

OPTIMIZING EXECUTIVE BENEFIT PLANS TO RECRUIT/RETAIN/REWARD

Prepared For:



CALIFORNIA COMMUNITY
BANKING NETWORK

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Jeffrey P. Peterson, CLU, ChFC

600 Montgomery St, Suite 1600 • San Francisco, CA 94111 • jpeterson@ebscomp.com • Local (415) 733-6540

Phillip A. Pickett

2031 11th Avenue South • Birmingham, AL 35205 • ppickett@ebscomp.com • Local (205) 803-7341

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What is a Nonqualified Benefit Plan?

Nonqualified Benefit Plan Basics

- An agreement between the Bank and executive or director. It's an exchange of promises from which both sides benefit.
- Helps the Bank retain and reward those employees who make the most significant contributions to the business.
- The employer promises to pay a retirement benefit, life insurance protection or some combination of benefits. In return, the key employee must meet performance criteria or remain with the Bank for a specified period of time.

Advantages to the Bank

- Provides a competitive edge in recruiting and retaining top executive talent
- Promotes the dedication and commitment of most valued people
- Provides the flexibility of who will participate, and the level and types of benefits provided

Advantages to Key Employee

- Provides a rewarding retirement benefit
- Allows for delayed taxation of income
- Provides ability to design life insurance benefits to be income-tax-free

Overview of Qualified vs Nonqualified Benefit Plans



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QUALIFIED PLANS	Minimum coverage / participation requirements	NONQUALIFIED PLANS	Can include select group of key employees
	Must not discriminate in favor of highly compensated employees		Plan design is not subject to qualified plan limits
	After a specified duration of employment, a participant's benefits vest and are non-forfeitable (ERISA)		Plan benefits are based on specific contractual details
	No income tax due until participant receives payment		No income tax due until participant receives payment
	Plan assets are not subject to risk of forfeiture		Plan benefits are subject to risk of forfeiture
	Plan benefits are limited		Benefits not limited by the tax code but must be reasonable

Popular Nonqualified Plans

Supplemental Executive Retirement Plan (SERP)

A SERP provides key executives with a cash payment for a period of years after retirement or at a specific point in time. The payment is designed to allow the executive to retire with a targeted amount of his or her final salary amount.

Target Age: Over Age 45

Plan Focus: Retention

Plan Duration: Retirement

Endorsement Method Split-Dollar Plan

A Split-Dollar Plan provides for sharing of life insurance policy death benefit between the Bank and key employee's named beneficiary. The proceeds are income tax-free to the recipient.

Target Age: Any Insured Officer

Plan Focus: Retention

Plan Duration: In-Service or Post-Employment

Nonqualified Defined Contribution (NQDC) Plan

A NQDC Plan provides key employees with a deferred cash incentive to accomplish personal and corporate goals. It is designed to complement existing annual incentive compensation but to be paid on a deferred basis. Plans can also help younger management employees that often have higher current cash needs compared to those employees closer to retirement.

Target Age: Under Age 45 or Officers within 5 Years of Retirement

Plan Focus: Performance

Plan Duration: Short-Term, Mid-Term or Long-Term; Depends on Vesting.

Sample Plan Designs



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Mid Term Incentive Plan (MTIP)

Participant	Participant Age	Retirement Age	Total Benefit Payments	Total Benefit Payments After Tax	Years Benefit to Be Paid
Executive Example	45	65	\$2,549,245	\$1,530,000	16

Assumptions:

Retirement Age: 65

Annual Contributions Vest After 5 Years

Marginal Tax Rate - Employee: 40%

Interest Rate: 5.5% (Actual rate can vary from year-to-year)

Annual Contributions are \$100,000 per year until the Participant retires. The actual amount of Annual Contributions will be determined by the Bank and can vary from year-to-year.

Long Term Incentive Plan (LTIP)

Participant	Participant Age	Retirement Age	Total Benefit Payments	Total Benefit Payments After Tax	Years Benefit to Be Paid
Executive Example	45	65	\$4,736,337	\$2,842,000	10

Assumptions:

Retirement Age: 65

Each Annual Contribution Plus Interest Vest 20% per Year Over 5 Years

Marginal Tax Rate - Employee: 40%

Interest Rate: 5.5% (Actual rate can vary from year-to-year)

Annual Contributions are \$100,000 per year until the Participant retires. The actual amount of Annual Contributions will be determined by the Bank and can vary from year-to-year.

