



# Supplemental Benefit Plans

Purpose, nature, and process to achieve a SERP that supports recruitment, retention, and rewards non-profit executives, key employees, and associates.



**Executive Retention | Supplemental Retirement | Yield Enhancement**  
Supplemental Executive Benefit Plans

# Our Background and Success



**Joseph E. Stearns, CLU, Founder**

Creating supplemental compensation benefits for key executives since 1971

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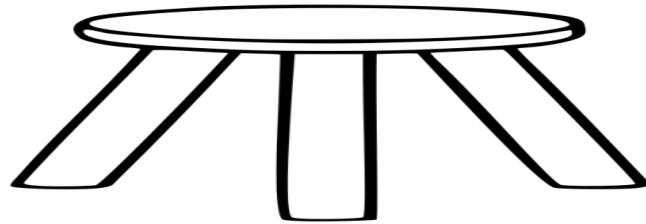
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- **Joe:** 45+ years in Life Insurance & Financial Planning, 25+ exclusively serving Credit Unions, Co-originator of the Executive Benefits Program at CUNA Mutual Group.
- **Eric:** 12+ years in Life Insurance & Financial Analysis, 10+ years serving the Credit Union Movement, 8 years in Healthcare Revenue Cycle Consulting.
- **Jim:** 10+ years in Life Insurance & Financial Planning, 30+ Years serving the Credit Union Movement including CUNA Brokerage, CEO of CNBS (a CUSO) and CEO of The Central Credit Union Fund (a corporate credit union).
- **Jay:** 10+ years in Life Insurance & Financial Planning, 5+ Years serving the Credit Union Movement.
- **Support Staff:** 3 offices with over 100 years of combined expertise in Credit Unions & Non-Profit Organizations, supporting our processes for Education, Design, Analysis, Due Diligence, Implementation, Service, and Support.

# SERPs are tools to help with retention, reward, and recruitment



## Retention

Golden Handcuffs

Career Extension

## Recruitment

Succession Planning

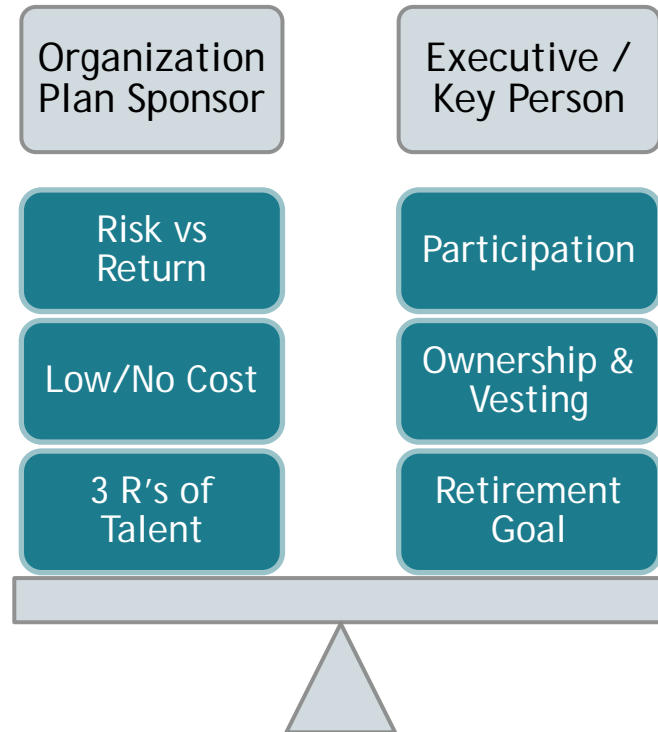
Outside Recruitment

## Retirement

Supplement

Reverse IRC 415

# A good solution benefits both the Organization and the Executive.



How do we make a meaningful & appropriate Plan so it has the desired impact?

# As part your compensation system, SERPs provide incentives to change behaviors.

## Accelerator: Risk ↑

- ▶ Interim withdrawals tied to KPI or Performance
- ▶ Retirement “at Risk” if goals are not met
- ▶ Cliff Vesting

## Breaks: Risk ↓

- ▶ Interim withdrawals tied to personal goals or time
- ▶ Retirement tied to tenure
- ▶ Incremental Vesting

Tenure-based benefits add security needed to take risks that drive growth. Performance-based benefits directly incentivize specific goals.

