

Supplemental Executive Retirement Plans

SERP: Enhance Your Key Executive's Retirement Benefits




N O L A N F I N A N C I A L

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Introduction

Enhancing executive retirement plans

Much of a company's success is dependent on its most valuable assets - its executives. High-caliber executive talent provides invaluable expertise and experience to a company.

So how can employers attract and then retain high-caliber executive talent?

Offering a comprehensive compensation and benefits package is essential to the success of an employer to retain, attract and reward key talent.

Qualified retirement plans such as a 401(k) have strict IRS requirements, which

severely limit the level of benefits available to highly compensated executives. These restrictions make it difficult for executives to retire with enough savings to sustain their current standard of living.

Through a Supplemental Executive Retirement Plan (SERP), employers have an opportunity to enhance the retirement benefits of key executives.

Furthermore, a SERP can provide the benefits desired by high-caliber executive talent, while allowing the employer to maintain control.

By incorporating a "Golden Handcuff" provision in a Supplemental Executive Retirement Plan, an employer can offer a cost-effective plan that can increase the retention of valuable executive talent.

SERP

Supplemental Executive Retirement Plans

A SERP is an agreement between an employer and a key executive, where the employer agrees to provide either a stated amount of retirement income or a set contribution amount to the executive, who may have contributed the legal maximum to their qualified plan(s).

Offering a supplemental executive benefit such as a SERP can provide the competitive edge needed to retain and motivate high-caliber executive talent. SERPs generally fall under three categories:



Target Offset SERP

- Provides a specific percentage of final average compensation (FAC).
- For example, 60-70% of FAC offset by other sources of retirement income from other plans.



Excess Benefit SERP

- Provides a defined benefit without regard to other retirement plans.
- For example, it may provide annual retirement income of \$50,000, but may not target an overall percentage of FAC. Hence the SERP benefit is provided on a 'stand alone' basis.



Defined Contribution SERP

- Provides for specific annual employer contributions as a percentage of compensation
- The Employer may also offer an option for executive contributions into the plan.

“SERP benefits may be subject to a vesting schedule to increase retention.”





Why A SERP?

Qualified plan limitations present unique challenges for highly compensated executives

The IRS imposes limits on the amount that executives and employers can contribute toward qualified plans such as 401(k) and 403(b).

As a result of qualified plan limits, many highly compensated executives are unable to retire with enough savings to maintain their current standard of living in retirement.

These limitations cause an executive to receive a smaller percentage of retirement income from qualified plans than would a lower compensated employee.

On average, most highly compensated executives can expect to receive 30-40% of their final average salary at retirement from qualified plans, as compared to 60-70% for lower compensated employees.

This is particularly worrisome as several recent studies have reported that highly compensated executives will need approximately 60-70% of their final average salary after retirement in order to retire comfortably.

Employers turn to nonqualified plans, such as a SERP, to attract and retain key executives.

The Retirement Income Gap:

The graph on the following page shows how qualified plan limits can severely impact a highly compensated executive's ability to adequately save for retirement.

The result?