Mid Term Incentive Plan (MTIP) - Projection of Benefits



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(1)	(2)	(3)	(2) + (3) (4)	(5)	(6)	(7)
Age	Annual Notional Account Contribution	Annual Interest Earned at 5.5%	Annual Account Contribution/ Plan Expense	Total Vested/ Non-Vested Account Balance	Annual Benefit Payment	Non-Vested Account Balance
45	\$100,000	\$5,500	\$105,500	\$105,500	\$0	\$0
46	100,000	11,303	111,303	216,803	0	105,500
47	100,000	17,424	117,424	334,227	0	216,803
48	100,000	23,882	123,882	458,109	0	334,227
49	100,000	30,696	130,696	588,805	0	458,109
50	100,000	30,696	130,696	588,805	130,696	458,109
51	100,000	30,696	130,696	588,805	130,696	458,109
52	100,000	30,696	130,696	588,805	130,696	458,109
53	100,000	30,696	130,696	588,805	130,696	458,109
54	100,000	30,696	130,696	588,805	130,696	458,109
55	100,000	30,696	130,696	588,805	130,696	458,109
56	100,000	30,696	130,696	588,805	130,696	458,109
57	100,000	30,696	130,696	588,805	130,696	458,109
58	100,000	30,696	130,696	588,805	130,696	458,109
59	100,000	30,696	130,696	588,805	130,696	458,109
60	100,000	30,696	130,696	588,805	130,696	458,109
61	100,000	30,696	130,696	588,805	130,696	458,109
62	100,000	30,696	130,696	588,805	130,696	458,109
63	100,000	30,696	130,696	588,805	130,696	458,109
64	100,000	30,696	130,696	588,805	130,696	458,109
65	0	0	0	0	588,805	0
	<u>\$2,000,000</u>	<u>\$549,245</u>	<u>\$2,549,245</u>		<u>\$2,549,245</u>	

Long Term Incentive Plan (LTIP) - Projection of Benefits



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(1)	(2)	(3)	(2) + (3) (4)	(5)	(6)	(7)
Age	Annual Notional Account Contribution	Annual Interest Earned at 5.5%	Annual Account Contribution/ Plan Expense	Total Vested/ Non-Vested Account Balance	Annual Benefit Payment	Non-Vested Account Balance
45	\$100,000	\$5,500	\$105,500	\$105,500	\$0	\$84,400
46	100,000	11,303	111,303	216,803	0	151,182
47	100,000	17,424	117,424	334,227	0	198,151
48	100,000	23,882	123,882	458,109	0	222,928
49	100,000	30,696	130,696	588,805	0	222,928
50	100,000	37,884	137,884	726,689	0	222,928
51	100,000	45,468	145,468	872,157	0	222,928
52	100,000	53,469	153,469	1,025,626	0	222,928
53	100,000	61,909	161,909	1,187,535	0	222,928
54	100,000	70,814	170,814	1,358,350	0	222,928
55	100,000	80,209	180,209	1,538,559	0	222,928
56	100,000	90,121	190,121	1,728,680	0	222,928
57	100,000	100,577	200,577	1,929,257	0	222,928
58	100,000	111,609	211,609	2,140,866	0	222,928
59	100,000	123,248	223,248	2,364,114	0	222,928
60	100,000	135,526	235,526	2,599,640	0	222,928
61	100,000	148,480	248,480	2,848,120	0	222,928
62	100,000	162,147	262,147	3,110,267	0	222,928
63	100,000	176,565	276,565	3,386,832	0	222,928
64	100,000	191,776	291,776	3,678,608	0	0
65	0	182,091	182,091	3,492,838	367,861	0
66	0	170,761	170,761	3,275,506	388,093	0
67	0	157,634	157,634	3,023,701	409,438	0
68	0	142,546	142,546	2,734,290	431,957	0
69	0	125,322	125,322	2,403,896	455,715	0
70	0	105,771	105,771	2,028,889	480,779	0
71	0	83,692	83,692	1,605,358	507,222	0
72	0	58,863	58,863	1,129,102	535,119	0
73	0	31,050	31,050	595,601	564,551	0
74	0	0	0	0	595,601	0
Total	\$ 2,000,000	\$ 2,736,337	\$ 4,736,337		\$ 4,736,337	

Key Employee Retention

Type of Compensation	Typical Period of Vesting / Retention
Base Salary	1 Year
Bonus	1 Year
Equity	3 - 5 Years
Non-Equity Incentive Compensation	3 Years
Nonqualified Benefits	5 – 20+ Years

Board of Directors Common Questions

- ▶ Which officers should be included?
- ▶ Are the benefits reasonable and how are the benefits earned by the key employee?
- ▶ How specifically can the plan help retain the key employee?
- ▶ What will the cost be to the Bank?
- ▶ How will these plans benefit the Bank?
- ▶ Does the plan encourage loyalty?
- ▶ What happens in the event of a Bank merger, disability, death?



