

## Executive/Owner Deferred Compensation Highlights

Compensation is a puzzle. It is often difficult to determine what salaries and short-term benefits to pay executives and owners in order to obtain and retain the talent necessary.

Are you utilizing ALL options out there? Most are only considering salary and basic benefits. We highlighted some of the many benefits of using deferred compensation.



Benefits beyond simply salary and bonus structure, which may distinguish an employer from its competitors.



Provide incentives for key employees to continue to provide service to the employer for years to come.



Executives can utilize more opportunities to set money aside for retirement.

## Types of Deferred Compensation

### Qualified Retirement Plan

- a. 401(k) – salary deferral limitations are low
- b. Profit sharing – subject to nondiscrimination testing requirements
- c. Money purchase plans

### Nonqualified Deferred Compensation Plans

(Additional compensation outside of a qualified plan with NO annual dollar limitations on contributions or deferrals. This plan is taxable.)

- a. Supplemental Executive Retirement Plans (SERPS) AKA Golden handcuffs/parachutes  
These plans are most commonly paid after retiring, based on final year of salary. They could also include performance-based incentives based on employee's or the company's performance. Compensation is usually based on employee/owner staying with the company for certain amount of time or certain age.
- b. Supplemental 401(K) Plans  
Some employers implement a supplemental 401(K) plan whereby employees can defer additional amount of their salary up 100% of salary.
- c. Deferred Bonus Plans  
Executives/Owners can defer bonuses that are earned in a specific year. The percentage of deferred must be determined prior to the annual year starting. The election must be irrevocable and payment must be set at a fixed date (ex: 2 years following retirement).
- d. Stock Option Plans  
Allows executives to purchase actual company stock at a certain, fixed price.