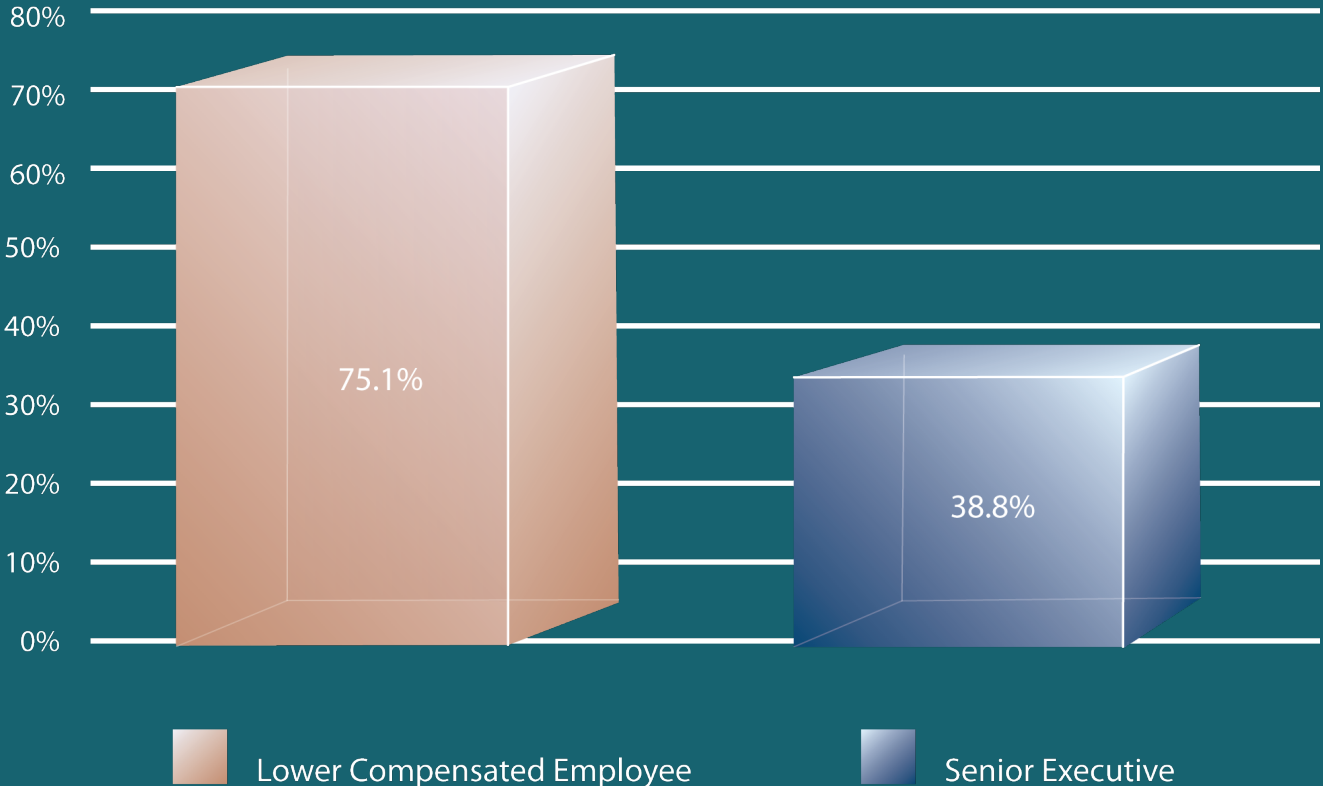
The lower compensated employee receives 75.1% of Final Average Compensation (FAC) in retirement income, while the highly compensated senior executive receives only 38.8% of FAC.*

This deficiency creates the need for an effective method for an employer to supplement an executive's retirement compensation beyond that which is provided by a qualified plan. In addition, other factors such as increased life expectancies and increased healthcare costs have amplified the need for nonqualified supplemental retirement plans.

Assumptions*

- Assume 2 employees, both age 45
- Current Salaries: \$50,000 and \$300,000 (indexed at 3%)
- 401(k) Contributions: 10% of compensation up to maximum contribution limits plus employer match of 25% of first 6% of employee contribution
- 401(k) assets accumulate at 6.5% annually
- Unrounded qualified plan limits increase 3% annually
- Retirement payout over 20 years from retirement at age 65 to assumed mortality at age 85

% of Replacement Retirement Income of Lower-Compensated Employee vs. Senior Executive



*“Overview of
Qualified Plan
Limits that impact
highly compensated
Employees.”*

A Closer Look

Flexible and customized benefit solutions

A SERP can provide attractive supplemental retirement benefits to executives who have contributed the legal maximum to their qualified plan(s). Nonqualified plans can help provide the retirement income levels that executives need to comfortably live out their retirement years.

