

## Nonqualified Benefit Overview: SERP versus Executive Bonus Life Plan

Criteria	Supplemental Executive Retirement Plan (SERP)	Executive Bonus Life Plan
Employer Strategy	Recruit, reward and retain key employees	Recruit, reward and retain key employees
Benefit Focus	Supplemental retirement income; pre-retirement death benefit also often provided	Pre-retirement life insurance; employee may use policy cash value to supplement retirement income
Benefit Security	Benefits are at risk if the employer becomes insolvent	Benefits are secured against employer's insolvency because the employee owns the policy
Employee Income Taxation	Employee is generally not taxed until benefits are received	Employee is taxed currently on contribution but employer can provide "gross up" to cover taxes
Employee Contributions	Plan can be designed to also allow for voluntary employee pre-tax contributions	Employee contributions, if any, are after-tax
Participant Selection	Employer can select participants; restricted to "top-hat" group	Employer can select participants; not restricted to "top-hat" group
Accounting	Employer records benefit obligation as a liability	Bonus recorded as current compensation expense
Employer Tax Deduction	Employer generally deducts benefit at time of benefit payment (usually retirement)	Employer currently deducts bonus to employee (if reasonable compensation)
Investment Risk	Employer bears the risk in defined benefit, employee bears risk in defined contribution plan	Investment risk is shifted to the employee, who owns and controls the policy
Benefit Restrictions	Employer has a broad range of restriction and forfeiture options for the plan	Employer may restrict the employee's pre-retirement access to cash values
Plan Document	Detailed plan document required	Simple plan document required
Plan Administration	Moderately simple to establish, communicate and maintain	Simple to establish, communicate and maintain
Plan Administration Service Fees	Fees for set up, record keeping and enrollment	Fees for set-up, record keeping and enrollment

Nonqualified executive benefit plans can be designed in many ways, depending upon the desired objectives. This piece compares selected features of two commonly used plans. It is recognized that there can be many variations of these plan designs. The parties involved must always rely upon the counsel of their own legal, tax and accounting advisors.