



Knowledge Center

Benefit Funding

perspectives



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Client Question

What process do you use to determine the appropriate funding vehicle?

Answer

Balser Companies and the company sponsoring the benefit plan will consider the appropriate funding vehicles in tandem with the design of the deferral plan. Certain choices about employee eligibility, eligible compensation, valuation, distribution options, and other features (like additional death benefits) will influence the structure of the asset created for future payment obligations. Unlike a qualified plan where an employee's retirement benefits are secured by a trust to insulate them from the company's creditors, by regulation the nonqualified executive deferred compensation plan must remain an unsecured general creditor of the company. The funding vehicle will add security to the promise by management that the company will in fact have the resources for participants' retirement income payments when they come due.

To properly construct this informal funding, Balser analyzes key factors and determines the best solutions, including vehicles that use corporate-owned life insurance (COLI), mutual funds and alternative investments. We will ascertain the company's objectives, illustrate scenarios of the executives' aggregate account balance/liability, and evaluate funding strategies in the context of the company's direction and economic environment. Given its advantages (cost recovery / tax and accounting treatment); COLI became the most common method of funding nonqualified benefits over the past two decades.

In 2006, the COLI Best Practices Provisions passed by both the House and Senate added even more guidance and stability to the application of COLI to nonqualified plans. With nearly 40 years of booked business and the clout earned in the major COLI market, Balser understands that variable life insurance products vary widely. Balser's process would not simply identify the most appropriate policies and insurance carrier. Our analysts would also re-negotiate product(s) with carriers to derive the optimum pricing and performance possible, resulting in superior product placement. Balser would collaborate with HR/Administration and prepare for a discussion with corporate Finance about any key options in plan design and funding that affect the company. If not managed effectively, costs associated with deferred compensation plans arise from corporate taxes, investment management fees, frictional costs from corporate assets / hedging strategies, and administrative fees.

Our goal is to provide the benefit of our experience and expertise to enable the company to provide superior competitive benefits for key employees while minimizing costs to shareholders.

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What process do you use to determine the appropriate funding vehicle?

Answer (continued)

The funding analysis process requires detailed employee / non-employee census information (age, gender, etc) and actual compensation information provided by the company to study the financial and accounting impact to the corporation. We determine the best population of insured employees confirm the corporation's situs and review any outstanding compliance issues. The company and Balser determine the preferred process to gather consent from the selected insured employees. The face amount of the policies will be the same for every person in the group, and that exact amount is determined after the first enrollment/election period. The aggregate deferred amount is spread equally among the policies covering all of the insured employees; and, by using the formulas prescribed in the federal Tax Code, the face amount is determined. To make the funding as efficient as possible, the death benefit on each policy is the minimum amount allowed by law. If necessary, we refine the financial and investment strategy and objectives to account for any corporate specific issues that may have arisen during the process. Periodic (usually quarterly) asset/liability reports and meetings to discuss ongoing strategies are conducted regularly to ensure the success of the funding program.

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