Having flexible benefits means more loyal employees. According to a recent 2019 MetLife study, 72% of those surveyed agree that having benefits customized to meet their needs would increase their loyalty to their employer.¹

For any SERP, the benefits may be subject to a vesting schedule (cliff vesting or graded vesting) to increase the retentive nature of the plan. Additional features / provisions may also be built into the SERP plan, including:

- Pre-Retirement Death Benefits
- Cost of Living Adjustments (COLA)
- Change of Ownership / Change of Control Provisions
- Rabbi Trust or Springing Rabbi Trust

Nolan Financial offers a variety of nonqualified benefit solutions to help close the retirement gap that executives face while meeting the unique needs of our clients.

2020 IRS Limits On Qualified Plans

Limit

Elective deferral limit for a 401(k) plan or 403(b) plan	\$19,500
Section 415 limit for defined contribution plans	\$57,000
Section 415 limit for defined benefit plans	\$230,000
Limit on compensation taken into account under plan	\$285,000
Traditional and Roth IRA contribution limits	\$6,000
Highly compensated employee threshold	\$130,000
“Catch up contribution limit” (age 50+) 401(k), 403(b) and 457(b)	\$6,500
Taxable Wage Base	\$137,700

Benefits of a SERP

To the Employer and the Executive



Employer Benefits

- A SERP can be offered to a select group of executives
- Provides a supplemental benefit to reward, retain and recruit key executive talent
- The plan can be designed to align interests of the executives with those of the employer
- A properly-designed SERP may include “Golden Handcuff” provisions that helps to retain key executive talent
- SERPs may be informally-funded utilizing a variety of funding options, from equity investments to Corporate-Owned Life Insurance (COLI)
- By utilizing a funding alternative, such as COLI, an employer may reduce the overall cost of implementing a nonqualified plan
- Supplemental benefits associated with the funding vehicle, such as life insurance benefits, may be offered as a further enhancement to the participants



Executive Benefits

- Helps to close the retirement income gap associated with qualified retirement plans
- Retirement income is accumulated without current taxation to the executives
- Executive is not taxed until benefits are received



Considerations

- No tax deductions for the Employer until benefits are paid
- Plan liabilities remain on the Employer’s books until the benefits are paid



Nolan Financial

More than 30 years of experience with Nonqualified Benefit Solutions

Nolan Financial is an executive compensation and benefits consulting firm specializing in the custom design, funding, implementation and administration of supplemental retirement and welfare benefit plans.

Nolan Financial's mission is to supply our clients with the highest level of service at a reasonable cost. This is accomplished through our continued commitment to excellence, flexibility and our clients.

Nolan Financial's sole focus is on nonqualified retirement and welfare benefits for senior executives and professionals. Since this is our

sole focus, we have the ability to effectively administer a variety of plans for both for-profit and not-for-profit organizations, while remaining compliant with the latest legislation.

Nolan Financial's secure, state-of-the-art recordkeeping system, NolanLink, is one of the most advanced nonqualified plan recordkeeping platforms available.

NolanLink's open-architecture allows us to administer highly customized plans that meet the needs of our clients.

Contact us to schedule a live demo of NolanLink.

To maintain a high standard of plan quality, Nolan Financial follows a series of key steps in designing and implementing nonqualified plans. These steps are vital to the success of the plan.

Discovery and Custom Plan Design

- Assess the client's current situation
- Define and understand the client's financial goals

Detailed Funding Analysis

- Research and analyze alternative solutions
- Prescribe a recommended solution and explain each aspect thoroughly, adjusting as necessary

