benefitRFP

Simplifying Executive Benefits

benefitRFP
Executive Benefits
Better Process, Better Results

Mission

Create and Refine Top Performing Cultures for Leading Companies

HUMAN RESOURCES
DEFINING
COMPANY CULTURE
INTERVIEWING
Worker's Comp
Wellness
Policy Guidelines
Corporate Communication
NON-DISCRIMINATION
LABOR RELATIONS
Annual Enrollments
COVERAGE TESTING
PLAN DESIGN
BENEFIT ADMIN
HEALTH WELLNESS
RETENTION
RISK MANAGEMENT
VENDOR RELATIONSHIPS
EMPLOYEE TRAINING
COMPENSATION
EXECUTIVE BENEFITS
PAYROLL
TURNOVER
PLAN IMPLEMENTATION
Recruiting
CONTRACT DEVELOPMENT
PROCESS IMPROVEMENT
TEAM BUILDING
Leadership Training
RETIREMENT PROGRAMMING
TAX SHELTERING
REWARDING


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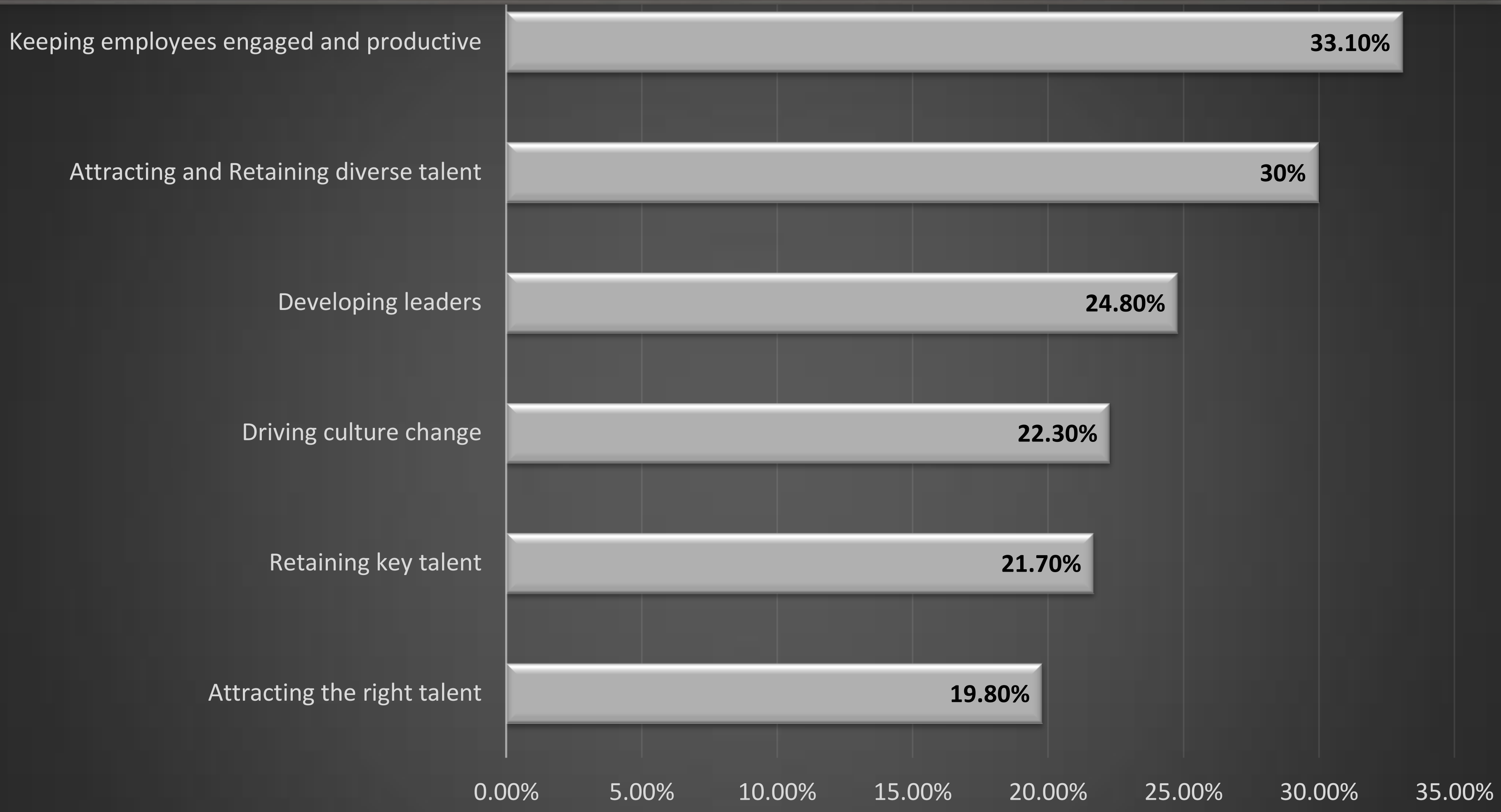
Greatest HR Organizational Challenges*