Nonqualified Benefit Plan Process

Needs Analysis and Discussion of Plan Designs

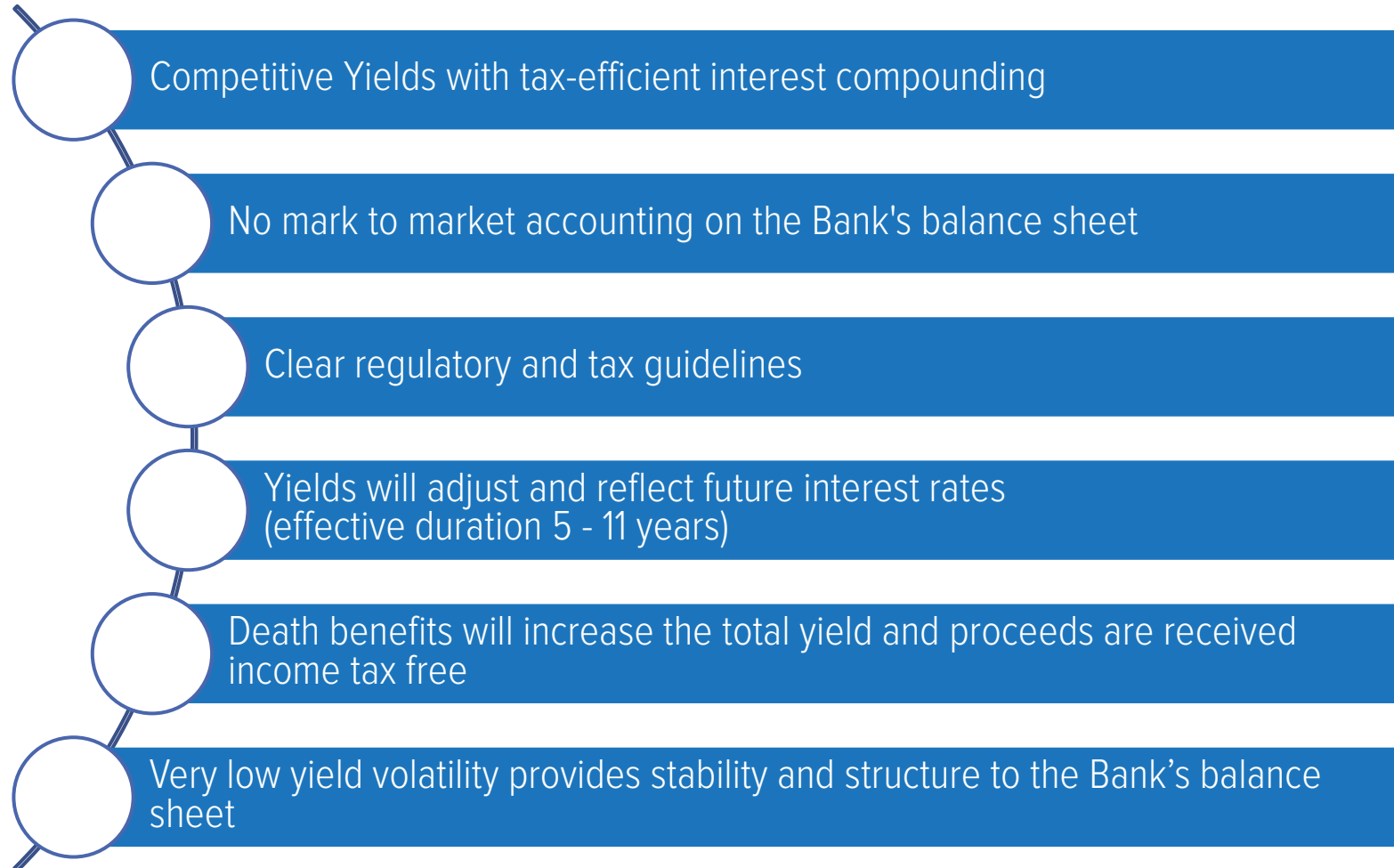
Detailed Plan Cost/Benefit Analysis

Board/Committee Involvement

Plan Design Approval

Plan Implementation

Benefits of BOLI



Current BOLI Yields



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		Guardian Life	MassMutual	New York Life	Northwestern Mutual	Protective Life
Initial Premium		\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000
Initial Death Benefit		\$2,015,926	\$2,020,000	\$2,173,164	\$2,033,844	\$2,106,071
Annual	Current Yield (Year 1)	6.34%	6.16%	6.31%	6.80%	6.53%
	Current Yield (Year 5)	6.26%	6.12%	6.27%	6.18%	6.45%
	Current Yield (Year 10)	6.18%	6.08%	6.21%	5.89%	6.35%
	Current Yield (Year 15)	6.06%	5.98%	6.17%	6.00%	6.24%
	Current Yield (Year 20)	5.93%	5.83%	6.06%	6.06%	6.09%
Compound	Cash Value IRR - 5 Years	6.29%	6.12%	6.29%	6.48%	6.47%
	Cash Value IRR - 10 Years	6.25%	6.11%	6.27%	6.20%	6.42%
	Cash Value IRR - 15 Years	6.21%	6.08%	6.24%	6.12%	6.36%
	Cash Value IRR - 20 Years	6.15%	6.03%	6.21%	6.10%	6.31%
Death Benefit IRR - Year 25		7.88%	7.79%	8.07%	7.86%	8.30%

*Assumes 29% Marginal Tax Rate

Earnings are based on average age 45 year old male, assumes June 2025 rates and charges. Projected values are not estimates or guarantees of future results. Assumes no deaths. See Basic Illustration for guaranteed elements and other important information.

Speaker Bios



Phillip A. Pickett, CPA (license inactive)
Birmingham, Alabama

Phil has over 20 years of experience working with companies across the country to develop and optimize their Bank Owned Life Insurance (BOLI) and Corporate Owned Life Insurance (COLI) programs. Phil also assists companies with the design and implementation of Nonqualified Executive Benefit Plans and Deferred Compensation Plans to help companies attract, retain, and reward their talent. Phil is a CPA (License Inactive) and a member of the American Institute of Certified Public Accountants (AICPA) and the Million Dollar Round Table (Top of the Table). He is also an Ambassador of Finseca (formerly the Association for Advanced Life Underwriting (AALU)) and a former member of AALU's Nonqualified Plans Committee. Phil was a tax manager for an international accounting firm prior to joining EBS in 2003. During his ten years in public accounting, Phil specialized in tax consulting and implementation services for a variety of corporate clients, executives, and high-wealth individuals. Phil serves on the board of Mitchell's Place, a facility that provides early learning and therapeutic services for children affected by autism. He is also on the Development Committee for the Ronald McDonald House Charities of Alabama (RMHCA).

