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Navigating the Executive Benefits Landscape
with The Todd Organization

Deferred Compensation is Shareholder Friendly

With investor and shareholder activists regularly scrutinizing executive compensation, one of the provisions generally standing up quite well under this microscope is non-qualified deferred compensation.

While there are many features, designs, and provisions of such plans, deferred compensation has several inherent characteristics that make it acceptable and even attractive to shareholders and shareholder activists. Deferred compensation is widely used at large and mid-size companies in all major industries.

First, deferred compensation is by definition “deferred” meaning that it will be paid out in retirement or at some future date(s). As such, there is an incentive for management to focus on running the company for the long-term, rather than strictly focusing on the next quarter. Deferred compensation ensures that executives have an important incentive to undertake prudent, long-term risk when managing a company and not to go for overly risky, or financially cannibalizing short-term gains.

Simply put, if a company goes into bankruptcy, non-qualified deferred compensation is likely to be lost as it will be subject to the claims of creditors. Executives need to live with the risk decisions they make.

Deferred compensation, therefore, is a *de facto* vote of confidence in the business. If the contribution is purely elective by the executive, this shows the participant has confidence in the company’s current and future financial condition. In cases where there is a company contribution, this satisfies the dual objectives of rewarding performance while creating incentive for management to continue to make reasonable risk-management decisions.

For investors, corporate contributions create a synthetic form of equity. The executive’s performance is tied to corporate performance, but there is not going to be an impact on shares outstanding. Furthermore, in the event a company ever needs to undertake a “clawback” of executive compensation, shareholder activists generally recognize this will be easier with deferred compensation (which is already typically subject to the claims of creditors) than with stock options or cash compensation that has already been paid.

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Deferred Compensation is Shareholder Friendly…cont'd

As companies look to retain high quality employees who maximize shareholder value, non-qualified deferred compensation programs, stock options, and restricted stock will all be important. By reviewing plan provisions and integrating executive compensation practices accordingly, both shareholders and executives will be well served.

The Todd Organization has numerous experts available to help companies review, evaluate, and implement optimal non-qualified retirement plans. For more information about these programs, please contact your Todd consultant.

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