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Farewell, Tax Exemption? Executive Compensation in Credit Unions May Face Major Changes

Your credit union will reap the benefits of being proactive.

By J.P. O'Connor, Senior Compensation Consultant

The most recent proposal to eliminate the federal income tax exemption for credit unions has reignited intense discussions across the industry. While credit union taxation has been proposed several times over the last 20 or 30 years and hasn't become a reality, the possibility that this proposal could go through can't be ignored; the new administration has not hesitated to enact sweeping change in other areas.

If enacted, federal taxation would substantially impact credit union budgets that have been carefully designed to balance member benefits with organizational sustainability. Credit unions are likely to feel added pressure if the proposal to cut the Community Development Financial Institutions fund goes through.

At PARC Compensation Consulting, we recognize the implications such taxation could have, especially on executive compensation practices. Regardless of whether the tax exemption ultimately remains, proactive measures today will safeguard your credit union's competitive positioning and mission integrity. Here are seven compensation-related steps your organization can implement to promote resilience and adaptability:

1. Refine Your Executive Compensation Philosophy

A clearly articulated compensation philosophy provides a guiding framework for decision-making, especially during times of change. Boards should proactively revisit and reinforce their philosophy to ensure it reflects the credit union's unique mission, values, and fiscal sustainability in potentially tighter financial conditions. Key considerations include:

- Alignment of executive incentives with community and member value.
- Strategies to navigate compensation decisions under increased fiscal pressures.
- Providing competitive pay without excessive costs (See my previous article, The Rising Tide of Executive Pay in the Credit Union Industry: Finding a Sustainable Path Forward.)

An updated and transparent compensation philosophy not only supports sound decision-making but also helps build trust with stakeholders, including members and regulators, by demonstrating alignment between pay practices and organizational priorities.

2. Conduct Comprehensive Compensation Benchmarking

Staying competitive in the credit union industry requires an ongoing commitment to benchmarking compensation practices against peer institutions. This practice not only identifies competitive trends but can also prepare credit unions for strategic compensation adjustments if required by a changed tax landscape.
The potential for taxation exemplifies why staying on top of industry trends is so important. A change of this magnitude could lead to widespread shifts in how compensation is structured across the sector. By maintaining up-to-date benchmarking data, credit unions can adapt to these changes efficiently, ensuring that pay practices remain aligned with market realities and organizational goals. Moreover, benchmarking helps boards make data-driven decisions that balance competitiveness with financial stewardship.

3. Enhance Pay-for-Performance Models

The proposed taxation would likely force credit unions to rethink their financial and strategic goals to account for the significant impact of federal income taxes. Executive scorecards—a critical element of performance-based compensation—must align with these evolving priorities. Boards should revisit their scorecard metrics to reward leadership actions that improve operational efficiency, preserve member value, and enhance long-term financial resilience. While revenue generation may take on greater importance, it must not come at the expense of affordable member services or community impact. This recalibration is particularly important to avoid a disconnect between the credit union's mission and the actions incentivized by performance pay.

4. Maximize Non-Cash Compensation

Non-cash compensation, including deferred compensation arrangements such as 457(f) and split-dollar plans, would become even more strategic if immediate operational cash flow is restricted due to new taxation. These plans offer attractive long-term financial incentives without significantly increasing short-term operational expenses.

Additionally, non-monetary benefits such as flexible work arrangements, professional development programs, wellness initiatives, and meaningful community engagement can strongly appeal to mission-driven executives.

5. Prioritize Succession Planning

Succession planning often takes a backseat to immediate operational concerns, but its importance cannot be overstated—especially during times of uncertainty. Identifying and developing internal candidates for leadership roles reduces reliance on external recruitment, which can be both costly and time-consuming.

By grooming future leaders from within, credit unions can ensure the continuity of mission-driven leadership while fostering a culture of growth and opportunity. Organizations with strong succession frameworks tend to be more resilient during periods of significant change.

6. Optimize Total Rewards Strategies

Total rewards encompass far more than base salaries and bonuses. Given potential financial constraints, credit unions should highlight retirement plans, meaningful professional development opportunities, and intrinsic rewards linked to serving the community as integral components of executive compensation packages. Executives in mission-driven organizations often place significant value on such intrinsic motivators, enhancing employee engagement and retention

For example, credit unions might expand leadership development programs to reinforce the connection between professional growth and organizational success. They can also emphasize the unique opportunity to serve members and communities as part of the executive value proposition. These approaches allow credit unions to deliver value to employees without relying solely on cash-based rewards.

7. Collaborate with Industry Experts

Engaging with compensation consultants can provide valuable insights into how credit unions can adapt to potential changes. Experts bring deep knowledge from inside and outside of the credit union industry as well as approaches to designing compensation strategies that align with evolving realities. Working with a consultant allows boards to explore innovative solutions tailored to their specific needs, from restructuring executive pay packages to building forward-looking incentive programs.

Proactive Preparation Is Key

While at this writing the proposals to eliminate the credit union tax exemption and cut the CDFI fund have not been enacted, the possibility highlights the importance of strategic planning. Credit unions have long excelled at balancing financial stewardship with their mission to serve members. By addressing potential compensation challenges proactively, boards and executives can maintain this balance while continuing to attract and retain top talent.

At PARC Compensation Consulting, we specialize in designing resilient compensation strategies that align with your organization's goals and values. Our tailored solutions equip credit unions to navigate uncertainty with confidence and maintain their competitive edge in an evolving industry.

Contact us today to learn how we can help your credit union thrive, no matter what challenges lie ahead.

J.P. O'Connor *is a Senior Compensation Consultant at PARC Compensation Consulting, specializing in executive compensation strategies for the credit union industry. Drawing on a deep understanding of evolving market conditions, regulatory requirements, and mission-focused priorities, J.P. partners with credit unions to align their pay practices with both immediate needs and long-term objectives. Through comprehensive benchmarking, thoughtful policy development, and performance-based incentive design, J.P. guides boards, CEOs, and HR leaders toward compensation programs that not only attract and retain exceptional talent, but also honor the cooperative values at the heart of the credit union movement.*