

Business planning

Supplemental executive retirement plan

The concept

Small-business owners need to show top performers they're appreciated to ensure they stay with the business. One way to accomplish this is with a defined benefit or defined contribution supplemental executive retirement plan (SERP) funded with life insurance.

Benefits

A SERP benefits not only the employee who is the eventual recipient of the supplemental income, but also the employer who puts the plan in place. It can be a recruiting and retention tool for valued employees. It has fewer administration and filing requirements than traditional qualified plans. The business owner has the ability to choose which employees receive the benefit and when and how much they will receive.

Defined benefit SERP

A defined benefit SERP allows an employer to provide defined benefit payments to a key employee at a predetermined age of retirement and/or years of service. Instead of funding the employee account on an annual basis, the employer simply books the expense and liability for the benefit annually, to be recognized in the future.

Defined contribution SERP

A defined contribution SERP is an arrangement in which an employer makes contributions to a retirement account earmarked for a key employee until a predetermined age of retirement and/or years of service. Upon retirement, the employee will receive distributions based on the account value at that time.

Tax considerations

- There is no immediate tax deduction for the employer
- SERPs lack the contribution limits and regulatory rules associated with traditional qualified retirement plans
- There's no impact on existing qualified retirement plans — you can have both a qualified retirement plan and a SERP
- Retirement benefits, when paid, are taxable to the employee and tax deductible to the employer
- If the employee dies prior to retirement, the SERP may have provisions to provide a tax-free death benefit to the employee's estate

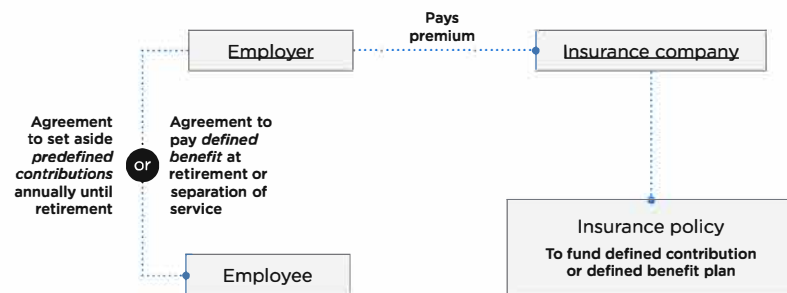
Steps

- The employer determines whether to put a defined contribution or defined benefit plan in place
- The employer determines who will be covered by the plan
- The employer pays the premium to the life insurance carrier based on the lives of the plan participants
- The employer pays out the benefit at the employee's retirement

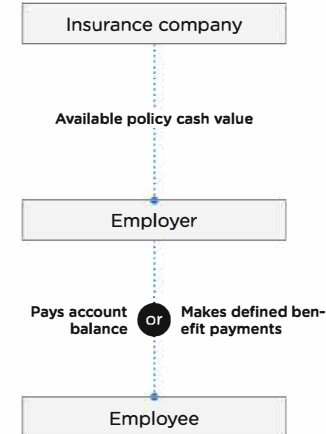
Supplemental executive retirement plan (continued)

How it works

During work years



At retirement



At death

