

# Supplemental Executive Retirement Plans

A flexible benefit plan that provides supplemental retirement income for key executives.

A Supplemental Executive Retirement Plan (SERP) is designed to make up for the retirement income shortfall caused by limits and restrictions in qualified retirement plans. This solution is an affordable plan that helps provide a financially secure retirement, giving your company a competitive advantage to attract, reward and retain talented performers.

## The Plan

The SERP is a nonqualified plan that helps augment your key executives' retirement income. The plan allows company-sponsored benefits above the qualified plan limits, providing an enhanced retirement income opportunity for your top people.

## How the Plan Works

The executive and company enter into a formal SERP agreement structured as a "defined benefit" or a "defined contribution" arrangement.

- **Defined Benefit** — The company promises to pay the executive at retirement age a specified amount of retirement income for a specified period of time.
- **Defined Contribution** — The company promises to contribute a specified amount for a specified period of time into a retirement account for an executive. Earnings are credited on the account balances, based upon either a fixed crediting rate or the performance of selected indexes. At retirement, the accumulated contributions plus earnings are paid out as retirement income over a specified period of time.

## When the Executive Retires

- The business pays the benefits from current cash flow and receives a tax deduction for the benefits paid.
- The benefits are received by the executive as income and taxed accordingly.

Government limits and restrictions on the amount that employees and employers can contribute toward qualified benefit plans such as an IRA, 401(k) or 403(b), leave many highly compensated executives – usually your key people – without enough retirement income to sustain their current standard of living.

## **SERPs Offer Distinct Advantages**

### **For employers:**

- Golden Handcuffs — Can provide a program to recruit, reward and retain key talent
- Discriminatory Benefits — Freedom to select participants among highly compensated management
- Tax-Deductible — Benefits are tax-deductible when paid
- No IRS Approval — IRS approval is not required; avoids most of the cost and administrative requirements associated with establishing a qualified plan under ERISA

### **For executives:**

- Shortfall Makeup — Provides an opportunity to replace lost qualified plan benefits due to IRS limits and restrictions
- Current Taxation — No current taxation on employer contributions to the plan; taxable when received

## **Factors to Consider**

### **For employers:**

- Creates a liability on the company's balance sheet
- Required compliance with 409A regulations
- Plan credits that would have otherwise been paid as compensation create an economic cost to the company from the delayed deductibility of the compensation

### **For executives:**

- IRC Section 409A rules limit flexibility to change the receipt of the money
- In the event of company bankruptcy, participants are considered general creditors of the corporation for all plan balances, including salary deferrals
- No rollover option to an IRA or other tax sheltered plan – benefits are paid out as taxable income

## **Your Company's Success Depends on Retaining Your Key Executives**

Find out how a SERP may enhance your overall compensation package and help empower your executives to build a financially strong retirement. Together, we will provide a complete proposal and financial impact summary based on your assumptions to help your company select a more suitable plan design. We appreciate the opportunity to provide you with this information and look forward to working with you.

For more information visit, **NFP.com**.

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