Using Retention Bonuses Effectively

human resources employees

Summary: When used correctly, retention bonuses can be an effective tool to help financial institutions hold on to key employees who may be looking to leave — at least long enough to find replacements. But retention bonuses are not without their flaws, so their use should be intentional and methodical. We discuss a few use cases of retention bonuses and their effectiveness.

When the Blackpool Zoo in Lancashire, England, had a nuisance problem with seagulls, it came up with a unique solution. The zoo created what it deemed seagull deterrent positions and sought to hire five people to dress as giant birds to scare seagulls away.

While the idea of dressing people in costumes is not completely foreign to the banking industry, particularly since some organizations outfit mascots, most financial institutions aren't looking to scare people off. Instead, financial institutions are focused on keeping people — particularly senior employees with extensive expertise.

One way to keep experienced staff around for a bit longer is a retention bonus. These are bonuses given on the condition that an employee remains employed with the company for a specified period of time or until specific criteria are met. They're often a large percentage of the employee's salary — typically ranging from 10% to 25% of their yearly compensation.

A Proven Tool for Retaining Employees

Retention bonuses are nothing new and have long been used as a way of keeping key employees from leaving an organization in the middle of a merger or acquisition or before a particular project has been completed.

Now, as a rising number of Baby Boomers prepare for retirement, financial institutions have also begun using retention bonuses to entice key senior employees to stick around long enough to transition their expertise to the next generation of management. They have also been a popular tool for organizations trying to hold on to employees within areas where particular talents or experience are in high demand. In that case, retention bonuses can lessen the likelihood of key employees fleeing to competitors — a possibility that has increased in recent years as the pandemic and remote work have weakened the social and corporate ties that might typically make employees more hesitant to switch employers.

A Strong Incentive To Stay

According to the findings of "Bonus Programs and Practices," a study from WorldatWork, close to 60% of organizations have utilized retention bonuses. One such example is Credit Suisse, where, despite a substantial decrease in the overall amount of bonuses paid out by the bank in 2022, retention bonuses were actually up during that same period.

Credit Suisse is not alone. Bank Director's 2023 Compensation Survey report found that roughly a third of board members and bank leaders have used retention bonuses as a tool to try to get key employees to delay retirement. Retention bonuses can also be a good way of pacifying strong employees who may not yet be ready for promotions, particularly when they are awarded in conjunction with training and long-term promotion plans. Boards struggling with succession planning may also want to employ retention bonuses as a way of enticing key leaders such as CEOs to stick around long enough for them to be able to identify and train a successor.

Not a Long-Term Solution

While retention bonuses can be a useful tool, they can also be a double-edged sword. One of the biggest problems with retention bonuses is that they do not eliminate the underlying reasons that drive employees to leave an employer. If the factors driving an employee to seek greener pastures are not addressed and changed for the better, more often than not, that individual will simply leave once they have received their bonus payout and any conditions attached to it have been met. For that reason, it is important that organizations that utilize retention bonuses have a clear idea of what a successful outcome will look like in advance and take appropriate measures to ensure those results.

Similarly, given the difficulty of keeping such payments confidential, organizations that use retention bonuses should create clear guidelines for how and when they should be used, which positions are eligible for them, who has the authority to issue them, and how the monetary value of retention bonuses is determined. Having such guidelines in writing and accessible to all employees reduces the possibility of retention bonuses creating dissension among other employees within an organization.

Organizations looking to buy more time with key employees who may be getting ready to head for the exit — whether for another organization or retirement — may want to consider employing retention bonuses. These bonuses can act as a way of buying the time necessary to line up new hires or implement the changes needed to get the employee engaged once more. But before using retention bonuses, it is important for organizations to have a firm understanding of the risks tied to them as well as a clear idea of the outcome they are hoping to achieve.

INDUSTRY INSIGHTS FROM PCBB

Love reading the BID? PCBB provides other industry insights in the form of podcasts, white papers, case studies, and other content focused on topics critical to the success of community financial institutions. Check them out today!

ECONOMY & RATES

Rates As Of: 03/18/2024 09:10AM (GMT-0700)

Treasury	Yields	MTD Chg	YTD Chg
3M	5.48	0.03	0.08
6M	5.38	0.08	0.12
1Y	5.06	0.07	0.29
2Y	4.73	0.11	0.48
5Y	4.36	0.11	0.51
10Y	4.34	0.08	0.46
30Y	4.46	0.08	0.43
FF Market	**FF Disc**		**IORB**
5.33	5.50		5.40
SOFR	**Prime**		**OBFR**

5.31	8.50	5.32