SERP can be an “Accelerator” or the “Break,” therefore it is critical to understand:

- 1) How compensation incentivizes growth
- 2) Your vision, mission, goals, and intent



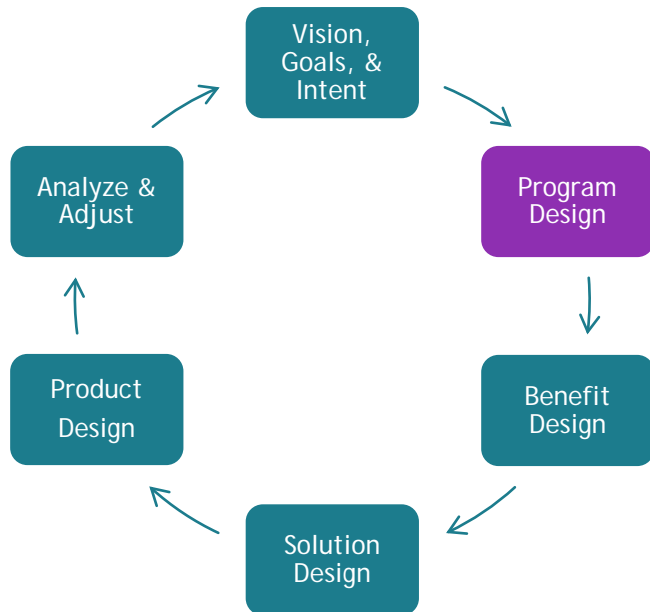
*If your compensation system has “Good Breaks” it is easier to step on the “Accelerator.”*

# Effective plan design is a process, not a product.

- ▶ The “carrot” is not the goal, The goal is to get somewhere
- ▶ First, define the SERP “**Program**” to fit your strategy that outlines purpose, eligibility, and intent based on mission, vision, values, and goals.
- ▶ Then, define the “**Benefit**” for eligible participants with respect to critical “career timeline points” and “organization inflection points” by defining the benefit amounts, timing, and vesting.
- ▶ Next, apply a “**Solution**” (457F, Split Dollar, Hybrid, etc.) to structure and optimizes impact to goals and financials.
- ▶ Finally, use a “**Product**” (Life Insurance, Annuities, Investments, etc.) to optimize risk and financial impact.



# C-Suite: Program Design



- ▶ “Program Design” uses mission, vision, and goals to set intent
- ▶ “Benefit Design” takes intent and sets vesting, separation, and benefits
- ▶ “Solution Design” uses the importance and priority of each variable relative to each other to create a benefit
- ▶ “Product Design” optimizes financials based on solution design
- ▶ Analyze the proposed Plan Design, Optimize & Adjust
- ▶ Repeat until confident in your unique Plan

# Program Design takes mission, vision, goals, and defines intent.

## Typical Hierarchy



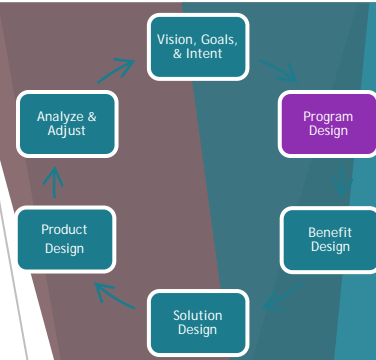
## Typical Intent

### CEO/EVP/SVP/Officers

- ▶ Secure benefits to enable growth
- ▶ Incentivize success
- ▶ Retirement as a % of final income
- ▶ Interim benefits on Performance
- ▶ Supplemental DI & LTCi

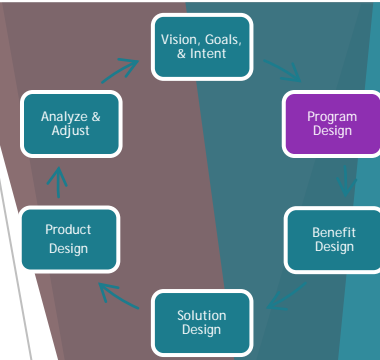
### VP/Manager/Director

- ▶ Defined Target post-retirement healthcare, LTCi & Elective DI
- ▶ Performance Incentives





# Program Design fits into your overall compensation program.



## Program Definitions

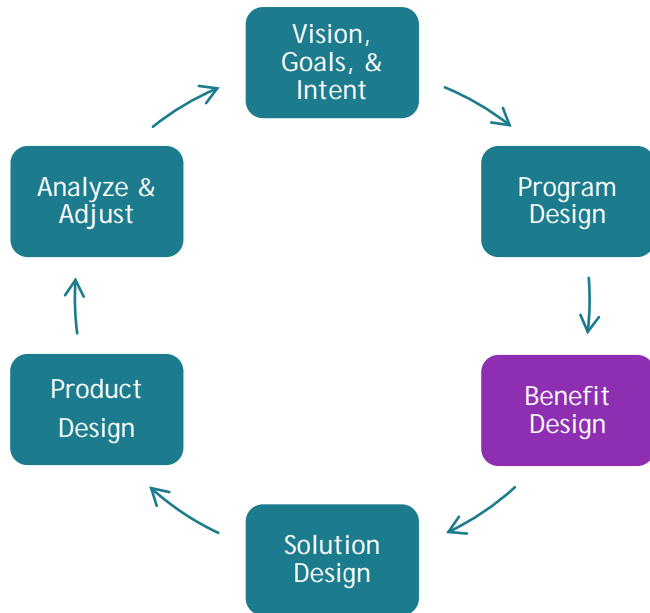
- ▶ Objective
- ▶ Eligibility
- ▶ Benefits
- ▶ Solution Structure
- ▶ Products & Investments
- ▶ Controls & Oversight

