Executive Benefit Strategies for Corporations

NFP Executive Benefits

> Many companies are looking for ways to recruit, reward and retain their leaders.

» Could your company meet business objectives without certain key executives?

» Do you find it increasingly challenging to compete for top talent?

> Most Americans are increasingly responsible for financing their own retirement.[1]

» Are the traditional retirement plans offered by your company adequate?

» Will you and your company's key executives be able to maintain current standard of living into retirement?

Can you line up your company's resources to address the challenging questions above? As you contemplate the answers, some additional questions may come to mind:

» What types of plans are available for you to offer a select group of key executives?

» What types of plans can your company afford to offer?

- What types of financing vehicles are available?

» Which plan solutions would specifically meet the needs of your company and the needs of your top talent?

- Plan designs with a retention incentive?
- Savings plans using executive money?
- Plan designs using employer money?
- Plans using both executive and employer money?

Several plan choices are available to your company to help build a competitive benefits package for key executives. These choices vary in cost, features and complexity. Working with NFP Executive Benefits, we can assist you with selecting the best possible solution for your company's specific needs.

Our implementation process is smooth and easy, and the ongoing service we provide is cost-effective and reliable.

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Choosing the Plan That Meets Your Needs

The plan choices that your company can offer a select group of key executives are considered nonqualified benefit plans. Nonqualified plans are simply contracts or agreements between an employer and select key executives stipulating the employer will provide a particular supplemental executive benefit. These plans provide a valuable source of executive benefits for many thousands of U.S. employees, and they provide companies with a flexible, cost-effective approach to offering their key executives additional incentives, life insurance and/or retirement benefits. There are many nonqualified executive benefit programs available.

The type of plan and the specific plan features you choose depend on a number of factors, including:

- The size of your business
- Number of key executives
- Type of business entity (e.g., C corporation, S corporation)
- Company resources
- Your company's business continuation and/or succession plan
- Key executives' specific needs
- Your company's objectives

Questions to Help Guide Your Decision-making Process

Company Issues

- Are you interested in rewarding and retaining key executives?
- Are you currently a tax-paying entity?
- What are your company cash flow issues (constraints or opportunities)?

Benefit Plan Objectives

- Do key executives need an opportunity to make plan contributions and defer current income taxes?
- Would additional permanent life insurance benefits plus a tax-advantaged savings opportunity be attractive to key executives?
- Is the company interested in using current cash flow to finance the plan or as a contribution to the plan? If so, should the amount be:
  - Discretionary and flexible, based on what the company can afford?
  - Linked to the amount the executive contributes?
  - Tied to a defined income replacement objective?

The answers to these questions can help you decide which plan structures and features are right for your organization. Each plan design has different cost, accounting and administrative issues that should be factored into the final benefit plan structure.

The Five-step Process

Making a decision about executive retirement benefits is more complex than just choosing a plan; it involves considering specific plan features, financing alternatives, administration, implementation and other factors. To make it easier, NFP Executive Benefits developed a five-step process to help you construct a comprehensive solution, along with resources that facilitate online benefit plan enrollment and ongoing administration. We are available to guide you through the process.

STEP 1 Select a Plan Type

- Executive Bonus Plan (EBP)
- Deferred Compensation Plan (DCP)
- Supplemental Executive Retirement Plan (SERP)

STEP 2 Choose Specific Plan Features and Options

STEP 3 Review Informal Financing Options

- Executive life insurance plans
- Executive retirement plans

STEP 4 Contract Plan Administration Services

- Simple, convenient and cost-effective

STEP 5 Plan Implementation

- Communicate the plan to key executives
- Enroll executives in the plan
- Apply for life insurance policies

STEP 1 – Select a Plan Type

Generally speaking, deferred compensation plans, supplemental retirement plans and executive bonus plans are nonqualified executive benefit plans specifically designed for a select group of highly compensated executives. All plan types we offer involve the purchase of life insurance. The insurance can be owned by the key executives or owned by the company as the informal financing vehicle of the plan benefits. The following chart gives a brief overview of each plan type.