67% of companies are very to extremely worried about losing talent in the next 12 months

**HR Executive, April 2016*

Hidden HR Costs & Concerns

Comprehensive Turnover Costs

- Exit costs
- Recruiting
  - Interviewing
  - Hiring
- Orientation
  - Training
- Compensation & benefits while training

- Lost productivity
  - Customer dissatisfaction
  - Reduced or lost business
- Administrative costs
- Lost expertise
- Temporary workers

Still don't believe retention benefits are valuable?

Recent Harvard Business Review
quote from a leading CEO

"Why should I train people when my competitors are willing to do it for me?"

Executive Pay Gaps Between Private and Public Companies

< $200M	***2%***	
$200M - $1B	***14%***	
> $1B	***44%***	***…more room for equity pay***

Nearly all Public companies provide long-term incentives vs. half of all Private companies

…so, how can you determine what's best for your company?

Challenge

Most CEO's rank human capital as their #1 concern yet undervalue the HR role

Top company HR officers have a strategic relationship with the CEO
Intimately tied into the development of company culture

So, where's the disconnect?

Using Technology to eliminate confusion and improve the results

- ***Better alignment between benefit plans features and participant needs***
- ***Greater net distributions while reducing company cost***
- ***Reduced risks such as tax and investment***

Does the topic of Executive Benefits cause Anxiety or Confusion?

You are not alone

In a recent Fortune 1000 World at Work survey:

