

Breakout 2:  
**Navigating Executive Benefits  
in a Shifting Regulatory  
Landscape and Evolving  
Workforce Dynamics**

**Todd Carpenter**

*NFP*



**BankDirector.**

#BBTF24

# Executive Benefit Plans for an Evolving Workforce

**Todd Carpenter, SVP Business Development**  
*NFP Executive Benefits*



# HR & Compensation Management

## 2024 Predictions from 2023

### Most challenging and highest-priority investments for HR

What will be the greatest challenges and investment priorities in 2024 compared to previous years?



Compensation

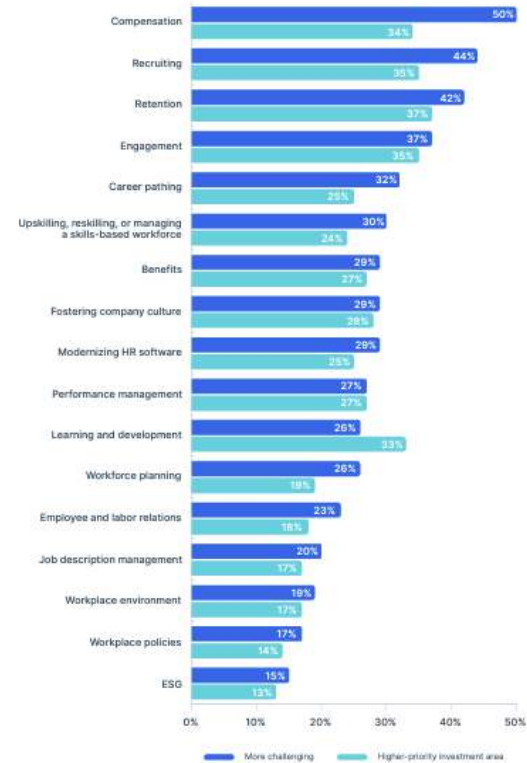


Recruiting



Retention

Most challenging and highest priorities for HR in 2024



# Recruiting & Retention Costs

**Build programs to creatively attract and retain top-level talent.**



In any employment environment, attracting and retaining top-level talent is challenging. The costs to replace a highly compensated executive are estimated to be **200% - 400%** of the annual salary associated with that position. Considering the competitiveness of the upper end of the employment market, attracting and retaining key employees is of utmost importance.

# Retaining Key Employees

## Is there a potential problem, perceived or real?

Most times an Employer does not realize they are at risk of losing a key contributor until it is too late. Is the compensation package in place competitive? Is salary and bonus enough? It can be hard to tell.

## Questions to consider.

- Is the current compensation package competitive?  
According to whom? Compensation consultant?
- Is there an opportunity for ownership?
- What are our competitors offering?
- What are companies NOT our competitors offering?
- What is important to our Key employees? Retirement?  
Short-term incentives? It's ok to ask....



# Executive Compensation

## An investment in leadership

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Executive compensation and benefits are vital for attracting and retaining top leadership talent, with the overwhelming majority of companies acknowledging they can't afford to lose their high-level executives.