## Due Diligence

- ▶ Education & Understanding
- ▶ Compensation Alignment
- ▶ Benefit Appropriateness
- ▶ Peer & Industry Data
- ▶ Risk Assessment
- ▶ Implementation Strategy

**Collaborate to create the definitions that support the eventual plans and document for compliance.**

# C-Suite: Benefit Design



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# Benefit Design meets the needs of the Plan Participant and Plan Sponsor

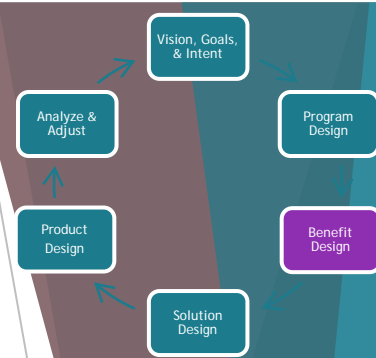
## Career Timeline Points

- ▶ Professional Growth
- ▶ Community Ties
- ▶ Market Value
- ▶ When is “risk of separation”
- ▶ Use withdrawals or vesting

## Organization Inflection Points

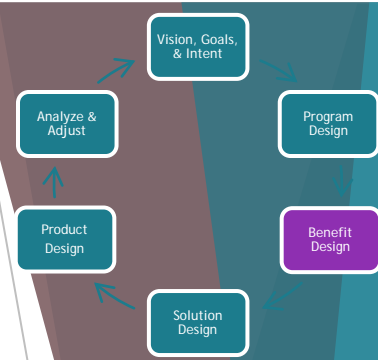
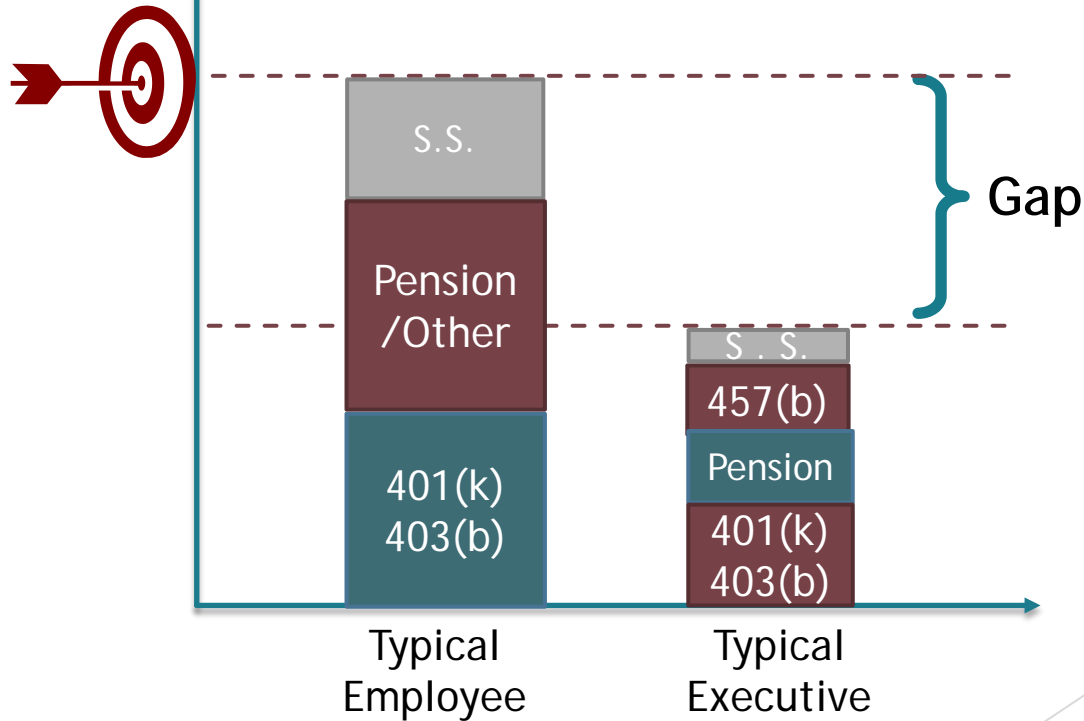
- ▶ Growth Strategies
- ▶ Employment Agreement Timing/Renewal
- ▶ Other Executive Retirements
- ▶ Succession Planning
- ▶ Rising Talent Pool Retention
- ▶ Senior Management Retention

