



Fixed-Rate Executive Benefit Plans: Consistently Appealing

WHETHER IN GOOD ECONOMIC TIMES OR BAD, bull or bear markets, a central component of retirement planning is having stable, high-quality, fixed-rate investments that will consistently generate income and facilitate asset growth.

Assessing the Choices

The appropriate balance between equity, fixed rate, and other assets in a portfolio depends on many factors. For executives, fixed-rate retirement assets can be particularly important. If the executive has a large amount of stock options and/or corporate stock holdings, for example, it may be strategically imperative to balance these with larger amounts of fixed-income investments.

Recently, the volatility and poor performance in the stock market has increased interest in fixed-rate executive benefit plans. In fact, major stock indices have been effectively flat or down the past 10 years.

Fixed-Rate Solutions

Many clients of The Todd Organization have addressed the current challenges by implementing fixed-rate alternatives in their nonqualified retirement plans, with annualized fixed returns to their participants above 5.0 percent. The pre-determined investment gain and cost certainty benefits both executives and plan providers.

With a fixed-rate option, the company annually determines the rate to be applied to all fixed-rate account balances. Plans can be structured such that participants are eligible to allocate their salary and/or bonuses into this retirement vehicle, as well as to reallocate all or a portion of their current deferred compensation account balances to this option.

Implementation

The company assumes the obligation for payment of the deferred compensation. With government bond yields at historic lows, many are informally financing this liability to participants using a high quality, traditional life insurance asset that the company owns and controls. The predictable, stable nature of the life insurance asset efficiently offsets the fixed-rate liability.

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The Todd fixed-rate option can be layered into an existing plan as an enhancement or current investment option, with services coordinated with the current plan administrator. Alternatively, it can be offered as a stand-alone plan.

Looking Ahead

Whether equity prices continue to stagnate, decline further, or even undergo a strong recovery, fixed-income investments can and should remain an integral part of executives' retirement planning. In fact, even when equities grow in value, there should be an increase in fixed-income investments as the larger overall value of the portfolio will need re-balancing to align once again with its original strategic design.

By making sure that fixed-rate instruments are being used sufficiently and assessing the best alternatives, companies can cost effectively provide executive benefits that will retain and attract high quality executives.

The Todd Organization has numerous experts available to help companies institute and refine fixed-rate executive benefit plans. For more information about these programs, please contact your Todd consultant.



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