	Executive Life Insurance Plan	Executive Retirement Benefit Plans	
Type of Plan	**Executive Bonus Plan with Restricted Endorsement (EBP)**	**Deferred Compensation Plan (DCP)**	**Supplemental Executive Retirement Plan (SERP)**
General Overview	› The company pays the annual premium on a life insurance policy owned by the key executive › The amount of the premiums are treated as bonus compensation and taxed accordingly › Optional tax-advantaged savings opportunity for the key executive › A restrictive endorsement limits certain key executive policy ownership rights for a specified period of time, creating a retention incentive	› Tax-advantaged savings opportunity for the key executive - Key executive defers current income on a pre-tax basis - Earnings accrue on a tax-deferred basis - Taxes are deferred until benefits are received › The company can elect to provide a percentage match or additional contribution	› The company agrees to provide supplemental retirement income benefits for the key executive - Can be structured as a "defined benefit" or a "defined contribution" plan
Suitable For	› Employers with 25+ employees › Small/private C corporations › Key executives of mid- to large S corporations with good succession planning in place › Key executives who would appreciate additional permanent life insurance coverage and the optional savings opportunity › Businesses and/or executives that may be more sensitive to benefit security	› Employers with 75+ employees › Businesses with stable incomes and good business succession and continuation plans in place › Small/private C corporations (owners and key executives) › Non-owner key executives of mid- to large S corporations with good succession planning in place › Employers with executives who want to make pre-tax salary deferral contributions - Offers executives some of the same savings opportunities as traditional 401(k) plans	› Employers with 75+ employees › Businesses with stable incomes and good business succession and continuation plans in place › Small/private C corporations (owners and key executives) › Non-owner key executives of mid- to large S corporations with good succession planning in place › Employers with executives who will experience a retirement income shortfall from qualified plans due to the IRS caps
Factors to Consider	› Uses company dollars › Generally, inexpensive to establish and maintain › Generally, no ERISA reporting requirements › Premium payments (corporate cash flows) are deductible as compensation expense › Attractive executive benefit plan alternative for pass-through entities	› Uses key executive dollars and/or employer dollars - Opportunity for company to contribute › Generally, more expensive to establish and maintain › Limited ERISA reporting required › Company must accrue benefit liability › Generally, less cash flow requirements to informally finance (compared to a SERP) › Immediate plan financing with corporate-owned life insurance › Informal financing costs (insurance premiums) are not deductible › Pass-through entities — Executive deferrals would be taxable to the business owner(s)	› Uses company dollars › Generally, inexpensive to establish and maintain › Limited ERISA reporting required › Company must accrue benefit liability › Generally, more cash flow requirements to informally finance (compared to a DCP) › Immediate plan financing with corporate-owned life insurance › Informal financing costs (insurance premiums) are not deductible

Step 2 – Choose Specific Plan Features and Options

There is flexibility in the design of a benefit program. The chart below lists some of the different options for each plan type.

	Executive Life Insurance Plan	Executive Retirement Benefit Plans	
Type of Plan	**Executive Bonus Plan With Restricted Endorsement**	**Deferred Compensation Plan**	**Supplemental Executive Retirement Plan**
Options	Company annual premium outlay » Flat amount based on a stated executive death benefit amount » Flat amount as determined by the company » Percent of executive salary Company compensation bonus amount » Bonus the annual premium » Bonus annual premium plus "gross up" for income tax on the bonus Restrictive endorsement » Schedule for vesting (removal of endorsement)	Compensation allowed to be deferred » Salary » Salary and bonus Amount of executive deferrals allowed » Uncapped percentage amount Company contribution or match » Percent of executive contribution » Flat annual dollar amount	Defined benefit structure » Determine amount of benefit - Flat amount - Percent of final pay » Determine number of years to pay benefit Defined contribution structure » Determine amount of annual contribution - Flat amount - Percent of salary or total compensation » Determine method of calculating investment return » Determine number of years to pay benefit

Step 3 – Review Informal Financing Options

Executive Life Insurance Plans

Executive Bonus Plan

The annual amount treated as a compensation bonus to the key executive may be deducted as a compensation expense. Therefore the financial impact is the after-tax annual life insurance premium, plus the additional bonus (if any) paid to the executive to cover his/her taxes.