**Design the benefit target in terms of dollars, timing, and vesting with consideration for impact and efficiency.**



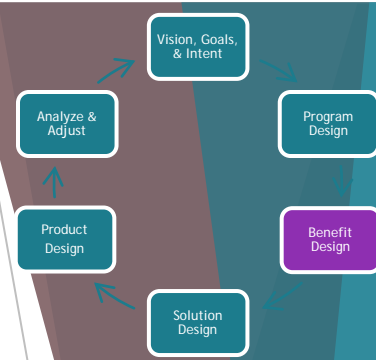
# Meaningful Benefit Design fills the gaps and meets individual needs.

Benefit Target as a Percent of Final Income

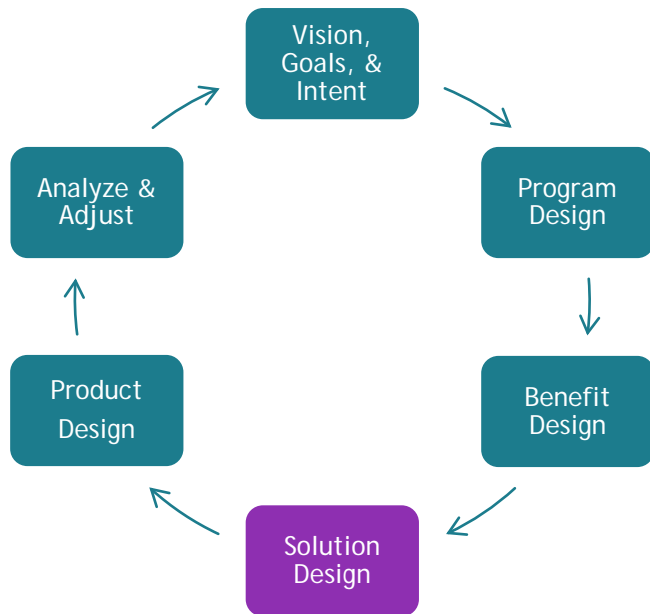


# Tailor the Benefit Design to fulfill intent & desired outcomes.

- ✓ What if fired “for cause”? Terminated at-will?
- ✓ Resignation? But, what if with “Good Reason”?
- ✓ Early retirement? Defined timelines? Periodic payouts?
- ✓ All, none, or some benefits in each scenario?
- ✓ Tenure based or metric based? Cliff or Incremental Vesting?
- ✓ What are the “critical career timeline points”?
- ✓ What are the “organization inflection points”?
- ✓ Create the most effective retention & recruitment incentive that is appropriate for the organization and meaningful for the participant...unique to your credit union.

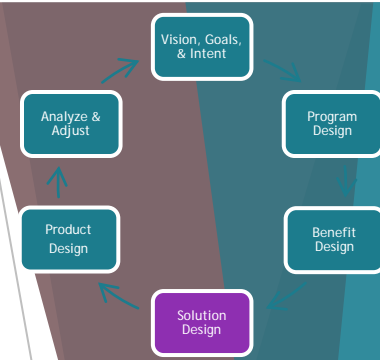


# C-Suite Solution Design



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# The “optimal solution” is the design that fits your unique organization.



