



# Compensation Philosophy



Building Our Team to Build Our Future



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# Alignment with Mission, Values, and Vision

Compensation programs at Clearwater Credit Union (Clearwater) are designed to support and align with our mission, values, and vision. They support our commitment to a values-based banking strategy and aim to enable and motivate co-workers to achieve organizational goals in ways that are consistent with that strategy.

The compensation programs addressed in our compensation philosophy includes base pay, as well as any incentive or profit sharing programs. Base pay refers to the basic compensation co-workers receive for their work. It is usually stated as an hourly wage or an annual salary. Incentive or profit sharing refers to variable compensation that may be paid when organizational, team or individual goals are met.

Total compensation includes base pay, incentive or profit sharing programs, and Clearwater's benefits package. Each year co-workers are provided an Annual Benefits Statement that details their total compensation package. A member of the People Solutions team can answer any questions regarding total compensation packages.

## External Competitiveness

The credit union's success is dependent upon the ability to attract, retain, develop, and engage co-workers who align with our core values and values-based banking strategy. Clearwater is committed to having a compensation program that is competitive with the external market. However, values alignment and strategic fit should be seen as the most important tools in recruiting and retaining talent. We aim to be competitive on overall compensation and to win on values and strategy.

Salary ranges are established for every position to ensure each job's value is identified and used when making salary decisions. Clearwater engages an external compensation consultant to help establish salary ranges (currently, Balanced Comp). The consultant establishes ranges by collecting reliable salary data from a variety of sources throughout the year. Once the data is collected, it is weighted, and then adjusted for Clearwater's labor market using a geographical differential. The geographical differential used is based on the job classification for the position in question. The three job classifications are non-exempt, exempt, and executive. Ranges are evaluated and adjusted annually. Updated salary ranges are made available every fall prior to budget creation. Depending on the change in the market, a salary range can move in either direction. Clearwater contributes to the establishment of salary ranges by evaluating each job using compensable factors. The compensable factors include: experience, education, management scope, interpersonal skills, independent judgment, mental complexity, organizational impact, and potential for error. Compensable factors are evaluated as they pertain to what is needed for the specific job, not the person or persons currently doing the job.

Each salary range includes a minimum, midpoint, and maximum. The midpoint is considered "market pay" and represents the median pay of people in the same or comparable jobs. Clearwater is committed to starting new co-workers not lower than the minimum of the specific salary range, with the final decision being based on the co-worker's knowledge, skills, and abilities. Once onboard, co-worker salary is evaluated annually. Wage increases are based on overall individual performance, location in established range, and Clearwater's budget parameters. Co-workers can expect to get to the midpoint of their range faster than they will get to the maximum. When a co-worker moves into a new position their salary is re-evaluated at that time.

Clearwater is committed to paying its least well-compensated positions no less than the Living Wage for a single adult. Each year during budget creation Clearwater monitors the MIT Living Wage Calculator (<http://livingwage.mit.edu>) to arrive at that foundational base pay.

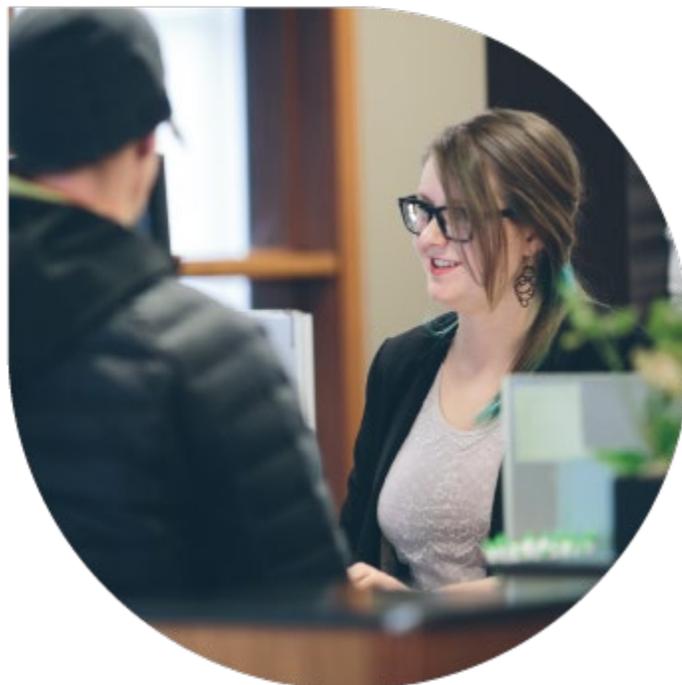


Even though Clearwater engages an outside consultant to help establish pay ranges, the credit union is ultimately responsible for making sure salary ranges are established in a way that reflects the market and job in question. Additional sources of salary data may be sought out when needed. Salary ranges may be reviewed and evaluated on a more frequent basis if needed.