3% **of administrative teams stated they were 100% competent on the subject**

58% **they could fake their way through the subject matter – 70% competent**

39% **had no idea why they were pushed into the role – 50% or less competent**

Utilizing Technology to maximize Key Talent Benefits

– *Engineering & Empowering Your Company Culture*

Recruiting, Rewarding and Retaining Employees

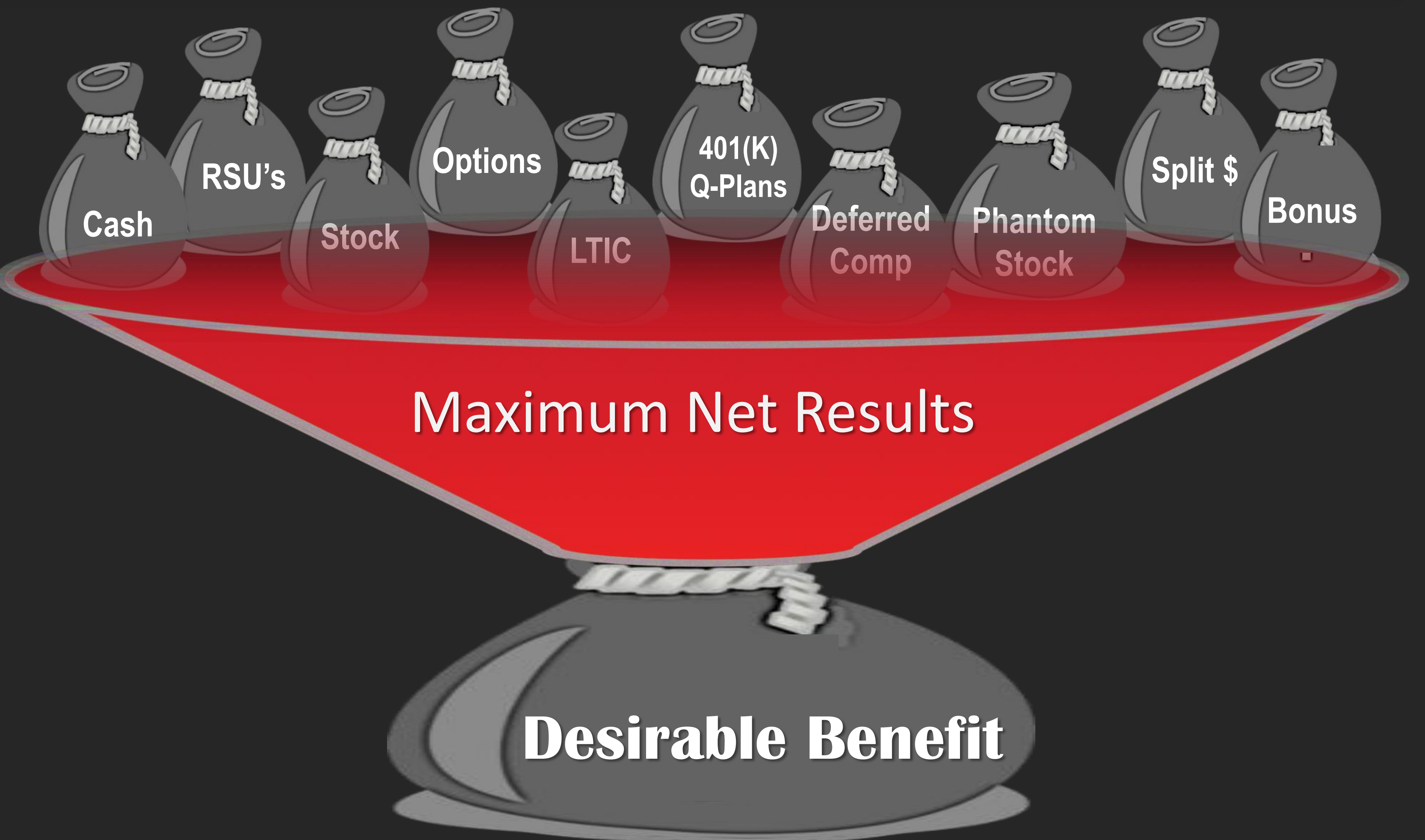
The Value of Our Employees

What does it mean to be a top earner within a company?