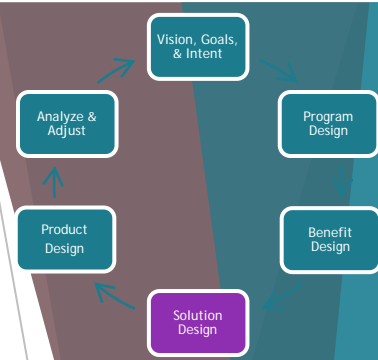
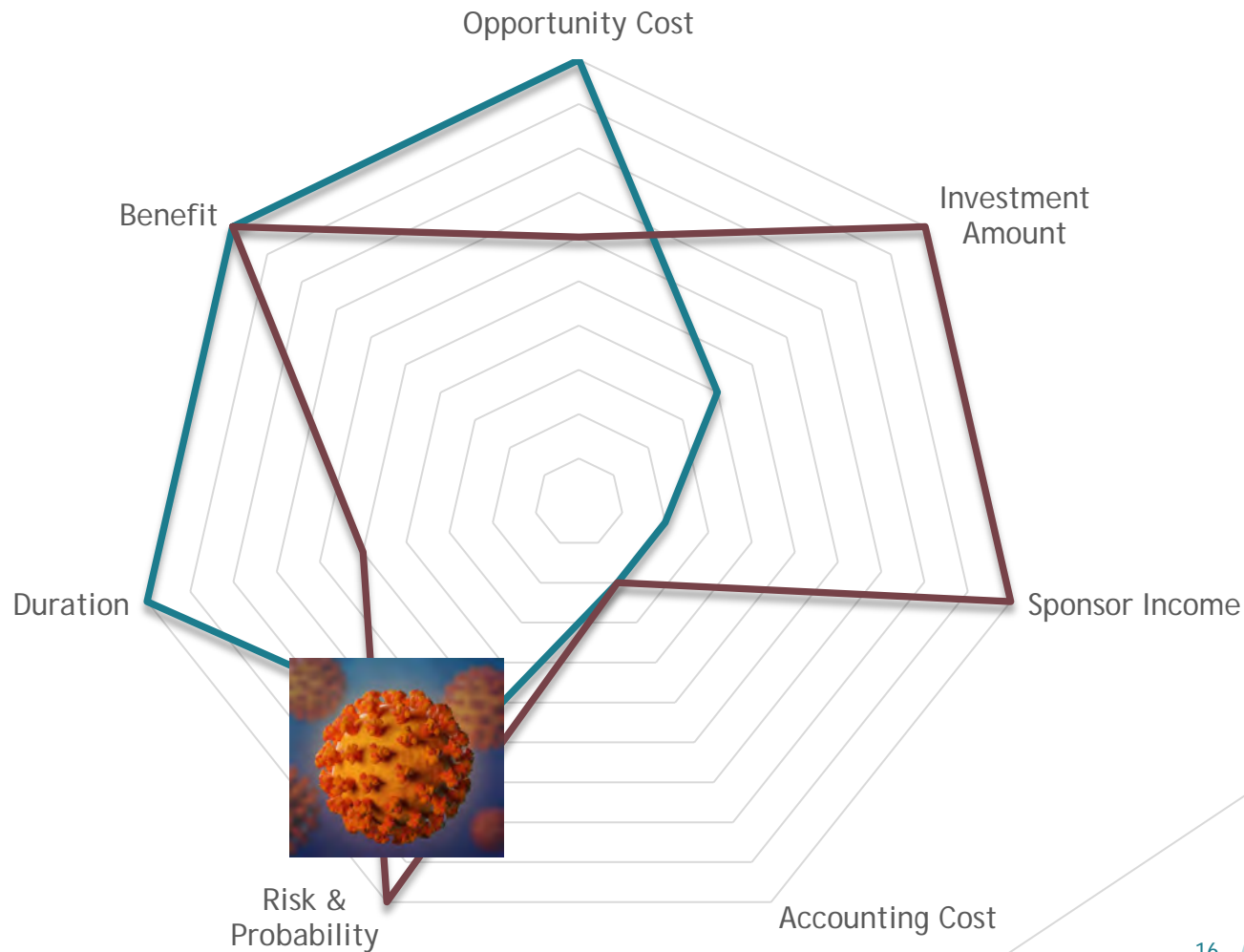
## Design Considerations

- ▶ Investment Duration
- ▶ Employment Separation Outcomes
- ▶ Retention, Succession, and Recruitment Incentives
- ▶ Rate of Return vs Risk vs Opportunity Cost
- ▶ Taxable vs Non-Tax Benefit
- ▶ Impact on Balance Sheet, Income Statement, and Cash Flow

## Design Flexibility

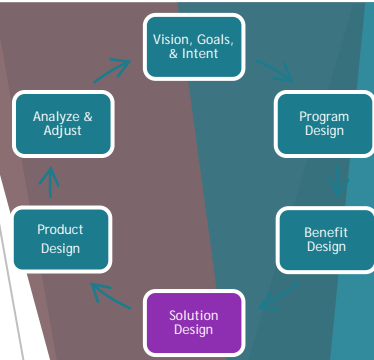
- ▶ Optimize Investment: Duration and Amount
- ▶ Optimize Impact: Benefit, Taxation, and Return, Drives Retention, and Succession
- ▶ Optimize Trade Offs: Expense vs Investment vs Opportunity Cost
- ▶ Optimize Leverage: Partial or Full Investment, Shift Expenses to Assets
- ▶ Optimize Flexibility: The future is unknown, actively manage & plan for change

# The Solution Design process examines trade offs to optimize impact.





# The Solution Design can fall into a few IRS categories



*An asset owned by the organization with a promised future benefit for the executive*

