T-MAIL

Navigating the Executive Benefits Landscape
with The Todd Organization

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Deferrals, Distributions and Cash-Flow Management

THE EARLY PART OF THE YEAR is when companies can best evaluate what the deferrals and distributions are going to be with deferred compensation plans, and the optimal ways to manage this from a cash-flow standpoint. Through planning, analysis, and related actions, the accounting and treasury departments can effectively match assets to liabilities, ensuring a usually positive and smooth cash flow, while budgeting accordingly.

Avoiding Unnecessary Difficulties

On the other hand, failure to plan and take action can cause unnecessary and even embarrassing problems. Who wants to have to explain in the middle of a challenging quarter why more funds are needed for executives?

The cash flow structure and requirements of non-qualified deferred compensation plans are usually significantly more complicated than for qualified plans. As such, treasury, finance, and accounting professionals need to effectively manage the plan. This involves being ready for scheduled distributions and/or key employee retirements and terminations.

In sum, the funding strategy needs to be in sync with the program's stated goals and administrative requirements.

Key Items to Address

In conducting a 12-24 month prospective analysis of cash flow needs for non-qualified deferred compensation plans, there are several key factors to assess. This includes:

- Ongoing deferrals from salary
- Bonus deferrals (which are often paid in March)
- Directors' fees deferrals
- Respective deposits to trusts, insurance premium purchases, and/or other investment allocations

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- Trust earnings, i.e., increase in valuations
- Ongoing distributions for retirement, college education funding, and other purposes
- Additional, planned scheduled distributions
- Potential additional distributions pertaining to key employees whose service to the company unexpectedly ends
- Hardship distributions

For the above and other reasons, the cash management issues with non-qualified deferred compensation plans are more complex than managing qualified plan deferrals and should be managed accordingly.

Importance to Executives

Non-qualified deferred compensation plans represent a much higher portion of deferrals for many key executives than qualified plans. Plan distributions are also available for purposes other than retirement. These include college education, a second home purchase, mortgage payoff, weddings, a long-term sabbatical, or other personal objectives and goals. As such, cash flow issues can be overwhelming and costly if approached on an unplanned, *ad hoc* basis.

The Todd Organization's expertise on active cash-flow management enables clients to better understand the cash flow impact that their plans have and to do effective cash-flow planning throughout the year. Clients can better understand both the deferrals going into the plan and the scheduled distributions, both in-service and retirement.

For additional information, please contact your Todd consultant, or visit our website at www.toddorg.com.

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