Highly Compensated Employee (HCE)*

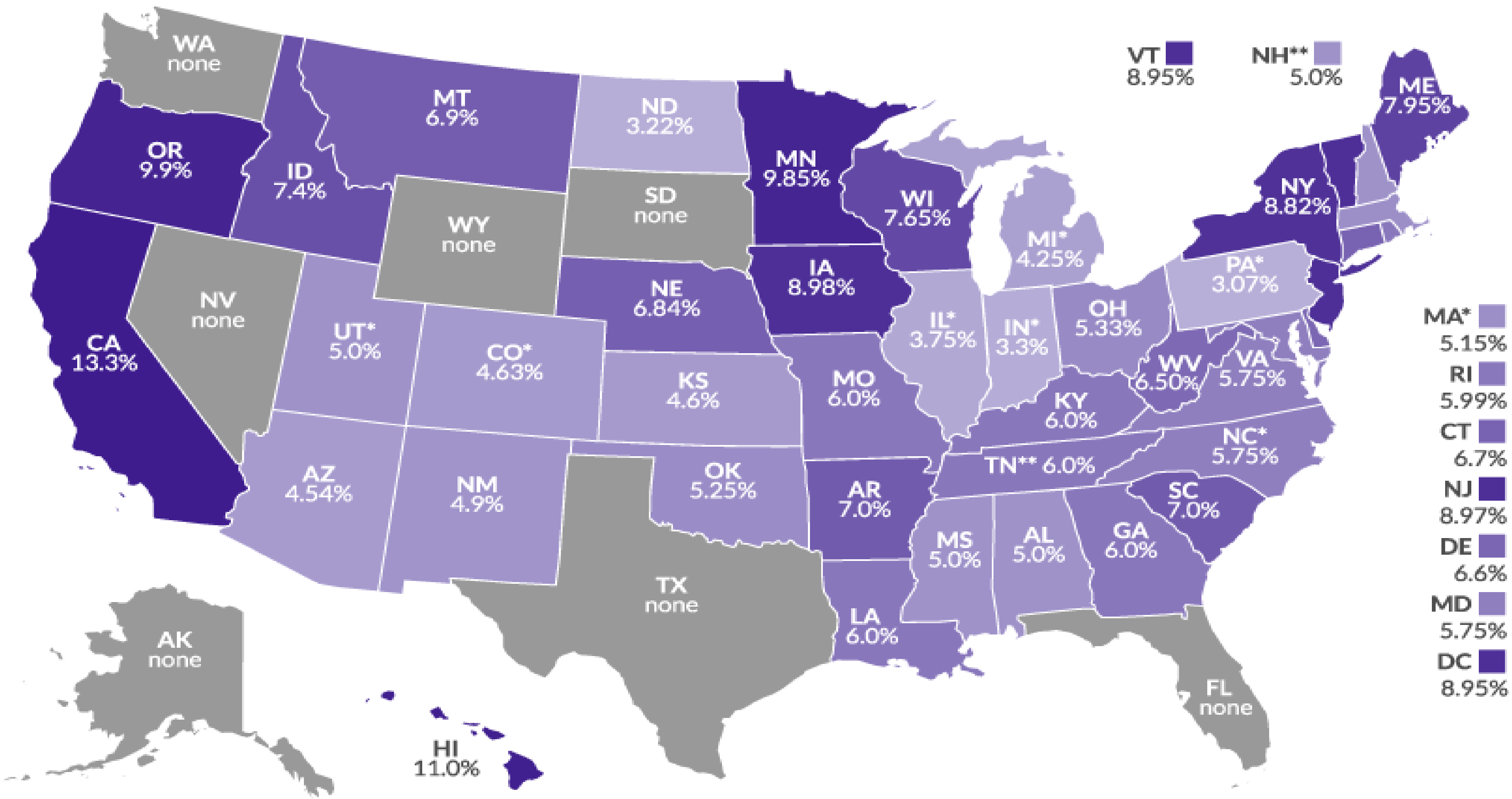
***** The government definition of an HCE is a person earning $120,000+ per year, but what do these people mean to your business?***

What do all of these Executive Benefits have in common?



Tax Rates are not equal for everyone

Top State Marginal Individual Income Tax Rates in 2015 (as of Apr 15, 2015)



Note: Map shows top marginal rates: the maximum statutory rate in each state. It represents the statutory tax rate on the last dollar of income earned for the highest income individuals in that state. It is not an effective marginal tax rate, which would include the effects of phase-outs of various tax preferences. Local income taxes are not included.

Source: State tax forms and instructions; *Facts & Figures 2015: How Does Your State Compare?*

Top Marginal Individual Income Tax Rate

Lower Rate — Higher Rate

* State has a flat income tax

** State also only taxes interest and dividends income

Reduce or Eliminate…

Agent Risk

- Most agents and consultants lack the necessary skills and training to provide proper consultation with corporate planning
- This creates risk against greatest net results for the company and participants.

Tax Risk

- $1 doubled each year for 20 years = $1M+
- That same equation with a 40% tax added = $12,089

Net Results

- Irrespective of cash or equity benefits, companies are offering greater plan flexibilities to participants to enable them to align distributions with personal goals
- This greatly reduces negative impacts such as taxes or limited diversification.

The 3 Phases of Proper Investing

Did you know?

