



# NYLEX News

*Customized Executive Benefit Plans*

## **WILL YOUR EXECUTIVE BENEFIT PLANS DELIVER THE RIGHT RESULTS IN 2012?**

**Has your company implemented two or more nonqualified employee benefit plans at different times?**

**If so, you may want to consider evaluating the impact, coordination and funding efficiency of your employee benefit programs.**

Attracting, retaining, and developing key talent is as crucial today as it has always been. Companies in today's economic environment are having to weigh the benefits of providing key supplemental benefit programs to accomplish these vital objectives with the financial concerns associated with shrinking profit margins and market uncertainty.

Every organization's situation, goals and values are different whether you're public or private, a mid-to large-size manufacturer, retailer, software developer, financial services firm, or community medical center. However, there are six basic questions that are applicable to all:

1. Are our current performance incentives performing as intended?
2. Are they designed to attract and retain the talent we need?
3. Do we have benefit plans that sufficiently allow our key employees to accumulate cash for lifetime and/or retirement needs?
4. Are our long-term incentive programs designed to help our key employees retire with adequate replacement income?
5. Do our programs provide protection for our key employees' families in the event of premature death or disability?
6. Are our existing plans designed with funding solutions that efficiently address both our cash flow and P&L needs, today and in the future?

### **A BUILDING BLOCKS APPROACH**

The answer to each one of these questions represents an essential building block to ensuring that you have a comprehensive and competitive benefits program that rewards you and your top talent.

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## **TAX DIVERSIFICATION CAN OFFSET TAX UNCERTAINTY**

The recent failure of the congressional deficit panel to take action by the November 23 deadline has sparked new concerns surrounding the uncertainty of tax rates. The tax cuts passed in the Bush administration will expire at the end of 2012 unless Congress takes action. But whether Congress takes action in 2012 or not, future tax rates will continue to be an uncertainty.

Employees with the option of deferring income may find themselves struggling with the decision of whether to pay taxes now or defer income and pay taxes later.

Since we can't predict whether tax rates will in fact go up, stay relatively the same or even go

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### **Inside this issue:**

1. Will Your Executive Benefit Plans Deliver the Right Results in 2012?
2. Tax Diversification Can Offset Tax Uncertainty
3. Benefit Plans for Professional Services Firms



## WILL YOUR EXECUTIVE BENEFIT PLANS DELIVER THE RIGHT RESULTS IN 2012? (cont.)

Implementing a building blocks approach creates transparency for you and your key people, and allows you to see the impact a single change in any one plan can have on the others as well as the overall result. What is the financial impact of adding an employer match to an existing excess plan – to both the employer and the employee? How can better utilization of existing plans make a difference in helping your most productive employees reap the benefits of their hard work? If you implement a new company plan, do you necessarily add an additional company expense when you choose to fund the plan? Is it possible to help your company's leaders reach their retirement goals by utilizing funding vehicles that actually increase the organization's bottom line?

### STEP ONE: UNDERSTANDING THE COMBINED IMPACT OF YOUR QUALIFIED, NONQUALIFIED AND EQUITY PLANS

NYLEX Benefits' Rei-Source Management System™ (RMS) helps you see the combined impact of your existing qualified, nonqualified and equity plans. RMS is an interactive model, so it can demonstrate the effect of benefit plan changes, as well as potential economic changes, on a company-wide and an individual participant basis.

#### CLIENT EXAMPLE

A recent example of helping a client make better utilization of existing plans was a situation where a bank had a qualified retirement benefit plan and a nonqualified offset plan for key employees, with benefits based on a complicated formula. Promised benefits to some employees were minimal and none of the employees really understood how the plan worked, so they didn't place much value in it.

NYLEX Benefits analyzed the bank's existing plans considering the ages and income levels of the key employees. NYLEX was able to show where the gaps existed in benefits under the current plans and recommended replacing the formula driven offset plan with a nonqualified defined benefit SERP.

The result was a plan that still worked to supplement the qualified plan, but was a plan that the employees understood and recognized the value of the benefits provided, and which provided key employees with a reasonable benefit, all at no additional cost to the bank.

### STEP TWO: CONDUCT A FUNDING AUDIT

Sometimes the original funding selected for a plan becomes outdated and overly expensive. NYLEX Benefits recently reviewed a client's nonqualified defined contribution SERP. The client contacted us when they hired a new employee and proposed adding her to the plan. The original funding for the plan matched individual retail life insurance policies with the individual's projected benefit.

NYLEX Benefits recommended an aggregate-funded approach that resulted in a more efficient funding strategy and yielded substantial cost savings for the company.

#### CLIENT EXAMPLE

### SUMMARY

NYLEX Benefits can help you to determine whether your plans are working hard for you, whether you have all the needed building blocks, and if the funding for your plans can be made more efficient.

## BENEFIT PLANS FOR PROFESSIONAL SERVICES FIRMS

Professional services firms, such as law, accounting, medical, engineering and architectural firms, differ from most employers in that a substantial proportion of those working for the firm are also owners of the business. A well structured benefits package is critical in motivating staff, and the owners (partners or members) of these firms are an important group for whom special benefits must be provided.

Just as with other types of businesses, professional services firms look first to qualified plans to provide basic benefits for professional as well as administrative staff. However, the statutory limitations imposed on qualified plans result in these plans not providing the level of benefits that professionals need and desire. Nonqualified plans usually supplement qualified plans so that, in retirement, professionals can continue to enjoy their preretirement standard of living. Nonqualified plans may include any of the following:

- Retirement programs or buyout arrangements for partners
- Deferred compensation arrangements
- Firm programs using individually owned assets
- Survivor benefit programs

NYLEX Benefits has worked with many legal, accounting and other professional services firms to implement efficient and meaningful programs. A comprehensive benefits package, including a well designed nonqualified benefits component, can make an important difference in the success of the firm:

- **For the firm** – Remain competitive in attracting and retaining partners and staff who can make the difference for the organization
- **For the professional** – Greater retirement security as a reward for loyal and superior performance



## TAX DIVERSIFICATION CAN OFFSET TAX UNCERTAINTY (cont.)

down, it may make sense for you to think about employee benefit plans that can help your key employees to tax-diversify their retirement income. This is another way to provide an added benefit for selected individuals at an affordable company cost.

Many employees have all or at least a majority of their retirement savings in plans that have the advantage of pre-tax contributions and tax-deferred accumulation, but distributions are taxable. This may not be the best approach if tax rates are significantly higher when those employees retire.

If you could design the “tax-perfect” retirement plan you would want all contributions to be tax-deductible, dollars to grow tax-deferred, and the distributions to be tax-free. Unfortunately, no such plan exists. The best that any current plan can offer is a combination of either:

1. Tax-deductible contributions and tax-deferred accumulation, but distributions are taxable, or,
2. Tax-deferred accumulation and tax-free distributions, but contributions are made after-tax.

By providing employee benefit plans that are taxed differently upon distribution, the employee has essentially hedged his or her bets on whether income tax rates will go up or down after retirement.





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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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