Phil received his M.B.A. from the University of Alabama and his B.S. in Accounting from Florida State University.



Jeffrey P. Peterson, CLU, ChFC
San Francisco, California

Jeff has spent over 30 years in executive benefit consulting for private and public sector corporations as well as consulting with their top executives. He has worked with several industries but has focused on the banking, technology and service industries, and his practice emphasizes all areas of executive benefit planning and informal funding. As the Managing Partner in the San Francisco office, Jeff oversees client services for the entire western region. He specializes in helping firms to attract, retain and reward their leadership teams. He is a frequent national speaker on the topic of Nonqualified Plans. Jeff is a past president of the National Association of Insurance and Financial Advisors and the Society of Financial Service Professionals in San Francisco. He is a member of the Million Dollar Round Table, Top of the Table, and a multiple recipient of the highly coveted National Quality Award. He is also a member and ambassador of Finseca and Treasurer on the Board of the Tahoe Maritime Foundation. Jeff received his Bachelor of Science in Economics from the University of the Pacific and holds two advanced degrees from the American College.

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- EBS developed an industry-leading service platform, Iron Key Insurance Services (Iron Key), to ensure consistent, reliable reporting and ongoing service
- Iron Key is owned by Northwestern Mutual and provides comprehensive BOLI reporting services
- EBS Partners have selling agreements with top mutual carriers:
 - Guardian Life
 - MassMutual
 - Midland National
 - New York Life
 - Northwestern Mutual
 - Protective Life
 - Securian (Minnesota Life)
- Through Iron Key, EBS clients have access to a secure private client information portal
- Depending on the client's needs and preferences, EBS works with the following service firms:
 - Iron Key Insurance Services
 - Newport
 - The Pangburn Group
- EBS upholds a commitment to meeting client needs which has resulted in outstanding retention and satisfaction
- Endorsed vendor with multiple banking associations
 - Alabama Bankers Association (ABA)
 - Georgia Bankers Association (GBA)
 - Community Bankers Association of Ohio (CBAO)
 - Community Bankers of Michigan (CBM)
 - California Community Banking Network (CCBN)



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