- Phase 1 – Pre-tax, pre-tax, pre-tax
- Phase 2 – Repositioning 3-4 years prior to event
- Phase 3 – Maximized Net Distributions

The Retirement Income Gap

Qualified Plans such as 401(k) and Social Security cause a gap in retirement savings due to:

- Contribution limits
- Testing limits
- Low qualified plan participation
- Mismatched benefit payout timing with limited or no diversification opportunities

Participant Benefits

- Defer up to 100% of current and future compensation and benefit values on a pre-tax basis
    - Equity or Cash
- Use pre-tax dollars to plan and save efficiently for financial goals and events
- Earn a rate of return on pre-tax incomes
- Reduce or eliminate taxes at distribution
    - Source tax rule
    - No 3.8% ACA tax
    - DOL 92-6
- Participate in attractive corp contributions

It's not just what you earn, but what you keep!

Rules High Earners Need To Live By

- IRS 410b carve out
- DOL Rule 92-6 Prohibited Transaction Exemption
- Source Tax – Title 4 US Code 4, Section 114 – State taxes are determined by state of residency at distribution
- 409A – Wrap Equity, Phantom, Cash and LTIP plans to enable participants to take vested distributions that match their financial needs and goals for greater tax efficiencies

Pre-Questionnaire benefitDIAGNOSTIC

Company Size
- *Number of employees*

Incentive Cash Bonus
- *Does your company provide Incentive Cash Bonuses?*

Long Term Incentive Bonus
- *Does your company provide Long Term Incentive Bonuses?*
- *How long is the vesting period?*

401(k) Plan
- *Does your company provide a 401(k) plan?*
- *Is there a match?*
- *Formula:*
- *Vesting period*

Group Disability
- *Does your company provide Group Disability Insurance?*
- *What is the annual limit on payouts?*
- *What is the monthly payout limit?*
- *Does the plan cover incentive compensation such as bonuses?*

Group Life
- *Does your company provide Group Life Insurance?*
- *What is the salary coverage multiplier? (1x, 2x, 3x, 4x, 5x, other)*
- *Coverage limit?*

NQDC
- *Does your company provide a Nonqualified Deferred Compensation Plan?*
- *Company match?*
- *Vesting period?*

Executive Supplemental Disability
- *Does your company provide Supplemental Disability Insurance?*
- *What is the annual limit on payouts?*
- *What is the monthly payout limit?*
- *Does the plan cover incentive compensation such as bonuses?*

Executive Supplemental Life
- *Does your company provide Supplemental Life Insurance?*
- *Does your company provide Group Life Insurance?*
- *What is the salary coverage multiplier? (1x, 2x, 3x, 4x, 5x, other)*
- *Coverage limit?*

Long Term Care
- *Does your company provide Executive Long Term Care Insurance?*

Cash Value Life
- *Does your company provide a Cash Value Life Insurance Program?*

Equity Incentive
- *Does your company provide an Equity Incentive Plan?*
    - *RSU*
    - *Options*
    - *Phantom stock*
    - *Other*
- *Vesting period?*

Summary Results

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Summary Results

	Age/Salary		
	46 to 49 $550,000	46 to 49 $215,000	46 to 49 $175,000
Employee Retirement	🔥	🔥	🔥
Company Retirement	🔥	🔥	🔥
Long Term Disability Insurance	🔥	🔥	🔥
Non-Qualified Deferred Comp	🔥	🔥	🔥
Defined Contribution Supplemental Executive Retirement Plan	🔥	🔥	🔥
Defined Benefit Supplemental Executive Retirement	🔥	🔥	🔥
Equity Incentive Plan	✅	✅	✅
Life Insurance	⚠️	✅	✅
Cash Value Life Insurance	🔥	🔥	🔥
Executive Long Term Care Insurance	🔥	🔥	🔥
Long Term Incentive	⚠️	⚠️	⚠️

Recommendations

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What We Recommend

Executive Name,

Thank you again for taking the time to review the benefitDIAGNOSTIC. Due to US tax laws, ERISA limitations and other regulations, Top Paid Key Executives are often limited in the amount that they can save on a pre-taxed basis. Furthermore, the complexities of benefit plan offerings to key executives, discussions involving equity, tax minimization, "special perks", etc… can make benefit planning a difficult and expensive task. Missing the mark and designing a poorly structured plan generally creates chaos and turnover amongst the higher ranks and ultimately leaves the company in a worst position.