87%

cannot afford to lose top talent\*

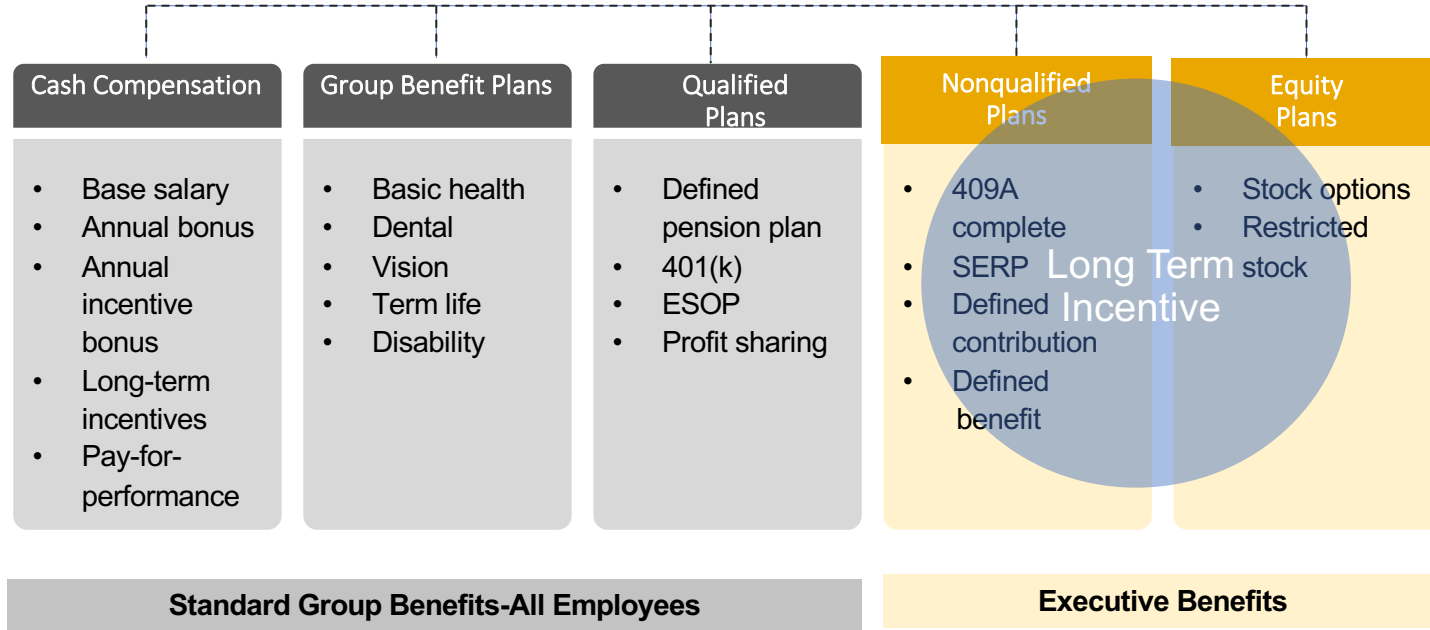
71%

believe retention will be a significant influence in years ahead\*

61%

say retention is one of the greatest factors influencing executive benefits\*

# Comprehensive Compensation Package



# NQDC and Performance-based Incentives

## Driving success in executive benefit packages



### Benefits Offered Today:

High/Moderate  
Impact on Plan  
Success

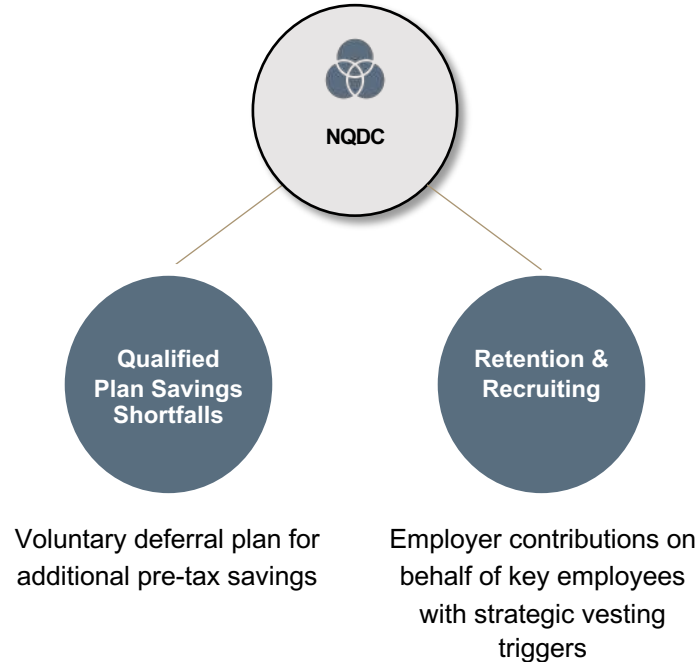
<b>Nonqualified deferred compensation plans</b>	<b>64%</b>	<b>82%</b>
Performance-based incentive (short or long-term)	60%	90%
Supplemental executive life insurance	40%	59%
Fringe benefits (e.g., first class travel, legal planning services)	36%	51%
Employee/severance agreements	35%	72%
Split-dollar life insurance	32%	72%
Signing bonus	28%	60%
Stock/equity	19%	74%
Supplemental executive disability coverage	19%	48%
Tax gross-up for taxable benefits	13%	58%
Supplemental executive medical insurance	9%	83%
Guaranteed minimum annual incentive	8%	53%
Loan to buy/pay stock, a home, loans other debt, etc.	7%	60%
College tuition for children	2%	60%

# Nonqualified Deferred Compensation

## What is it?

Nonqualified Deferred Compensation Plans (NQDC) are a flexible corporate-sponsored solution that allows key executives to efficiently accumulate additional assets for future financial needs. Through this program, participants can voluntarily elect to defer a portion of their compensation, and/or receive employer-based contributions on a pre-tax basis, over qualified plan limitations. The plan can solve two problems for an organization – 401k voluntary savings limitations, and retention.

