Advancements in Supplemental Executive Retirement Plan (SERP) Design in Acquiring and Retaining Key Talent

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Bank executive turnover is accelerating—fast. Departures have been increasing steadily since 2021 and reached an all-time high in January 2025. Executive positions are in demand, and competitors are actively recruiting.

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The financial hit from executive turnover is only the tip of the iceberg. Not only is it common for replacement costs to exceed 100% of the bank executive's annual salary, losing a key employee disrupts strategy, slows operations from the loss of institutional knowledge, and erodes client trust. In today's competitive market, keeping key talent in place is essential.

Industry benchmarking underscores the stakes: highly compensated bank executives without a supplemental plan are on track to retire at a lower income replacement ratio than their own employees, who rely more heavily on 401(k) savings and Social Security.

This is where a non-qualified Supplemental Executive Retirement Plan (SERP) comes in. Offering design flexibility and customization that traditional ERISA plans simply can't match, banks can align executive benefits with broader goals around retention, tax efficiency, and long-term financial planning. A properly designed SERP targets 50% to 70% income replacement, closing the gap between an executive's 401(k) and expected Social Security benefits.

In promising either a defined benefit at retirement or a defined annual contribution that accrues interest over time, banks can offer meaningful compensation that supplements retirement income. A customized vesting schedule gives the bank a "golden handcuff," incentivizing the bank executive to stay over the long term.

Implementing a traditional SERP requires a written contract between the bank and the executive, as well as a "Top-Hat Plan" filing with the Department of Labor. These plans are governed under IRC Section 409A and represent the bank's unsecured promise to pay benefits as they come due. The bank records the SERP liability on its balance sheet and once benefit payments to the executive commence, the bank is permitted to deduct those payments for income tax purposes. At the same time, the executive is taxed on the benefits received as W-2 income.

For decades, Bank Owned Life Insurance (BOLI) has been the primary vehicle for informally financing SERPs, allowing banks to record cash surrender values as an asset. BOLI also provides key-person protection during the executive's lifetime, and the bank recovers the plan's full cost through a tax-free death benefit.

A common concern with BOLI-funded SERPs is the high opportunity cost of waiting to recover funds at the insured's death. Earnings from redeploying funds on a shorter runway can surpass the death benefit by the time costs are ultimately recovered.

Many banks are also exploring an alternative design: the Platinum Security Plan™ (PSP). Unlike a traditional SERP, PSP is fully funded and sits outside IRC Section 409A, so it carries no unfunded liability on the bank's books. That structure also gives the executive a statutorily protected benefit that is bankruptcy remote – a level of security an unfunded Top-Hat plan simply cannot offer.

PSP also changes the economics for the bank. Rather than recovering costs only at the executive's death, as is typical with BOLI-financed SERPs, the bank recovers its investment at retirement or separation of service. This often occurs decades sooner, freeing capital for reinvestment instead of tying it up in a long-term, illiquid asset.

For the bank executive, the reward is greater ownership and

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flexibility at retirement, along with tax-advantaged income and a death benefit for their family. This is a meaningful upgrade over a traditional SERP, where benefits arrive strictly as taxable W-2 income with no ownership of an underlying asset.

Because SERP and PSP designs are built on a bespoke basis, they can align with the bank's own growth trajectory, giving the bank executive greater upside tied to growth projections while fitting the culture and long-term goals of an established community bank or a growing institution with regional ambitions. That kind of personalization is what makes these plans so effective – they don't just compensate, they communicate value, sending a clear signal that the bank values its talent and is invested in retaining it.

Many banks are aware of this opportunity, as Pearl Meyer's 2024 Banking Benefits and HR Policies Survey indicated that out of the 240 participating banks, 44.1% offer SERPs. If your bank is not among that 44.1%, odds are a competitor is, and bank executives are noticing.

Executive turnover pressure isn't going away. If anything, it's becoming a permanent feature of banking. That shifts retention planning – whether through a traditional SERP or a fully-funded design like a PSP – from a "nice to have" to a board-level strategic priority.

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