Supplemental Executive Retirement Plan

Business owners should consider a Supplemental Executive Retirement Plan (SERP) as one option in their Selective Employee Benefits Plan. A SERP is a non-qualified deferred compensation agreement between a company and select key employees in which the company agrees to provide a specified benefit amount at retirement, or should the employee die, become disabled or terminate employment.

Benefits of a SERP

For the company:
Simple

- No IRS restrictions or approval.
- No government forms or reports.
- No burdensome administration.

Cost-Effective

- You can recover the cost of the plan.
- Enhances financial statements.
- Minimal administration costs.

Selective

- No mandatory eligibility and participation rules.
- You select which key employees participate.

Flexible

- No required plan provisions.
- Custom tailored to each participant.

"Golden Handcuff" Incentives

- Recruit, reward and retain key employees.

For key employees:
Income-Tax Savings

- Reduction of current income taxes.
- Deferral of tax on investment earnings.

Supplemental Income

- Additional income at retirement, disability or termination of employment.

Survivors' Benefits

- Benefits are paid to surviving family members at death.

When is a Nonqualified Plan Indicated?

Restore Lost Benefits
Many executives face the prospect of retiring on an income significantly lower, as a percentage of compensation, than that of the average employee. In part, this happens because the regulations governing qualified retirement plans often favor non-highly compensated employees. An NQDP would be an appropriate tool to restore the lost benefits due to the statutory limitations of a qualified 401(k) plan, to use a common example.

Consider the following comparison between a manager with a current salary of $50,000 and a senior executive with a current salary of $250,000. Both are expected to work 20 more years until retirement at age 65; both are making maximum contributions to their company's 401(k) plan each year. The company matches the deferral at $.50 on the dollar, up to 6% of salary.

Income Source	**Manager, age 45**	**Senior Executive, age 45**
Current Salary	$50,000	$250,000
Final Salary at 65	$126,348	$631,738
401(k) Account Value at Retirement (assumes an 8% annual rate of growth)	$743,290	$952,315
Annual Post-Retirement Income from 401(k) Plan	$74,390	$95,231
Post-Retirement Annual Income as Percentage of Final Salary	59%	15%

As you can see there is quite a disparity in the results. In summary, one could state that qualified plans by themselves appear to be inadequate as a retirement planning tool for highly compensated executives.

Reward or Recruit Key Executives
A nonqualified plan is often used to reward a key executive with a special benefit which is not available to other employees. It may also be effectively used as a recruiting tool to attract talented executives to the company, without offering company equity.