### One Program. Two Solutions



# NQDC Plan Design Options

As an independent consulting firm with an open-architecture platform, our model provides our clients with the means to create a robust program for their key employees. Plan sponsors have a great deal of flexibility in designing a plan that meets both executive and organizational objectives. As a result, every sponsor's nonqualified plan is unique. Some key design elements include:



## Eligibility

### Discriminatory:

- > \$XXX,000 in compensation
- VP titles and above
- Custom selection
- Select group of management



## Contributions

### Multiple Sources:

- Base Salary
- Bonus
- Employer match
- Employer discretionary contributions
- SERP



## Vesting

### Can Vary:

- 100% vested
- Rolling cliff vesting
- Tiered vesting
- Discretionary vesting



## Distributions

### Defined:

#### Time of distribution:

- In-service distribution
- Separation from service distribution

#### Form of distribution:

- Lump sum
- Annual installments



## Investments & Funding

### Can Vary:

#### Investments

- Mutual Funds
- Insurance subaccounts
- Fixed crediting rate

#### Funding

- Mutual Funds
- COLI/BOLI
- Hybrid

# NQDC in Banks

## Otherwise Known as...

*Supplemental Executive Retirement Plan (SERP), ABC Salary Continuation Plan  
Phantom Stock, 401k Lookalike, 401k Restoration, 401k Mirror  
409a Deferred Compensation*

### BOLI and NQDC Statistics for All Banks

Asset Size	Banks	Banks with BOLI	% of Banks with BOLI	Total BOLI Cash Value (\$000s)	% BOLI to Regulatory Capital	Banks with Def. Comp	% of Banks with Def. Comp
Greater than \$50 Billion	46	36	78.26%	\$135,822,542	12.38%	0	0.00%
\$5 Billion - \$50 Billion	231	186	80.52%	\$34,990,170	13.76%	51	22.08%
\$1 Billion - \$5 Billion	707	596	84.30%	\$17,507,058	14.10%	320	45.26%
\$750 Million - \$1 Billion	284	224	78.87%	\$3,172,364	15.10%	126	44.37%
\$500 Million - \$750 Million	494	382	77.33%	\$3,638,186	14.94%	248	50.20%
\$250 Million - \$500 Million	971	705	72.61%	\$4,391,995	15.93%	356	36.66%
\$100 Million - \$250 Million	1,136	706	62.15%	\$2,174,274	16.19%	323	28.43%
Less than \$100 Million	692	269	38.87%	\$393,278	19.09%	130	18.79%
<b>Total</b>	<b>4,561</b>	<b>3,104</b>	<b>68.06%</b>	<b>\$202,089,867</b>	<b>15.56%</b>	<b>1,554</b>	<b>34.07%</b>

# Nonqualified Deferred Compensation

## Prevalence in Banks

Over 34% of all banks are reporting a Nonqualified Deferred Compensation Plan liability on their call report.

NFP administers 37% of all bank NQDC plans. Most plans utilize a defined benefit structure, though an increasing number of banks are moving towards a defined contribution model for more flexibility. The average percentage of final salary estimated to be provided through all plans is 25% payable for 10-15 years. This equates to an annual contribution rate of 10-25% of salary.

Director Deferral or Fee Continuation Plans are Common as well.

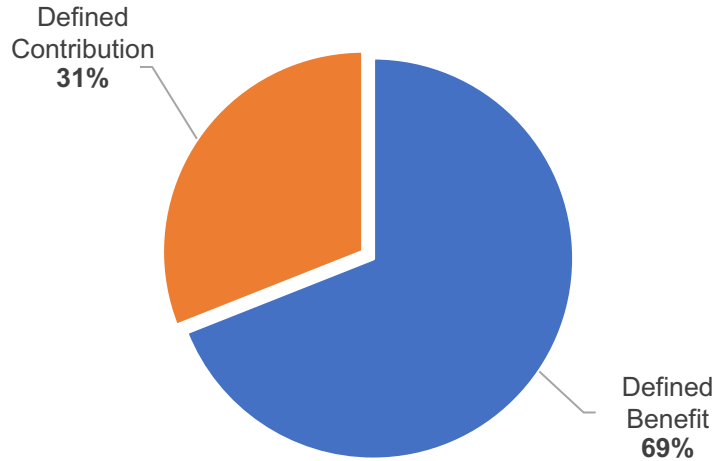
NFP Demographics of Executive Defined Benefit SERPs