## **IRC 457**

**Limited or Unlimited  
Deferred Compensation  
(457F or 457B)**

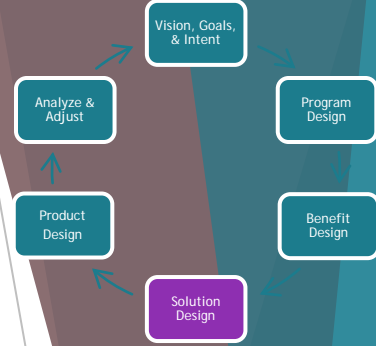
*An asset owned by the executive funded by the organization with a loan*

## **IRC 7872**

**Loan Regime Split Dollar  
Collateral Assignment Split Dollar  
(CASD or LRSD)**

**Each category has potentially “1001” Plan Designs that can be independent or combined in infinite ways to form a hybrid plan that meets your mission, vision, goals and intent.**

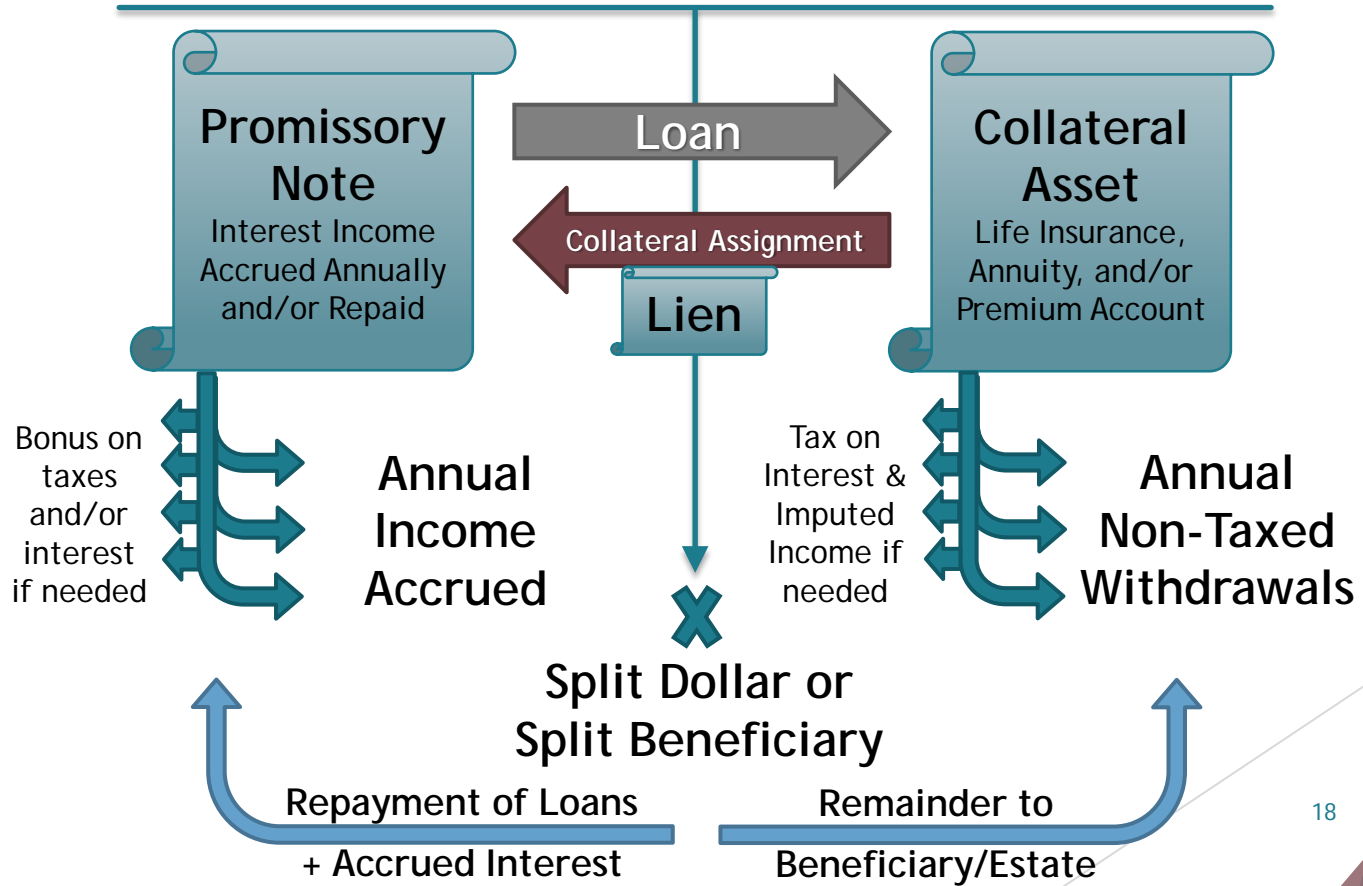
# Collateral Split Dollar Solution



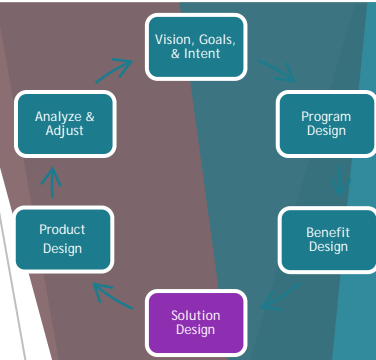
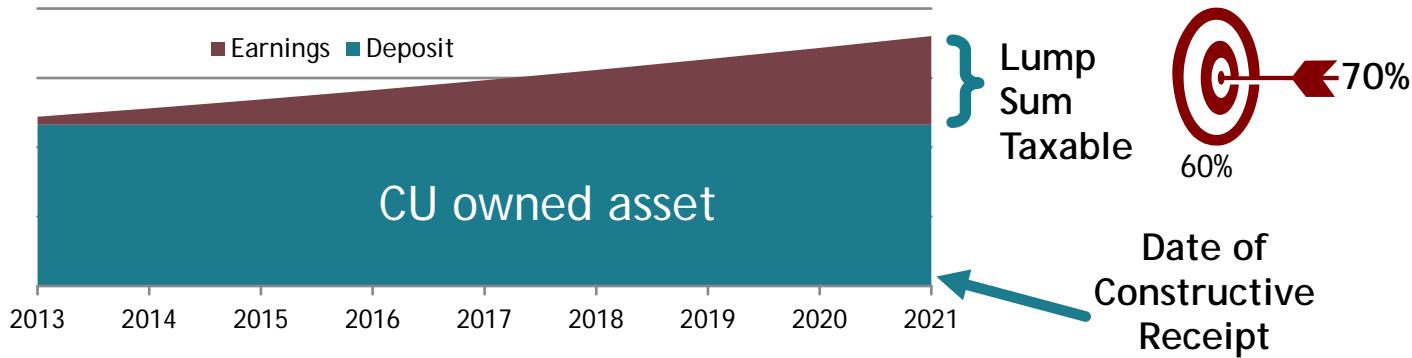
**Split Dollar Agreement**  
Rights, Obligations, Vesting & Separation Scenarios

