



Executive Benefit Strategies

Benefit Design	Goal	Synopsis	Advantages	Disadvantages	Tax Issues
Retirement Benefits					
Supplemental Executive Retirement Plan (SERP)	To provide additional retirement income.	Agreement to promote loyalty and provide a meaningful benefit at retirement.	Corp. may fully discriminate in benefits and create vesting schedule (golden handcuffs).	Creates book liability. Benefit subject to creditors of the corp. in event of bankruptcy. Must limit to Top-Hat group.	No deductions until benefits are paid. Executive is not taxed until benefits are received.
Death Benefit Only Plan (DBO)	To provide survivor benefits for an executive's heirs.	Agreement by the company to provide income benefit to an executive's beneficiaries in the event of death before and/or after retirement.	Corp. may fully discriminate in benefits and create vesting schedule.	Creates book liability. Benefit subject to creditors of the corp. in event of bankruptcy. Must limit to Top-Hat group.	No deductions until benefits are paid. Executive is not taxed until benefits are received.
409A Voluntary Deferral Plan	Permits pre-tax executive deferrals of compensation beyond qualified plan limits.	Executive enters into agreement to defer compensation until future date (e.g. retirement). Corp. may make matching and / or discretionary contributions.	Pre-tax savings and earnings. Corp. may vest discretionary contributions (golden handcuffs).	Creates book liability. Benefit subject to creditors of the corp. in event of bankruptcy. Must limit to Top-Hat group.	No deductions until benefits are paid. Executive is not taxed until benefits are received.

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Supplemental Benefits					
Endorsement Split Dollar	To provide life insurance protection at minimal cost to executive.	Executive is endorsed a portion of a life insurance policy owned by the Corp.	Corp. controls the policy. May be combined with SERP.	Policy is not portable to executive and executive has no access to policy values.	Premiums are not deductible. Executive pays tax on the reportable economic benefit.
Executive Disability Insurance	To fund an executive owned Disability Income insurance policy using corp. dollars.	Corp. funds premium. Executive owns policy.	Permanent and portable policy for executive. May provide for amounts above group DI limits.	More expensive than group DI.	Premiums tax deductible to corp. If imputed to the executives as taxable income, benefits will be received tax-free. If not imputed, benefits will be considered taxable income to the executive.
Executive Life Insurance Bonus Plan	To fund an executive owned life insurance policy using corp. dollars	Corp. funds minimum premium plus discretionary contributions. Executive owns and selects beneficiaries of the policy.	Provides permanent, portable life insurance benefit vs. group term. Policy values grow tax deferred, may be accessed income tax free.	No golden handcuffs. Must be insurable. Minimum premiums must be maintained to avoid current taxation on earnings.	All premiums deductible to corp. No book liability. Taxable imputed income to executive in year paid.
Executive Long Term Care	To fund an executive owned LTC policy using corp. dollars.	Corp. funds premium. Executive owns and names beneficiaries of the policy.	Provides for in home or professional facility nursing care in the event of severe disability. May add spouse as supplement.	Policy premiums become responsibility of executive post employment.	Premiums tax deductible to Corp. Executive does not recognize any taxable benefit on premiums or benefits up to qualified limits.

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Long-term Incentive Plans					
Incentive Bonus	Long-term incentive tying executives to specific performance measures.	Cash bonus plan with vesting schedule. Specific award amounts for specific performance measures.	Rewards performance and creates loyalty.	No retention once paid. May not generate loyalty if amounts too small or goals are not perceived as realistic.	Deductible upon payment of bonus. Bonus received by executive as ordinary income in year awarded.
Stock Options / Stock Appreciation Rights	Long-term incentive tying executives to financial performance of Corp.	Shares or rights awarded at current market value tied to vesting schedule for exercise. Amount of benefit related to number of shares times any appreciation in market value.	Closely aligns executives to overall company performance. Can generate significant rewards and create long-term loyalty.	Creates book liability. Must mark to market. Can dilute ownership. Can be significant cash drain if not funded.	Corp. deduction only recognized upon exercise of option/right. Ordinary income tax to executive on amount of market appreciation over grant price upon exercise.
Phantom Stock / Performance Units	Long-term incentive tying executives to financial performance of Corp.	Shares or units equal to book value tied to vesting schedule for exercise. Amount of benefit related to number of shares times any appreciation in book value.	Closely aligns executives to overall company performance. Can generate significant rewards and create long-term loyalty.	Creates book liability. Can be significant cash drain if not funded.	Corp. deduction only recognized upon exercise of grants. Ordinary income tax to executive on amount of market appreciation over grant price upon exercise.
Restricted Stock	Long-term incentive tying executives to financial performance of corp.	Stock shares awarded at market value tied to vesting schedule for exercise. Amount of benefit related to number of shares times any appreciation in share value.	Closely aligns executives to overall company performance. Can generate significant rewards and create long-term loyalty.	Creates book liability. Dilutes ownership	Corp. deduction only recognized upon exercise of stock. Ordinary income tax to executive upon vesting for market value.