Qualified plans are useful up to their ERISA limits, but do not sufficiently separate your company from the competition and can hinder your highly compensated executives abilities to properly save enough for retirement. As a result, these plans inadvertently limit the company from providing an efficient way to recruit, retain and reward top talent.

To offset qualified plan limitations, some companies pay discretionary cash bonuses. However, cash bonuses are the single most expensive form of compensation that an employee can receive due to taxes and timing disadvantages. Also, these cash bonuses eliminate company retention opportunities, reduce the values associated with performance compensation and do not tie the participants into the overall performance of the corporate values as they increase over time. The company suffers further as the corporate asset values are reduced, thus lowering the companies value in the eyes of investors and creditors.

Finally, plans such as deferral plans or defined contribution plans can be used very effectively as retention plans. For example, in regards to vesting, participants must meet a vesting period prior to taking distributions. Participants may also leave these vested dollars in their plans until they want to take it out. This enables these participants to delay tax impacts, diversify their investments and tie the payouts to specific personal financial goals.

As we address your primary concerns, we want to utilize the "best effects" of all of the plans listed above into one plan and make these benefits part of both their short-term and long-term offerings. We also want to present a clear message that these benefit offerings are not defined as a "handout," but rather a partnership between the company and these key employees.

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What We Recommend

As part of our ongoing discussions, we want to concentrate on these measures:

1. *Addressing Executive Retention :* Your primary goal is to retain the executive team. One reason is to manage the company's aggressive targeted sales growth rate of 20% per year.

You mentioned that you do not have any equity incentives in place such as RSU's, Options and Phantom Stock. 409A plan benefits can be designed to mirror corporate equity in private companies without paying out or redeeming actual equity. Your plan can do this by tying participant performance to company performance. Vesting should mirror stock or option holding periods for maximum retention.

We recommend implementing a 409A plan with equity incentives as this will enable your company to tie company performance to participant compensation and vesting periods. As a result, participants will be able to manage payouts to match individual financial goals as well as reduce tax costs without increasing plan costs for the company. This methodology will improve current equity plan benefits for the participants and will also improve company retention into the future.

2. *Addressing the Tax-Effect :* Having the capabilities and deferral vehicles to reduce the tax effect.

We recommend setting up a deferral plan for your highly compensated employees that mirrors your 401K while enabling the top hat group to defer at the same percentage levels as all employees. There are ERISA limits and restrictions with your qualified plan which limits the top paid employees from saving enough pre-tax earnings. We would also like to introduce "In-Service" accounts under 409A regulations where by your HCE's can set their own distribution dates post vesting, thus avoiding the large tax hits experienced with a qualified account.

3. *Providing a Supplemental Executive Retirement Plan*

Implementing a Supplemental Executive Retirement Plan (SERP) communicates a commitment to your key employees. The SERP can provide plan flexibilities thru a vesting schedule or tying plan benefits to tenure, which ultimately aligns the company and individual goals for long-term success. With the company shifting to a Safe Harbor 401(k) plan and eliminating the matching component of the NQDC, many of the Highly Compensated Earners (HCE's) within the company, including the Senior Executives, have discontinued or reduced use of that plan. That in turn creates a retirement gap as most of the top earners in the company cannot get to a 70% income replacement ratio through the 401(k) plan alone. Installation of a SERP for the Senior Executives would benefit both the organization and individuals.

3. *Attracting Executives:* Having a plan in place that makes executive recruiting much easier for future growth.

We will make plan feature recommendations which will assist with the recruiting and hiring process utilizing some of the same plan designs listed above to help tie your top executives to the Lumbee company. Part of this process will include the participant Concierge Program which has been extremely successful in helping participants meet their financial goals and further their relationship between themselves and the company. The Concierge Program enables them to see plan values as well as providing a complete understanding of all plan facets, future retirement values and any potential financial shortfalls or gaps that may exist.