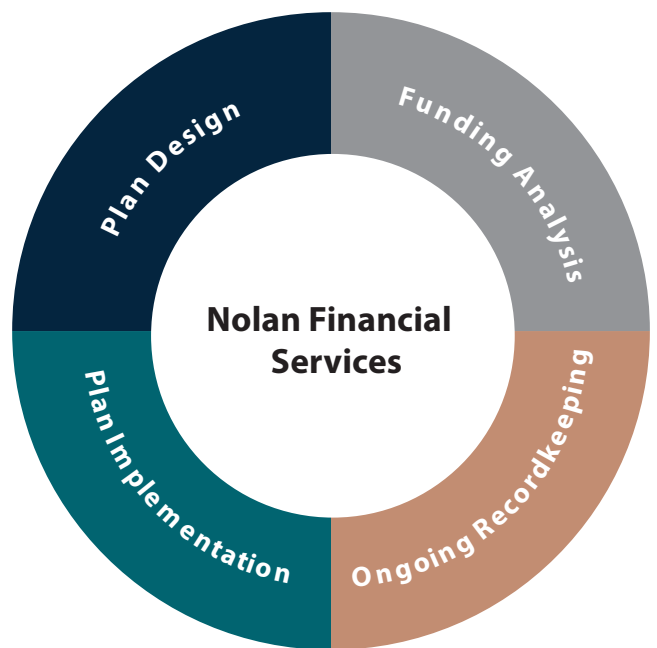
Plan Implementation

- Implement and support the approved solution

Ongoing Plan Recordkeeping

- Evaluate and revise the plan on an ongoing basis to ensure optimal results

As a result, each plan offers a unique and comprehensive solution that is customized to the specific needs of each and every client.



Accountability

Our plans are backed by accurate administration & reporting

Our recordkeeping system incorporates high-level checks and balances to assure plan administration integrity and accuracy. Our detailed administrative procedures have built-in safety steps that impose double checks on information processing.

Nolan Financial has consistently obtained SOC-1 audit reports with no exceptions noted. This is a highly specialized audit, conducted by an independent third-party auditor, that looks at the design and operating effectiveness of a service organization's internal controls over processing transactions for client organizations.

The audit report is designed to provide information and assurances to the client organization's auditors, enabling them to gain an understanding of the service organization's internal controls.

Nolan Financial's system was specifically designed for nonqualified plan recordkeeping. Our robust system offers:

- Open architecture & professionally managed database
- Single sign-on capabilities
- Intuitive online enrollment platform
- System features can be custom-tailored to unique plan designs
- Over 100 pre-programmed Plan Sponsor reports & customized report programming capabilities
- Pre- & post- 409A compliant administration functionality
- Customizable options and rules for participant vesting, investment, deferral, distribution, transaction, etc.
- Access to historical transactions
- Total compensation & benefit aggregation reporting
- Array of investment alternatives may be utilized
- Annual legislative and functional updates
- Secure data storage

“NolanLink was designed for nonqualified plan recordkeeping.”





Supplemental Info

Retirement Deficit Analysis

In this document, we considered the impact of the retirement income gap on a senior executive when compared to a lower-ranked employee.

On the following page, a real-life example is provided for an actual senior executive, based on a detailed Retirement Deficit Analysis performed by Nolan Financial.

The purpose of this analysis was to determine the extent of the shortfall in retirement income, in reference to a target percentage range. Clearly, a significant shortfall was projected as shown on the following page.

A SERP would help to bridge the projected shortfall by enhancing the overall retirement income for the senior executive.

Retirement Deficit

Example of a Detailed Analysis to Determine Retirement Income Shortfall

Retirement Savings Analysis Prepared for: Sample Executive, Age 50

Assumptions Used in the Analysis

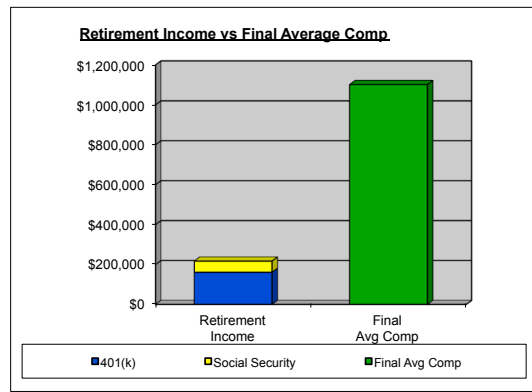
Current Age:	50	Annual 401(k) Contribution:	Max + Catch-Up
Retirement Age:	65	# of Retirement Payments:	20
Current Salary:	\$750,000	Compensation Limit Index Rate:	3%
Salary Index Rate:	3%	Contribution Limit Index Rate:	3%
Net Rate of Return on 401(k) Account:	6%	Projected Monthly Social Security Benefit:	\$4,669
Current 401(k) Balance:	\$500,000	Final Average Comp Formula:	3 Highest of Last 5 Yrs

