

Understanding The Need For Supplemental Executive Benefits

A non-qualified supplemental executive benefit plan can give you a competitive edge in recruiting and retaining productive, talented employees. These plans complement traditional employee benefits such as salary increases, group health insurance, commissions, and bonuses. And they offer benefits not available with 401(k) plans, including:

- The flexibility to customize the compensation package to fulfill your key executives' needs and help meet your company's financial goals.
- The ability to selectively reward specific key employees, such as your:
 - - sales manager or top sales producers,
 - plant manager,
 - chief financial officer, or
 - any employee you think is vital to your business.
- Tax advantages for both you and your employees, plus general exemption from IRS reporting and disclosure requirements.
- The ability to offer valuable, long-term benefits at a reasonable cost.

The following descriptions are three (among many) popular non-qualified supplemental compensation plans, that you may wish to consider.

Substitute Equity Plan

Ideal for family-owned companies, a substitute equity plan compensates non-family employees for their increasing value to the company without diluting family ownership of the business. It also helps ensure that valuable employees remain with your company. A substitute equity plan can be informally funded with corporate-owned, investment-grade permanent life insurance on key non-family employees.

How It Works

The substitute equity plan rewards key employees with "phantom" stock units, equal in value to shares of company stock. After a specified period of time, the employee's plan benefit becomes fully vested. The employee owes no income tax on plan units until they are converted to cash.

Advantages For The Employee

- Provides valued employees with a vested interest.
- Substitute equity plan units are awarded based on employee performance.
- No income taxation when units are awarded. Taxation occurs only when units are redeemed for cash.
- A low-cost death benefit can be added to the plan. In the event of the employee's death, an income tax-free benefit can be provided for the employee's beneficiary.

Advantages For The Employer

- For a family-owned business, the substitute equity plan keeps company stock in the family while providing additional compensation for key non-owner employees.
- Plan does not have to be prequalified by the IRS and is not subject to annual reporting, disclosure and discrimination rules.
- No annual administrative costs.
- Life insurance policy cash value accumulates tax-deferred.
- Tax-advantaged access to the policy cash value.
- An income tax-free death benefit can be built into the insurance amount to protect the corporation in the event of the employee's death.