Summary Results benefitDIAGNOSTIC

Summary Results After Plan Implementation

	Age/Salary		
	46 to 49 $550,000	46 to 49 $215,000	46 to 49 $175,000
Employee Retirement	✓	✓	✓
Company Retirement	✓	✓	✓
Long Term Disability Insurance	✓	✓	✓
Non-Qualified Deferred Comp	✓	✓	✓
Defined Contribution Supplemental Executive Retirement Plan	✓	✓	✓
Defined Benefit Supplemental Executive Retirement	🔥	🔥	🔥
Equity Incentive Plan	✓	✓	✓
Life Insurance	⚠	✓	✓
Cash Value Life Insurance	🔥	🔥	🔥
Executive Long Term Care Insurance	🔥	🔥	🔥
Long Term Incentive	✓	✓	✓

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- No more “guessing” if your plan(s) are the correct plan(s). Pinpoint your “perfect” plan(s).

planBUILDER

- Building the specific benefits for your “perfect” plan(s).

benefitFUNDING

- Utilize technology to compare over 250 points of reference to best fund your plan(s).

benefitCONCIERGE

Tying it all together.

Concierge Report Executive Participant

Retirement

Step 1: Using the assumptions below we first find your retirement balance goal.

Retirement Assumptions		* Dark Grey Fields can be changed					
Current Age	45	Inflation Rate	3%	Work Years Remaining	20	Final Salary	$ 406,375
Retirement Age	65	Pre-Retirement Interest Rate	7%	Retirement Years	20	Retirement Income Goal	$ 227,570
Current Income	$ 225,000	Post-Retirement Interest Rate	4%			Retirement Balance Goal	$ 3,216,461

Step 2: Based on your account balances, we then find your total retirement age value.

Retirement Accounts	GOAL	CURRENT RETIREMENT BALANCE (EE & ER)	ER Contribution	EE Contribution	VESTED VALUE	RETIREMENT AGE VALUE
401k or other Qualified Plan		$70,500	$0	$0	$0	$272,813
Deferred Comp		$95,000	$0	$0	$0	$367,620
IRA		$34,000	$0	$0	$0	$131,569
Other		$43,000	$0	$0	$0	$166,396
TOTAL	$3,216,461	$242,500	$0	$0	$0	$938,398

(Future goals based on current contributions, assuming pre-retirement interest rate)

(Income Replaced based on current contributions, assuming post-retirement interest rate)

Step 3: View your results and find out your retirement shortfall number and how much you need to contribute per year to bridge the retirement gap.

1. Income Replaced	$66,393
2. Percentage Replaced	16%
3. Retirement Shortfall	($2,278,062)
4. Additional Contributions Needed per year	$51,933

Life Insurance

Step 4: Review your Life Insurance plan and find out how to bridge the Life Insurance gap.

	GOAL	ACTUAL	EXCESS / SHORTFALL	
ASSUMING 8 X INCOME	$1,800,000			
COMPANY SPONSORED LIFE INSURANCE		$225,000		
PERSONAL LIFE INSURANCE		$1,000,000		
TOTAL	$1,800,000	$1,225,000	($575,000.00)	SHORTFALL

Disability Insurance

Step 5: Review your Disability Insurance plan and evaluate your coverage.

	GOAL	ACTUAL	EXCESS / SHORTFALL	
PERCENT OF INCOME TO BE REPLACED	60%	49%		
DISABILITY INSURANCE	$135,000	$110,000	Group Coverage shortfall	
TOTAL	$135,000	$110,000	($25,000.00)	SHORTFALL

Consider ALL options before finalizing a plan

- All of the plans listed offer different opportunities for the sponsoring companies and participants. Most plans are not properly understood by the participants and/or the companies & end up costing both significant financial repercussions.
- All plans listed also charge the participants normal income taxes (Yes, even the stock plans)
- Detailing the discussions around the focus and goals of the participants and sponsoring companies will generate better results.

  - Flexibility/Diversification
  - Restrictions
  - Taxes – Current & Future
  - Access
  - Timing
  - Retention
  - Stock and company performance

Questions

Thank you

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