

# Employee Retention- Is That a Problem for You?



“Employee retention.” As a business owner, is that a phrase that you think about often? Particularly as it relates to your top employees, such as your best sales people, company managers and executives? If so, then you’re not alone. Whether your business is a small, medium or larger business, attracting and then retaining top talent is vitally important for the continued growth and success of the business. Indeed, 47 percent of human resource professionals in the SHRM<sup>i</sup> /Globoforce survey *Using Recognition and Other Workplace Efforts to Engage Employees*<sup>ii</sup> indicated that retention was the top management concern.

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of human resource professionals indicated that in the SHRM/Globoforce survey *Using Recognition and Other Workplace Efforts to Engage Employees* retention was the top management concern.



Yet many businesses already offer benefits to help retain employees. First and foremost is a competitive compensation package. Additional benefits range from the traditional—such as participation in a qualified retirement plan, health insurance and robust vacation schedules, to more modern—such as flex schedules, remote work arrangements, gyms and wellness resources. But that’s still not enough.

## Unique Benefits for Your Top Employees

What if you could provide unique and specialized benefits to your top employees? These are benefits that are custom designed to fit your needs as well as those of your key employees. For example:



You can help your key employee protect his or her family and build up supplemental reserves for retirement, college funding or other objectives, without providing the same benefit to all other employees.



You can reward an employee for staying with the company through a landmark event, such as the completion of a lengthy but lucrative contract, or until the owner develops and trains her child to be the successor.

That retention reward can be specifically designed just for that employee. There are still other types of unique benefits that can be provided to your top employees.

The chart below provides a quick summary of the different types of “executive” benefits that can be provided on a case-by-case basis to the employee who is among your best and most highly paid. Executive benefits are used to recruit, retain, reward and/or retire key employees and executives. There are also variations of these concepts to provide additional specialization to your situation. Strategies can also be combined to fulfill the objectives you have for that employee.

For more information on the different strategies and to discuss an appropriate one for your business and unique circumstances, please contact your Security Mutual Life Insurance Advisor.

## Types of Executive Benefits

CONCEPT	HOW IT WORKS	BENEFITS TO EMPLOYER (ER)	BENEFITS TO EMPLOYEE (EE)	CONSIDERATIONS
<b>EXECUTIVE BONUS</b>	ER makes an additional cash compensation bonus in the form of a whole life insurance policy premium. Annual bonusing is anticipated.	<ul style="list-style-type: none"> <li>Bonus is generally tax deductible if compensation is reasonable.</li> <li>ER helps EE to protect family.</li> </ul>	<ul style="list-style-type: none"> <li>Receives insurance policy for family protection.</li> <li>Builds up policy cash values for retirement, college funding etc.</li> </ul>	<ul style="list-style-type: none"> <li>Bonus is taxable income to EE when received.</li> <li>Insurance policy is owned by EE and portable.</li> <li>No regulatory requirements other than compensation reporting and must be “reasonable.”</li> </ul>
<b>RESTRICTIVE EXECUTIVE BONUS</b>	Same as Executive Bonus but EE agrees not to access policy cash values as inducement for future bonuses.	<ul style="list-style-type: none"> <li>Same as Executive Bonus.</li> <li>Ties EE more closely to company.</li> </ul>	<ul style="list-style-type: none"> <li>Same as Executive Bonus.</li> <li>Earns more good faith from ER from agreement.</li> </ul>	<ul style="list-style-type: none"> <li>Same as Executive Bonus.</li> <li>Requires simple legal agreement.</li> </ul>
<b>RETENTION BONUS</b>	ER agrees to pay a lump sum bonus to EE if EE agrees to stay with the company for a set period and actually stays for that term.	<ul style="list-style-type: none"> <li>Ties EE more closely to company.</li> <li>ER loses nothing if EE leaves before the term agreed upon.</li> <li>ER retains control.</li> <li>True “golden handcuffs.”</li> <li>ER has “key person” insurance coverage.</li> </ul>	<ul style="list-style-type: none"> <li>May earn a large payout.</li> <li>Knowledge that ER greatly values EE.</li> </ul>	<ul style="list-style-type: none"> <li>Bonus is taxable income to EE when received.</li> <li>Benefits tax-deductible to ER when paid to EE.</li> <li>Insurance policy is owned and controlled by ER.</li> <li>Requires simple legal agreement.</li> <li>Minimal regulatory requirements.</li> <li>Compensation reporting must be “reasonable.”</li> <li>Funds are subject to claims of ER’s creditors.</li> <li>IRC § 101(j) Employer-Owned Life Insurance (EOLI) requirements.</li> </ul>