Category	Provision	Percentage
Benefit Type	% of Final Salary	38.11%
	<b>Specified Amount</b>	<b>61.89%</b>
<b>Final Projected Benefit as Percentage of Projected Final Pay</b>		
	60%+	6.55%
	41% to 50%	7.26%
	31% to 40%	19.76%
	21% to 30%	25.95%
	11% to 20%	28.93%
	1% to 10%	11.55%
<b>Median Benefit as a Percentage of Projected Final Pay</b>		
		25.66%
<b>Benefit Payout Frequency</b>		
	Lump Sum	5.63%
	<b>Monthly</b>	<b>86.05%</b>
	Annually	7.14%
	Other	1.18%
<b>Duration</b>		
	< 5 Years	7.27%
	5 Years	0.98%
	10 years	29.34%
	<b>15 years</b>	<b>52.52%</b>
	20 years	3.01%
	Lifetime	4.65%
	Other	2.23%
<b>Retirement Age</b>		
	59 and under	4.26%
	60-64	10.02%
	<b>65</b>	<b>53.90%</b>
	66-68	22.66%
	69 and Over	8.97%

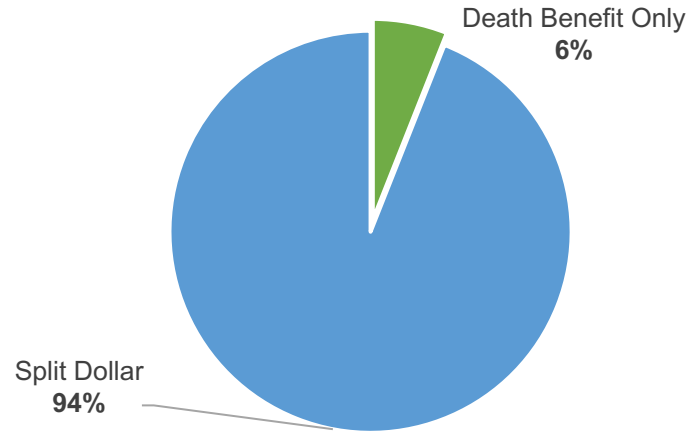
Source: NFP Connect Administration of all Active Executive Participants, Not in Payout.

# Current NFP Bank Statistics

## NQDC Plan Type



## Death Benefit Sharing (BOLI)



# NQDCPs

## A Key Component of Retirement Strategy

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The effectiveness of NQDCPs in supporting retirement goals is evident: **83% of executives** are satisfied with the impact of deferred compensation plans on their retirement preparedness.

In the past year, NQDCP usage for retirement preparedness has remained stable or increased for most participants:

19%

increased their usage\*

76%

maintained the same  
level of usage\*

5%

decreased their  
usage\*

This data suggests that executives continue to view NQDCPs as a valuable tool in their retirement planning toolkit.

## Opportunities for Enhancement

Despite the high satisfaction rates, there's room for improvement in supporting executives' retirement goals

20%

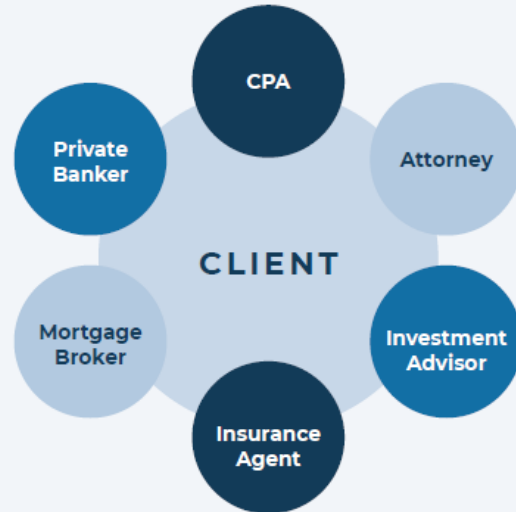
Only 20% of employers offer participants financial advisory services following payment from NQDCPs\*

This represents an underutilized but potentially differentiating benefit for executives. By providing ongoing financial guidance, companies can help ensure that the benefits of NQDCPs extend well into retirement, potentially enhancing the perceived value of these plans.

# Wealth Advisory Services

## The Solution

- We act as an executive's **PersonalCFO**
- A Certified Financial Planner™ professional and team of analysts
- Coordination of all current advisors
- A second set of eyes regarding fees, performance, etc.
- Proactive advice regarding opportunities that are missing or need to be addressed
- Help with execution on financial recommendations
- Continuity for their family should something happen to them.



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# Retaining Top Talent with NQDCP's Beyond the C-suite.