## Pay Equity

Clearwater is committed to providing equal pay for substantially equal work. Any difference in pay in regard to equal work may be based on tenure, unique skills or experience, individual performance, geographic location, and any other factor besides race, color, religion, creed, national origin, sex, age, physical or mental disability, marital status, gender identify, or sexual orientation.

Another part of our commitment to pay equity and values-based banking will include ensuring that the difference between our highest and lowest paid co-workers doesn't become too wide. Our current policy limits the base compensation of the highest paid co-worker to no more than ten times the base compensation of lowest paid co-worker. The average difference between highest and lowest paid is close to 300 times in large US companies.<sup>1</sup> With the difference being higher for larger US financial institutions. Large US financial institutions are reporting the ratio of CEO pay to median pay being higher than 300.<sup>2</sup>



## Incentive-Based Pay and Profit-Sharing

Clearwater does not use traditional commission programs that are based exclusively on unit or dollar volumes. All base compensation is intended to be externally competitive and sufficient to enable our employees to come to work each day and serve our members. We do, however, use incentive-based pay and profit-sharing tools, both to direct co-worker energy toward strategic priorities and to share in overall economic performance that is at or above overall economic targets. These programs strive to support our mission, values, and vision and reward co-workers for their individual or team contributions to Clearwater's success. Incentive-based or profit-sharing programs are designed to reward co-workers for putting member shareholders and Clearwater organizational interests first, well ahead of individual co-worker interest or gain. There are three incentive-based or profit sharing programs in place. These programs use a scorecard approach and list the strategic priorities for the year. The majority of co-workers are included in the Clearwater credit union scorecard. Home lenders and commercial lenders have their own respective scorecards, that are more reflective of industry standards for these two specific roles, but are still values aligned and not based exclusively on unit or dollar volumes. All scorecards are updated monthly to reflect year-to-date performance. Once updated, scorecards are made available to co-workers.



## Flexibility

Compensation programs at Clearwater strive to balance fairness, internal equity, and current external market conditions.

While individual wages are normally contained within the specific salary range, there are times when the situation requires a wage to be outside of the salary range. For example, when the local supply-demand relationship for talent in specific areas changes, Clearwater needs to be able to continue to attract and retain talent that is values and strategy aligned. Because of this, it is important to allow for flexibility in these situations. In times where this kind of flexibility is appropriate, the approval of the CEO or the SVP of People Solutions is required.



## Transparency

Clearwater is committed to pushing toward maximum levels of appropriate transparency. This Compensation Philosophy document should be readily available to co-workers and credit union members. Further, co-workers should have a clear understanding of the pay range for their particular job, as well as their place in that range, and the reasons for that placement.

Communication on compensation will happen on a timely and regular basis to support understanding and transparency. Individual compensation discussions will happen during the co-worker's annual performance appraisal. Co-workers are encouraged to reach out to their supervisor or the SVP of People Solutions to discuss compensation when questions arise throughout the year.

Communication around compensation will often use the term "compa-ratio." A compa-ratio is the co-worker's salary divided by the midpoint of the specified range. Using compa-ratios allows Clearwater to compare wages, both internally and externally, equally since each position has a different salary range. A compa-ratio of 1 or 100% means that the employee's salary is at the midpoint of the range.

## Accountability

Clearwater compensation programs strive to balance the needs and interests of all stakeholders. These stakeholders include: co-workers, our board of directors, and member shareholders. In support of our cooperative ownership roots, overall compensation decisions will be based both on organizational core values and on the credit union's budgetary environment, since it is member shareholder resources that are used to fund compensation programs. In addition, reward pool triggers must be met before any incentive-based pay or profit sharing program payouts can happen. Each year the reward pool triggers will be reviewed, updated, and documented.



# Measurement and Reporting

Adherence to this compensation philosophy is to be monitored through reports provided to the CEO as detailed below. An annual measurement and reporting document will be made available to co-workers and the public each year.

Report	Frequency
Average Compa Ratio per job classification	Quarterly
Living wage for geographic areas	Annually
Salaries below range minimum	Bi-annually
Salaries above range maximum	Bi-annually
Multiple of the highest paid co-worker compared to the lowest paid co-worker	Annually
Average Compa Ratio by gender for each job classification	Annually
Challenges in attraction, retention, and turnover related to compensation	Bi-annually

<sup>1</sup> Donnelly, G. (2017, July 20). Top CEOs Make More in Two Days Than An Average Employee Does in One Year. Retrieved from <http://fortune.com/2017/07/20/ceo-pay-ratio-2016/>

<sup>2</sup> Glazer, E. (2018, Mar 21). JPM Chief Executive Dimon Pay Ratio Among the Highest of Big U.S. Banks. Retrieved from <https://www.wsj.com/articles/jpm-chief-executive-dimon-pay-ratio-among-the-highest-of-big-u-s-banks-1521668892>