**Plan Sponsor**

**Plan Participant**



# 457(f) solutions use organization assets to create a benefit



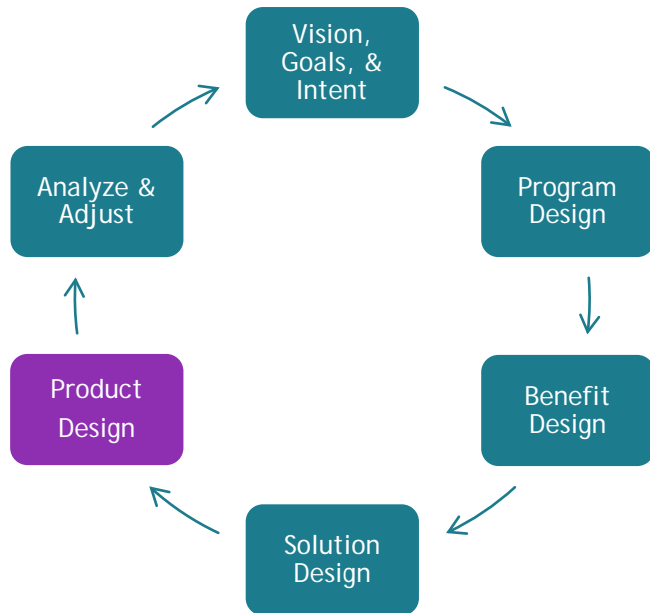
## Organization

- ▶ Opportunity Cost: Effective 0% until “date of receipt” unless “over funded” to increase return
- ▶ Market risk: “Mark to Market”
- ▶ Accounting for an expense and an accrued liability for a promised future benefit

## Executive

- ▶ Earnings distributed at the date of receipt are taxed lump sum
- ▶ Annuitized lump sum over life expectancy is partially taxed
- ▶ Market risk: If the asset underperforms then the risk is often on the Executive

# C-Suite Product Design



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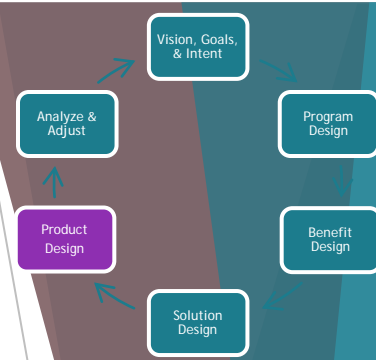
# Product Design derives from the solution and supports financials.

