

RcF News

ISSUE 27

Key Employees—Solving the Benefit Puzzle

By Allan Mosher

How do you best design a compensation package that satisfies both the company and key employees? Consider viewing the compensation package strategically.

If you buy an asset for the company you may assess:

- Affordability
- The cost vs. return
- Sustainability
- How it fits relative to long term planning
- Value to Shareholders
- Effect on saleability

A similar assessment can also be made with a compensation package for key employees. While RcF does not design overall compensation packages, we do offer long term Supplemental Pension solutions as part of that package. Solutions that can be viewed similar to a company asset. Key Employees are an asset of immeasurable value. Retaining them through the strategic use of long term asset allocation can offer much more than the value of the underlying asset.

Mission Statement

RcF's mission statement is "turning pension promises/needs into retirement realities". Our efforts are aligned with key employees' long term wants and needs. The same focus as ownership but, with the difference that the employee is more dependent on retirement benefits. Building a separate asset pool is beyond the ability for many. Unless they are inheritors, most today suffer from retirement anxiety.

RcF offers a Supplemental Pension Program that gives key employees a Guaranteed Pension Benefit (Monthly Amount or

Based on 1% x final average salary x years of service) that allows the company to align their compensation package in a manner that is effective and sustainable.

Just allocating funds to a registered Money Purchase Pension Plan (MPPP), is a generic contribution that, by itself, offers questionable long term incentive value to employees. The employee cannot see the retirement security as they do with a defined benefit promise. As such, current pension contributions are not offering a company the desired retention benefits relative to cost.

Key employee benefits require new thinking. RcF provides that by customizing the retirement component of your compensation package to implement a retention strategy for key employees.

The Company

Most want to offer key employees benefits that they see as valuable and, that will promote loyalty. If a key employee views a Public Corporation or Government Employee with envy, it is usually because of the Defined Benefit Pension. There is nothing more sacred today than a secure retirement. Understandably, the concern for most Private Corporations is that a Defined Benefit promise is not an affordable or sustainable option. This need not be the case.

RcF's program offers key employees a Guaranteed Monthly Retirement Benefit, their "Living Money". Money, that gives them retirement security for base expenses. The employees' other investments provide them with their "Play Money" for vacations etc.

Imagine the effect of providing employees with a monthly retirement income of \$2,000 - \$3,000 as part of the pension component of the benefit/compensation package. Reducing the concern of what their base pension will provide. Would that create excitement, relieve stress, increase productivity and promote loyalty? Our clients think so.

Supplemental Pensions used strategically can provide a corporation major benefits.

The Employee

Key Employees are assets, their productivity driven by loyalty, satisfaction and compensation. Most key employees are 45 plus with thoughts of a comfortable retirement on their minds. Many suffer from “retirement anxiety” resulting from market performance the past 12 years and the effect on “money purchase” benefits. They cannot dollar average with make-up contributions and they are concerned that lost asset values may never recover.

They need to know that they at least have a “Living Pot” of money for base retirement needs.

Providing key employees with their “Living Money” is the most valuable benefit a company can offer. RcF shows a way to make it affordable and sustainable.

Affordability

No Business Owner wants to provide a benefit that is not affordable.

Contributions can be tied to company profitability meaning, if predetermined revenue / sales targets are not met, there are no contributions but, with catch up provisions.

RcF’s plan can work within an existing compensation package (salary, bonus, retirement plan contributions, paid holiday, etc.) or be an “add on”, based on the company’s objective of including key employees in the success of the company.

Retirement benefits can be (i) a target amount adjusted to the time value of money and indexed from retirement or, (ii) based on a formulae tied to earnings.

Market risk of providing the Defined Benefit promise is mitigated by the conservative professional management of assets within the RCA including a mortality component on employees covered.

Supplemental Retirement benefits can be cost effective and simple to administer.

Questions on Cost

Is it less expensive to incur some deductible expenses in providing supplemental pension benefits in return for employee loyalty than to lose a key employee, with the cost of replacement and effect on productivity?

Is it best for a company to have long serving employees mentor younger talent either recruited or promoted to bring in new ideas and energy or, have these employees trying to work longer because they cannot afford to retire?

The immediate additional cost of providing supplemental benefits is likely more than offset by long term benefits.

As compared to traditional retirement plans, an RcF designed Supplemental Plan gives owners maximum value for their dollar.

Shareholder Value

Company assets all have different values. In many companies, the value of the employees can exceed the cost of equipment and/ or the value of the equipment.

A bonus, profit sharing, Group RRSP or Defined Contribution plan, and extended holidays may not provide long term incentive to remain with company. These benefits are common with most employers.

A funded Supplemental Pension with a vesting agreement and future funding relief, that retains shareholder value in a key asset (the employees), makes a business more “saleable”.

Owner/Management Participation

Owners also have similar concerns as employees but on a different scale and with different concerns. As such, if increased pension benefits are also extended to working owners (shareholders not employed by operating company cannot be included) separate plans can be established for them that also address different concerns:

- Estate planning – family equalization, estate freeze offset.
- Succession Planning – RCAs can assist in sales
- Creditor Protection – minority shareholder actions or claims against Holdco shareholders
- A balanced strategy in conjunction with alternatives as an integral part of any sound financial

Owners need to protect their retirement assets with a safe and compliant solution.

Conclusion

Key employees can be a company’s most valuable asset and it is important that owners maximize the value of their investment in these employees. A company would not invest in other assets without determining the impact on short and long term values. This should be the same for key employees.

What is lost if a key-employee with years of expensive training and experience walks out the door? What value is lost to shareholders?

RcF’s strength is not in products, it is our expertise and ability to customize a solution for YOU – Simple, Effective and Unique.

**Allan Mosher - Senior Associate
Retirement Compensation Funding Inc**

About the Author

Allan Mosher is a Senior Associate of R^{CF}. He has over 18 years experience in financial services industry..

R^{CF} and R^{CF}News are trademarks of Retirement Compensation Funding Inc. R^{CF} is the creator of the RRSPWrap™, IPPWrap™, MPPPWrap™, PENSIONPlus™ and SERPPlus™. RCA Trust Services are provided by BMO Trust Company. 416.364.6444 | info@rcf.ca | www.rcf.ca

This material is for information purposes only and should not be construed as legal or tax advice. Every effort has been made to ensure its accuracy, but errors and omissions are possible. Individual circumstances may vary and specific legal and tax advice is recommended. This material is based on current tax legislation and assessment practices and may be affected by future tax changes and market conditions.

© 2013 - Can be reprinted with permission by R^{CF} with no changes and full credit.

