SERPs Provide Supplemental Retirement Income With Qualified Plan Limits

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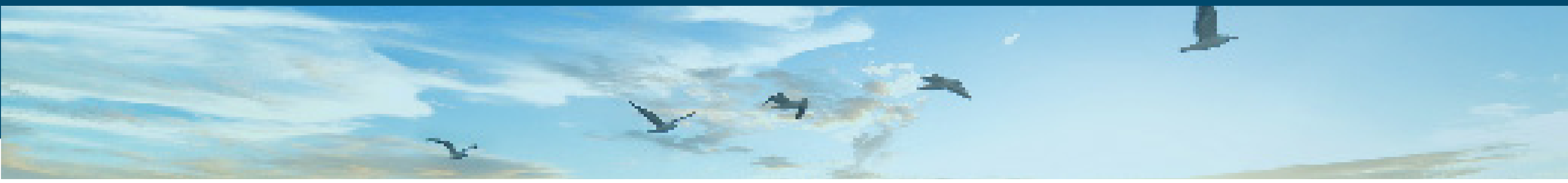

Have the limitations of qualified plan funding reduced the ability of your business clients to provide highly compensated executives with retirement benefits? Would your business clients be interested in providing a supplemental benefit to a select group of key executives as long as the arrangement binds the executive to the company? If so, a Supplemental Executive Retirement Plan (SERP) may provide a solution. Following is an example of how a SERP works.

Example of How a SERP Works

HealthCare Integrity, Inc. is a consulting company structured as a regular C corporation that detects and prevents fraud for the government. The company has 350 employees. Ten of the employees are critical to the success of the business. As a result, they are highly sought after by competitors. HealthCare Integrity is willing to incur additional costs to keep them but prefers to use the money in a way that ties the executives to the company. The company's objective is to provide a benefit plan that acts as "golden handcuffs" rather than paying higher salaries.

All the executives are contributing the maximum amount possible to their qualified plans. As highly compensated executives, they recognize that the limits placed on qualified plan contributions prevent them from saving enough to maintain their accustomed standard of living in retirement. Consequently, the executives are looking for alternatives to help fund for retirement, especially if it can be done using employer dollars on a pre-tax basis.

A Supplemental Executive Retirement Plan (SERP) may be one way to provide a meaningful pre-tax benefit, while creating "golden handcuffs." A SERP is a contractual agreement between the business and the executive that must meet the provisions of Section 409A of the Internal Revenue Code. Under the contractual agreement, the employer promises to provide the executive supplemental income at some date in the future. At that future date, the earnings become taxable to the employee and deductible to the employer. Prior to that time, the employee has only an unsecured promise and stands in the same position as all other general creditors in the event the employer becomes insolvent. Often, the employer purchases and owns life insurance to help meet the future obligation.

SERP Benefits Both Employer and Executive

A SERP arrangement informally funded with business owned life insurance provides the following benefits:

For the Employer

- The ability to pick and choose who participates
- The flexibility to vary each arrangement
- Full control of the policy cash values is maintained
- Tax-favored cash accumulation
- Tax-favored death benefit to help provide funding of benefit to executive's heirs in the event the executive dies prior to retirement
- A tax deduction at the time benefits are paid to the employee/ heirs
- Possible to structure the arrangement to provide corporate cost recovery

For the Executive

- Current taxation is avoided
- Tax-deferred growth accumulates on the SERP account balance
- The income gap caused by "reverse discrimination" associated with qualified plans can be reduced

How Can DBS Help?

A SERP must be structured carefully to achieve the desired results and comply with the IRC Section 409A requirements. Fortunately, DBS has access to products and plan support specifically designed to help serve this market. For more in-depth information on how DBS might help your business clients retain the talents of their key executives by establishing a supplemental retirement plan, contact your DBS advanced case design resource, Terri Getman, JD*, CLU, ChFC, RICP, AEP (Distinguished).