Executive Retirement Plans

Deferred Compensation Plans and Supplemental Executive Retirement Plans

A nonqualified plan is merely an agreement between the key executive and the company to pay future benefits. Under current tax law, nonqualified plans must remain unfunded to avoid the restrictive requirements of a qualified plan and to effectively defer taxation. However, an informal financing strategy can help companies offset the costs of the plans, provide a source of funds to pay plan benefits and offer some level of benefit security.

Popular Financing Strategies

Unfunded, "pay-as-you-go" approach

The company does not set aside any current assets to informally finance plan benefits. Payments are made when due from operating cash flow. Although this frees up cash over the short term, there are some significant long-term drawbacks, including:

» No identifiable source of funds to pay benefits.

» Strain on future cash flow for successor management.

» Key executives may feel less secure that the company will be able to meet its benefit obligations.

Despite favorable early cash flows compared to other alternatives, pay-as-you-go is typically the most costly approach.

Mutual Fund (Taxable Investments) Financing

The mutual fund approach is similar to qualified plan financing except that the capital gains, dividends and interest earned are all taxable to the company.

Corporate-owned Life Insurance (COLI) Financing

COLI is life insurance purchased on the lives of consenting key executives and owned by the company. Because life insurance offers tax-deferred cash value growth and tax-free death benefits, COLI is considered the most popular vehicle for financing nonqualified plan benefit liabilities.[1]

Step 4 – Contract Plan Administration Services

» Simple, convenient and cost effective services

Plan Administration

Together with NFP Executive Benefits, we will help your company sort through plan administration and record keeping responsibilities.

The cost of plan administration will depend on the particular plan and plan design. In our opinion, many companies feel their business or tax accountant can effectively administer their plan, and in some cases that may be true — particularly for the Executive Life Insurance Plan, where the administrative requirements are often less complex. However, in many cases you may need administration access provided in the NFP Executive Benefits platform.

Through NFP Executive Benefits, we offer access to the following services and benefits:

» Prototype documents (e.g., plan documents, board resolutions)

» Compliance monitoring

» Preparation of Form 5500 filings (if necessary)

» Online access for plan sponsor accounting and record keeping

» Online access for participant account balances

Step 5 – Plan Implementation

» Communicate the plan to key executives

» Enroll executives in the plan

» Acquisition of life insurance

We can help you structure a benefit plan that will address your company's objectives and concerns. An executive benefit plan does not have to be complicated to be effective. The three plan types previously discussed offer meaningful benefits and plan features in as simple a plan design as possible.

Developing an effective plan design is only the first step. To encourage participation and to obtain the full benefit of the program, it must be communicated effectively. Without effective communication, even the best plan will not be fully utilized.

The Power of NFP Executive Benefits

Communication and Plan Enrollment

NFP Executive Benefits provides effective tools for communicating with your company's key executives and giving them the information they need to understand, value and participate in the your company's executive benefits plan.

Using state-of-the art Internet-based technology, NFP Executive Benefits is able to facilitate the communication and implementation process of your company's plan. NFP Executive Benefits empowers your key executives to learn about the critical plan benefits and features, and to complete the necessary forms to enroll in the plan online.

In today's competitive market, recruiting and retaining top talent is more challenging than ever. An executive benefits package that adequately compensates your company's top executives and helps keep them from looking for a position elsewhere could be essential to your company's success.

FOOTNOTES

[1] Source: "2007 Clark Consulting Executive Benefits – A Survey of Current Trends"

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