

Supplemental Retirement SERP Benefits

Most large employers offer their top executives an additional pension-like plan known as a Supplemental Executive Retirement Plan (SERP). Both traditional pensions and SERPs are entirely funded by the employer.



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Pension-style Nonqualified Plans

A SERP delivers employer provided retirement income. SERPs are sponsored to replace benefits lost by IRC Section 415 limits (i.e., \$180,000 annual benefits and \$45,000 annual contribution limits), benefits lost by IRC Section 401(a)(17) limits (i.e., \$225,000 salary cap), other limitations and as incentives to join (golden handshake) or to stay at the company (golden handcuff).

The benefit is determined by a formula that may be based on the qualified pension plan, or vary. The amount is also often offset by other compensation like social security, the qualified plan, a nonqualified plan, even disability benefit payments.

These plans can be easily structured to target a specific percentage of replacement income— a defined benefit SERP. For example, a SERP could provide for 70% of the top five years of compensation-- reduced by the executive's benefits from Social Security benefits, 401(k) distributions, and nonqualified plan distributions. As a result, the employer is able to deliver a targeted level of post-retirement income, expressed as a percentage of compensation.

SERP designs are changing: a company can pursue another approach by offering executives a defined contribution SERP (for example, a profit-sharing arrangement) vs. the more common defined benefit approach described above. Instead of receiving a stipulated annual benefit amount at retirement, participants receive current corporate contributions to a special deferred compensation account. The amount of the current contributions is the actuarial equivalent of the defined benefit. The participant allocates and manages the SERP account among various investment options, like any other account in a deferral plan. If the participants investment choices earn more than the interest rate used in the actuarial calculations, their benefits under the plan will increase as compared to the defined benefit approach.

Administratively, Balsler easily handles SERP accounts, providing its value on the same account management site as an executive's other nonqualified benefit plans, like the deferred compensation plan.

