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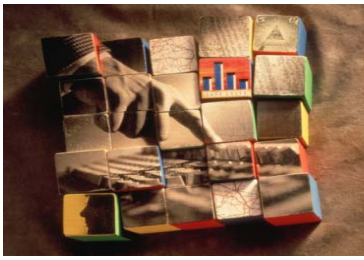

NYLEX News

Customized Executive Benefit Plans

> **It is essential that your company's employee benefit obligations be well-funded when payout events are triggered or premature death occurs. NYLEX Benefits' unique actuarial modeling systems can provide you with this critical information.**

Inside this issue:

FUNDING BUSINESS OBLIGATIONS

FUNDING FUTURE BUSINESS OBLIGATIONS

Businesses, large and small, generally implement several different types of plans for the benefit of employees and the owners themselves. Qualified retirement plans by law must be funded, but the business is not required to set aside assets to fund many other types of arrangements.

However, each of these plans creates an "obligation" for the company. In many cases, these plans have been separately implemented over a period of years and the funding for these plans may not have been reviewed since they were implemented.

Examples of these types of obligations include:

- Post-Retirement Benefits
- Employee Stock Ownership Plans (ESOPs)
- Partnership Retirement Payments
- Entity Buyout Obligations

Adequate funding is often critical to the successful execution of these plans.

POST-RETIREMENT BENEFITS

To attract, reward, and retain their best talent, businesses commonly implement employee benefit plans to provide for post-retirement benefits, such as supplemental executive retirement plans (SERPs), deferred compensation plans, payment of long-term care, health, and life insurance premiums. These programs are tailored to *(continued p. 2)*

2011 IRS LIMITS

The 2011 qualified plan and tax withholding limits were announced by the Treasury in late-October.

RETIREMENT AND SOCIAL SECURITY

Section 401(k) elective contributions	$16,500
401(k) "catch up" contributions (employees age 50 and over)	$5,500
Section 414(q)(1)(B) - Highly compensated employee	$110,000
Section 416 Key employee definition	$160,000
FICA Taxable Wage Base (6.20%)	$106,800
Section 401(a)(17) Maximum Includible Compensation	$245,000
Section 415 Defined benefit plan maximum	$195,000
Section 415 Defined contribution plan maximum	$49,000/ 100% of salary

FUNDING BUSINESS OBLIGATIONS (cont.)

meet the specific needs of a business with payouts scheduled upon certain triggering events (e.g., completion of certain number of years service, retirement, etc.) Frequently, businesses leave these obligations unfunded or underfunded.

Many companies do not understand the impact of the long-term obligations generated by post-retirement plans. These benefits must be fully accrued on the company's books by the time the employee retires. If the plans have not been funded or if the funding does not match the timing of the projected payouts, the company may have difficulty meeting its obligations to employees and their beneficiaries.

EMPLOYEE STOCK OWNERSHIP PLANS (ESOPs)

ESOPs are qualified plans, typically profit sharing plans, which must invest primarily in the stock of the sponsoring employer. ESOPs are created by business owners to achieve three ownership objectives:

1. To cash out of the business at fair market value;
2. To minimize tax obligations on the sale; and
3. To reward and transfer company ownership to key employees.

Funds are needed either to:

1. Meet the ESOP's obligation to pay for shares purchased, or
2. Fund buyout of shares from employees

If obligations have not been funded prior to the business owner's transfer of ownership, the ESOP must typically borrow funds. This not only impacts the company's ability to grow and expand, but the owner's assets may also be held as collateral for securing the ESOP loan.

PARTNERSHIP RETIREMENT PAYMENTS

Partnerships frequently implement exit strategies to buy out its partners at retirement. These plans typically are not funded. This may result in the younger, productive partners having the obligation to make payments to retired, non-income producing partners out of current cash flow, impacting the firm's earnings.

ENTITY LIFETIME BUY-OUT OBLIGATIONS

Business owners wishing to exit their companies have four potential exit routes:

1. Retain the business in the family as a closely-held entity,
2. Sell the business to a third party,
3. If feasible, go public, or
4. Liquidate.

If the business is retained in the family, it may not be possible for family members to meet unfunded buy-out obligations, leaving the business owner without a retirement income. Third party buyers such as key employees, co-owners, or a competitor, may not be readily available or interested.

An initial public offering (IPO) may be attractive. There is the potential for a high valuation being placed on the owner's interest, but an IPO often does not represent a liquidity event for the owner. Liquidation is a likely result if the owners have failed to establish an economically feasible exit strategy.

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FUNDING BUSINESS OBLIGATIONS (cont.)

FUNDING THESE OBLIGATIONS

Funding is a way to insure satisfaction of promised obligations. There are several funding alternatives available:

- **Working Capital** – Using funds from working capital to meet current obligations is an option, but may limit the company's ability to operate and funds may not be available when needed if the business ceases to exist or comes on hard times.
- **Borrowed Funds** – Borrowing money from a third party is also an option, but the loan must be repaid and will result in the total amount paid for the obligations being much greater than the original obligation, with the final cost depending on interest rates and length of the loan.
- **Sinking Fund** – Another option is a sinking fund. However, it may take years to create the necessary funds and the premature death of an owner or a key employee, or another triggering event, may occur at any time. Also, earnings on a sinking fund may be reduced by income taxes.
- **Company-Owned Life Insurance (COLI)** – COLI is frequently an affordable and efficient method of funding company obligations. It is the only alternative that provides generally tax-free dollars needed precisely at the time they are needed in the event of a death, as well as cash values that can be borrowed* against to fund other pre-death obligations.

THE SOLUTION

NYLEX Benefits can provide:

- **Actuarial Modeling** – NYLEX Benefits can do the actuarial calculations to determine the obligations resulting from all your business's different types of plans and project when funding for those obligations will be needed.
- **Evaluate Current Funding** – NYLEX Benefits can evaluate your current funding method and compare it with other funding possibilities to determine the most cost effective and tax advantageous alternative.
- **Provide Funding on a Systematic Basis** – NYLEX Benefits can help your company develop a systematic funding approach to help meet your unfunded obligations.

SUMMARY

It is essential that your company's obligations be well-funded to guarantee there will be funds available when payout events are triggered or premature death occurs. Let NYLEX Benefits help you plan to secure your company's obligations.

*Loans accrue interest and reduce the death benefit and cash value.

NYLEXBenefits
Expert Guidance. Practical Solutions.

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About NYLEX Benefits

NYL Executive Benefits LLC ("NYLEX Benefits") provides supplemental executive benefit programs to a wide range of clients. We focus on developing cost effective executive benefit solutions that are designed to attract, reward and retain key employees.

Our services are designed to assist clients at all stages in the adoption and operation of executive benefit programs and include:

- Initial assessment
- Plan design
- Funding
- Plan implementation
- Ongoing administration

NYLEX Benefits' professional staff includes the following professional disciplines, all dedicated to supporting our clients' programs, processes, systems and services:

- Accountants
- Actuaries
- Attorneys
- Benefit specialists
- Insurance specialists

We take great care to assure that client programs are practical and that they are designed to achieve our clients' strategic and operational goals.

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