T-Mail

Navigating the Executive Benefits Landscape
with The Todd Organization

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Contemporary Plan Considerations

A number of factors are making it more important than ever for companies to review their non-qualified retirement plan designs and to make sure that they are properly structured to cost effectively retain and attract quality executives.

Plans are increasingly important due to:

- Higher tax rates
- The increasing number of baby-boomer executives within a decade of retirement
- The strengthening economy and related recruitment challenges.

Signs of Potentially Poorly Designed Plan

While each plan should be customized and periodically reviewed to ensure it is accomplishing its stated mission, there are a number of red flags which can indicate a plan either is being poorly communicated to executives, needs to be re-designed, or both. These include the following.

<u>Low and declining participation rates</u> – Plans which have less than 30 percent of eligible executives participating in them, or have experienced significant declines in executive participation over the past few years, may need to be revamped.

<u>Low deferral amounts</u> – Plans which have low deferral amounts, either as a percent of total current compensation or expected future retirement income, may also need attention.

<u>Administratively burdensome and confusing</u> – In recent years, executive retirement plans have become much easier for many companies to handle administratively as plan providers adopt sophisticated and efficient systems to serve both plan participants and sponsors. Companies which find executive benefit plans challenging with respect to issues like tax preparation, how these plans are "synced" with qualified plan offerings, and how the plans are viewed by the executive population may want to assess changes.

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Overly restrictive distribution options – In addition to accessing the significant amount of deferral contributions during retirement, either via a lump sum or multi-year distribution, many executives may need to access these funds sooner. The reasons include college educations, care of elderly parents, and a number of emergencies that could potentially arise. Plans which lack sufficient distribution flexibility often have lower participation.

Important Aspects of Plan Design

Today, there are typically several steps that companies take when implementing a new plan or improving upon an existing one, including the following.

Peer and competitor analysis -- By benchmarking a plan to those offered by a defined set of peers and competitors, companies can both demonstrate the value of the plan to executives and to the Board of Directors, which usually wants to approve or periodically review plans.

A Competitive Investment Menu - Investments offered should provide the ability for participants to properly diversify and should include risk-based model portfolios for those that want assistance. While plan sponsors are not fiduciaries to these plans in the same way as they are to their qualified plan, similar attention should be paid to the investment menu as a matter of "best-practice."

Maximum Plan Flexibility—Current administrative platforms include an account based structure rather than a class year. An account based structure allows the participant to establish more than one account and designate them for life events. Clearly retirement is a life event that is shared by all; however, additional accounts can be established for college education of children or retiring a mortgage early. This multiple account structure makes the deferred compensation plan more relevant to a broader group of executives.

Improved Communication—An effective communication strategy may involve electronic enrollment information, webcasts, on-site meetings, or recorded enrollments for electronic distribution. The objective should be to explain how the plan can enhance financial security but also clearly explain the unsecured nature of non-qualified plan balances.

Clearly defined and understood vesting provisions – Companies have a wide variety of alternatives for structuring plans so that they reward executives who meet defined financial performance goals and who stay with the company for a targeted period of time. Such strategies can be very helpful in promoting executive retention and minimizing turnover and recruiting costs.

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