## Product Categories

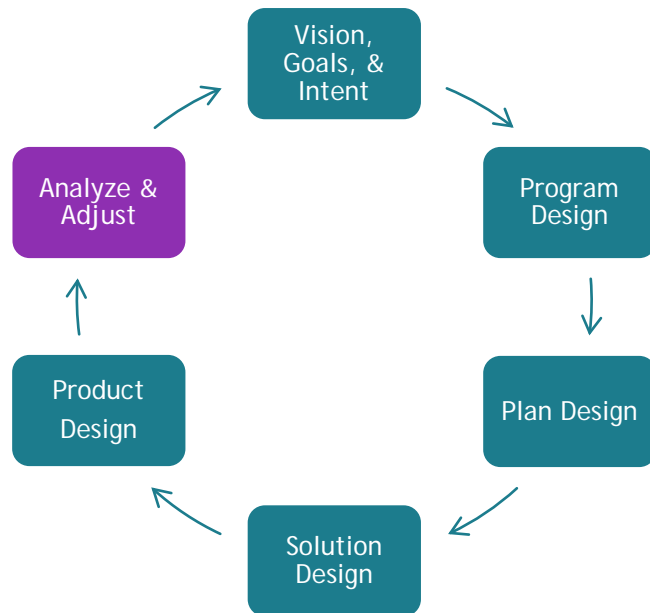
- ▶ Life Insurance
- ▶ Annuities
- ▶ Permissible Portfolios
- ▶ Otherwise Impermissible Investments

## Considerations

- ▶ Carrier Strength & Monitoring
- ▶ Reporting & Key Indicators
- ▶ Administrator Succession
- ▶ Investment Suitability
- ▶ Yields & Assumptions
- ▶ Guarantees or Growth
- ▶ Future Expectations
- ▶ Concentration & Permissibility



# C-Suite Analysis and Optimization of Integrated Supplemental Benefits



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- ✓ “Product Design” optimizes financials based on solution design
- ▶ **Analyze the proposed Plan Design, Optimize & Adjust**

**Repeat until confident in your Plan**

# Optimize the overall financial impact in context with the benefit provided.

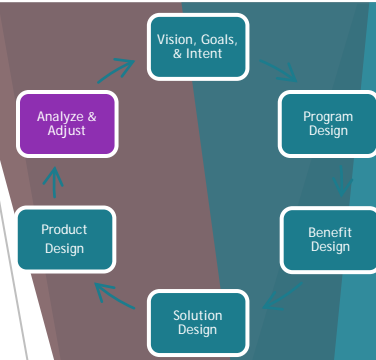
## Analyze

- ▶ Accounting Impact
- ▶ Compliance Impact
- ▶ Interest Rate/ALM Risk
- ▶ Opportunity Cost
- ▶ Net Worth & Capital Impact
- ▶ Cost of Alternatives

## Adjust to Optimize

Knowing what the Plan looks like provides insight into financial and compliance optimization

- ▶ Adjust the goals and intent
- ▶ Adjust the benefit
- ▶ Adjust relative importance and priority of design variables
- ▶ Adjust optimization



# Process is more important than product

The right process will yield the optimal solution.



## Understanding & Education

Mission, Vision, Goals, & Intent  
Plan Types, Options, Compliance



## C-Suite Plan Design

- Peer & Industry Comparison
- Succession & Retention Design
- Supplemental Benefit Design
- Employment Outcomes
- Program & Plan Design
- Draft Illustrations
- Financial Optimization



## Analysis & Due Diligence

- Legal, Accounting, Compliance
- Carriers, Custodians, & Products
- Risk: Concentration, Credit, Liquidity, Interest Rate, Strategic, Reputation, Transaction
- Results: Financial & Retention Impact



## Implementation

- Legal Drafting
- Underwriting
- Compliance Policies
- Accounting Setup
- Plan Adoption Resolutions
- Plan Funding

## Success

A successful SERP achieves the goals set by the organization for Retention Impact, Recruitment Effectiveness, Retirement Performance, and Financial Results.



# Plan for the future...a SERP must grow with your credit union.

## Administrative Support

- ▶ Plan Year End Annual Review
- ▶ Fiscal Year Reports & Tax Filing
- ▶ Quarterly/Monthly
  - ▶ Statements & Reports
  - ▶ Regulatory & Compliance
  - ▶ Accounting & Tax
  - ▶ Insurer monitoring & reporting
- ▶ Ad Hoc
  - ▶ Regulator & Exam Responses
  - ▶ Financial Product Service
  - ▶ Personal Retirement Scenarios

## TPA & Fiduciary Services

- ▶ Benefit Claims Administration
- ▶ Recordkeeping & Determinations
- ▶ Financial Account Fiduciary
- ▶ Employment Separation Processing
- ▶ Amendments & Modifications
- ▶ Advisory & Recommendations



# Thank You!

Questions?

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