	Year	Age (BOY)	Projected Comp Limit	Projected Comp Limit	Projected Contrib Limit	Projected Contrib Limit	Projected Catch-Up Limit	Projected Catch-Up Limit
			Unrounded	Rounded	Unrounded	Rounded	Unrounded	Rounded
Projection of Future IRS Limits on Qualified Retirement Plans	2020	50	288,720	285,000	19,554	19,500	6,518	6,500
	2021	51	297,382	295,000	20,141	20,000	6,714	6,500
	2022	52	306,303	305,000	20,745	20,500	6,915	6,500
	2023	53	315,492	315,000	21,367	21,000	7,122	7,000
	2024	54	324,957	320,000	22,008	22,000	7,336	7,000
	2025	55	334,706	330,000	22,668	22,500	7,556	7,500
	2026	56	344,747	340,000	23,348	23,000	7,783	7,500
	2027	57	355,089	355,000	24,049	24,000	8,016	8,000
	2028	58	365,742	365,000	24,770	24,500	8,257	8,000
	2029	59	376,714	375,000	25,514	25,500	8,505	8,500
	2030	60	388,016	385,000	26,279	26,000	8,760	8,500
	2031	61	399,656	395,000	27,067	27,000	9,022	9,000
	2032	62	411,646	410,000	27,879	27,500	9,293	9,000
	2033	63	423,995	420,000	28,716	28,500	9,572	9,500
	2034	64	436,715	435,000	29,577	29,500	9,859	9,500

	Year	Age (BOY)	Projected Salary	Projected 401(k) Contrib	Projected 401(k) Catch-Up Contrib	Projected 401(k) Total Contrib	Projected 401(k) Balance End of Yr
			Projection of Future Compensation and 401(k) Account Balance	2020	50	750,000	19,500
2021	51	772,500		20,000	6,500	26,500	619,104
2022	52	795,675		20,500	6,500	27,000	684,870
2023	53	819,545		21,000	7,000	28,000	755,642
2024	54	844,132		22,000	7,000	29,000	831,721
2025	55	869,456		22,500	7,500	30,000	913,424
2026	56	895,539		23,000	7,500	30,500	1,000,559
2027	57	922,405		24,000	8,000	32,000	1,094,513
2028	58	950,078		24,500	8,000	32,500	1,194,633
2029	59	978,580		25,500	8,500	34,000	1,302,352
2030	60	1,007,937		26,000	8,500	34,500	1,417,063
2031	61	1,038,175		27,000	9,000	36,000	1,540,246
2032	62	1,069,321		27,500	9,000	36,500	1,671,351
2033	63	1,101,400		28,500	9,500	38,000	1,811,912
2034	64	1,134,442		29,500	9,500	39,000	1,961,967

Projected Retirement Income from 401(k):	161,371
Projected Social Security Benefit:	56,028
Projected Total Retirement Income:	217,399
Projected Final Average Compensation (FAC):	1,101,721
Projected Retirement Income as % of FAC:	19.7%
Target Retirement Income as % of FAC	60%
Projected Retirement Deficit as % of FAC:	40.3%

All values presented above are projections only based on the specified assumptions. Hypothetical rates are illustrative only and are not a representation of past or future results. Actual rates may be more or less than those illustrated. Estimated Social Security benefit based on future dollars Social Security Quick Calculator on ssa.gov website.



Recognizing Performance

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The logo for Nolan Financial features a stylized, curved line above the company name. The line is composed of multiple parallel lines that create a sense of motion or a wave, starting from the left and curving upwards and then downwards to the right. The text "NOLAN FINANCIAL" is written in a clean, sans-serif font below the line.

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