## Types of Executive Benefits *(continued)*

CONCEPT	HOW IT WORKS	BENEFITS TO EMPLOYER (ER)	BENEFITS TO EMPLOYEE (EE)	CONSIDERATIONS
<b>SPLIT DOLLAR — LOAN REGIME</b>	ER agrees to assist EE with premium payments, in the form of loans, on EE-owned permanent life insurance.	<ul style="list-style-type: none"> <li>Ties EE more closely to company.</li> <li>ER recoups loans from cash values and/or death benefit.</li> <li>ER maintains collateral assignment on life insurance policy as security.</li> </ul>	<ul style="list-style-type: none"> <li>EE owns policy along with cash value accumulation for retirement or other savings.</li> <li>EE helps protect family through death benefit.</li> <li>Minimal out-of-pocket cost to EE to purchase permanent life insurance.</li> </ul>	<ul style="list-style-type: none"> <li>Premium loans are subject to interest payable by employee.</li> <li>Requires legal agreement and collateral assignment.</li> </ul>
<b>SPLIT DOLLAR — ECONOMIC BENEFIT</b>	ER agrees to endorse some or all of ER-owned life insurance death benefits to EE for family protection or estate planning.	<ul style="list-style-type: none"> <li>Ties EE more closely to company.</li> <li>ER controls insurance policy.</li> <li>ER recoups premium payments from death benefit or cash value.</li> <li>ER may have “key person” insurance coverage.</li> </ul>	<ul style="list-style-type: none"> <li>EE can provide death benefit protection to family with minimal out-of-pocket cost.</li> </ul>	<ul style="list-style-type: none"> <li>EE pays income taxes on “economic benefit” of death benefit protection.</li> <li>Requires legal agreement and policy endorsement.</li> <li>IRC § 101(j) EOLI requirements.</li> </ul>
<b>SALARY DEFERRAL PLAN [A FORM OF NON- QUALIFIED DEFERRED COMPENSATION PLAN (NQDC PLAN)]</b>	ER allows EE to defer a portion of EE’s income until future date, generally retirement. Account balance fluctuates with market or grows at agreed-upon crediting rate until withdrawn.	<ul style="list-style-type: none"> <li>Ties EE more closely to company.</li> <li>ER may be able to recoup benefits paid.</li> <li>Unlike qualified retirement plans, ER can choose to offer only to key employees.</li> <li>ER may make discretionary contributions to reward.</li> <li>ER has “key person” insurance coverage.</li> </ul>	<ul style="list-style-type: none"> <li>EE can save for retirement beyond company’s qualified retirement plan.</li> <li>EE can save for future planned expenses (e.g., college tuition).</li> <li>EE may reduce current income tax burden.</li> </ul>	<ul style="list-style-type: none"> <li>Benefits are subject to income taxes when received.</li> <li>Benefits tax-deductible to ER when paid.</li> <li>Plan is exclusive to “select management or highly compensated employees.”</li> <li>Requires legal agreement and some regulatory compliance.</li> <li>May require third-party plan administration.</li> <li>Funds are subject to claims of ER’s creditors.</li> <li>Typically, informally funded with cash value life insurance owned by ER.</li> <li>IRC § 101(j) EOLI requirements.</li> </ul>

## Types of Executive Benefits *(continued)*

CONCEPT	HOW IT WORKS	BENEFITS TO EMPLOYER (ER)	BENEFITS TO EMPLOYEE (EE)	CONSIDERATIONS
<b>SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN (SERP) [A FORM OF NON-QUALIFIED DEFERRED COMPENSATION PLAN (NQDC PLAN)]</b>	ER agrees to provide a future income benefit to EE, over and above current compensation as inducement for EE to stay for a certain term or to retirement. EE may forfeit some or all of benefits for failure to meet term.	<ul style="list-style-type: none"> <li>• Ties EE more closely to company.</li> <li>• True “golden handcuffs.”</li> <li>• ER may be able to recoup benefits paid.</li> <li>• Unlike qualified retirement plans, ER can choose to offer only to key employees.</li> <li>• ER has “key person” insurance coverage.</li> </ul>	<ul style="list-style-type: none"> <li>• EE receives future compensation benefits over and above current compensation and benefits.</li> <li>• EE can supplement retirement savings beyond company’s qualified retirement plan and other savings.</li> <li>• EE can receive benefits for future planned expenses (e.g., college tuition).</li> </ul>	<ul style="list-style-type: none"> <li>• Benefits are subject to income taxes when received.</li> <li>• Benefits tax-deductible to ER when paid.</li> <li>• Plan is exclusive to “select management or highly compensated employees.”</li> <li>• Requires legal agreement and some regulatory compliance.</li> <li>• May require third party plan administration.</li> <li>• Funds are subject to claims of ER’s creditors.</li> <li>• Typically, informally funded with cash value life insurance owned by ER.</li> <li>• IRC § 101(j) EOLI requirements.</li> </ul>



<sup>1</sup>Society for Human Resource Management

<sup>2</sup>The Society for Human Resource Management (SHRM). “SHRM/Globoforce Using Recognition and Other Workplace Efforts to Engage Employees.” SHRM.org. <https://www.shrm.org/hr-today/trends-and-forecasting/research-and-surveys/pages/employee-recognition-2018.aspx> (accessed November 7, 2019)

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