDIC “call report” data in order to include additional institution-level variables, such as assets. The total sample includes 2,473 bank-year observations and 8,831 credit union observations from between 2010 and 2017.

Methodology
We use regression analysis to control for institution asset size, regional differences in rules and regulations, and changes in macroeconomic factors, such as unemployment, economic growth and inflation. Furthermore, since the 990 and DEF 14A forms include different categories of income, we classify income into the following categories: base compensation, variable compensation (stock, bonus & options), performance plus base compensation (only includes the base salary plus any performance-related income), total compensation minus retirement and deferred compensation (includes base, performance-based and “other” income but not retirement and deferred compensation), and total compensation (includes all reported forms of income). Where appropriate, variables are transformed using logarithmic and inverse hyperbolic sin transformations. Robustness checks include controlling for CEO gender, tenure, retirement, and excluding especially small institutions.

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ii Our analysis controls for differences in asset size, CEO gender, tenure, regional differences in rules and regulations, and macroeconomic factors.

iii State-chartered credit unions represent 39% of all credit unions compared with 61% that are federally chartered. While one might expect higher compensation at federally chartered credit unions—since they are not required to publicly report compensation data—internal CUNA survey data in fact shows no significant differences in compensation between state- and federally-chartered credit unions.

iv https://www.sec.gov/edgar.shtml

v Further details regarding the data sources, data processing and cleaning are available upon request.

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