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NQDCPs value extends far beyond the C-suite, reaching key contributors at various levels of the organization, recognizing that value creation isn't limited to the highest echelons of leadership. These are the moneymakers and value creators — from mid-level managers to top sales performers and critical technical experts. By offering NQDCPs across this cohort, companies acknowledge the outsized impact these employees have on organizational success.

73%

of companies  
prioritize executive  
retention through  
NQDCs\*

50%

determine  
eligibility based on  
being a key  
contributor or part  
of a select group\*

69%

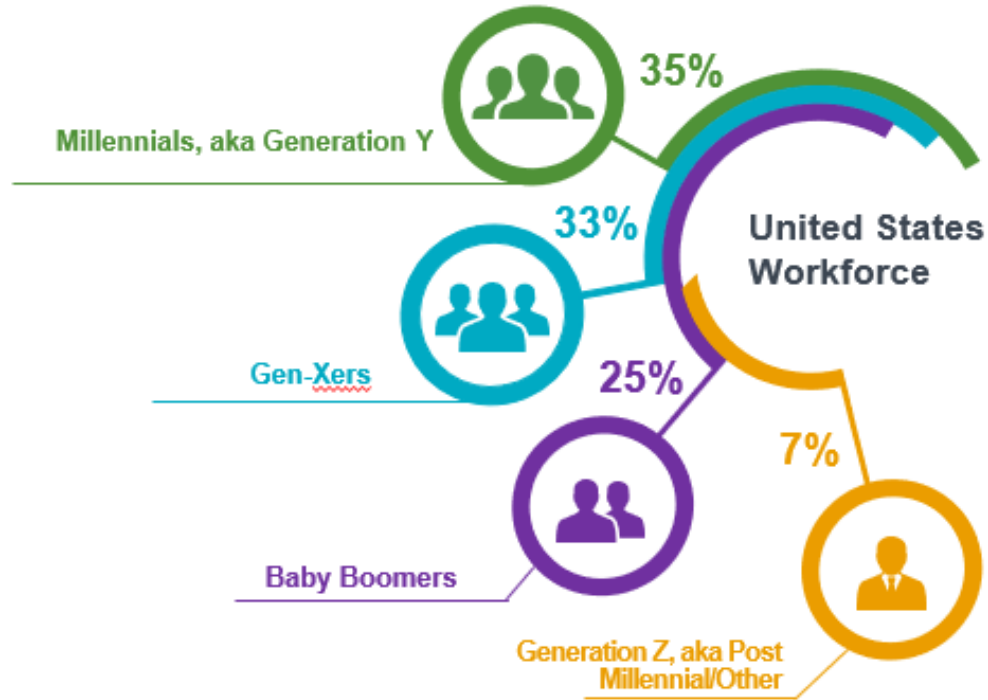
base eligibility on  
position or title\*

22%

Consider  
compensation  
level\*

# Retaining Top Talent with Nonqualified plans

## A changing Demographic



# Employee Demographic Shift-A Changing of the Guard

- Historically, plans were primarily designed for baby boomers who were focused on retirement.
- The majority of plans implemented were Defined Benefit SERPs with pension type designs, ie 70% of final salary less offsets
- Most participants were within 10-15 years of age 65
- Consultants focus on retirement mostly, designs limited to back office capability

# Retaining Top Talent with Nonqualified plans

## Baby Boomers

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### Priorities:

- Retirement
- Stability, long-term security

**Retention Focus-** With their focus being primarily on retirement, Banks can best retain Baby Boomers by offering plans that align with that focus. Defined Benefit salary continuation plans have been by far the most popular plans historically, promising to pay specified amounts or percentages of final salary for a period of time. Currently, a trend towards defined contribution plans for more control over cost has been occurring while also allowing executives the ability to defer their income as well. Offering a matching contribution on deferrals of income with vesting schedules is a great way to encourage participation and retain individuals at the end of their working years. Including financial planning resources that help them coordinate these benefits for retirement can complete a great offering.

# Retaining Top Talent with Nonqualified plans

## Gen-Xers

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### Priorities:

- Mid to Long Term
- Flexibility and Control
- Family, work life balance
- In service expenses-College tuition, home addition etc.

**Retention Focus-** With less of a focus on retirement, Banks can best retain Gen X by offering plans that allow for the most flexibility and the potential for in-service payments. Employer contributions to the plan are vital for retention. With the oldest Gen Xers still being 5-10 years away from historical retirement ages, the potential for mid-term rewards is a key component.

# Retaining Top Talent with Nonqualified plans

## Millennials and Generation Z

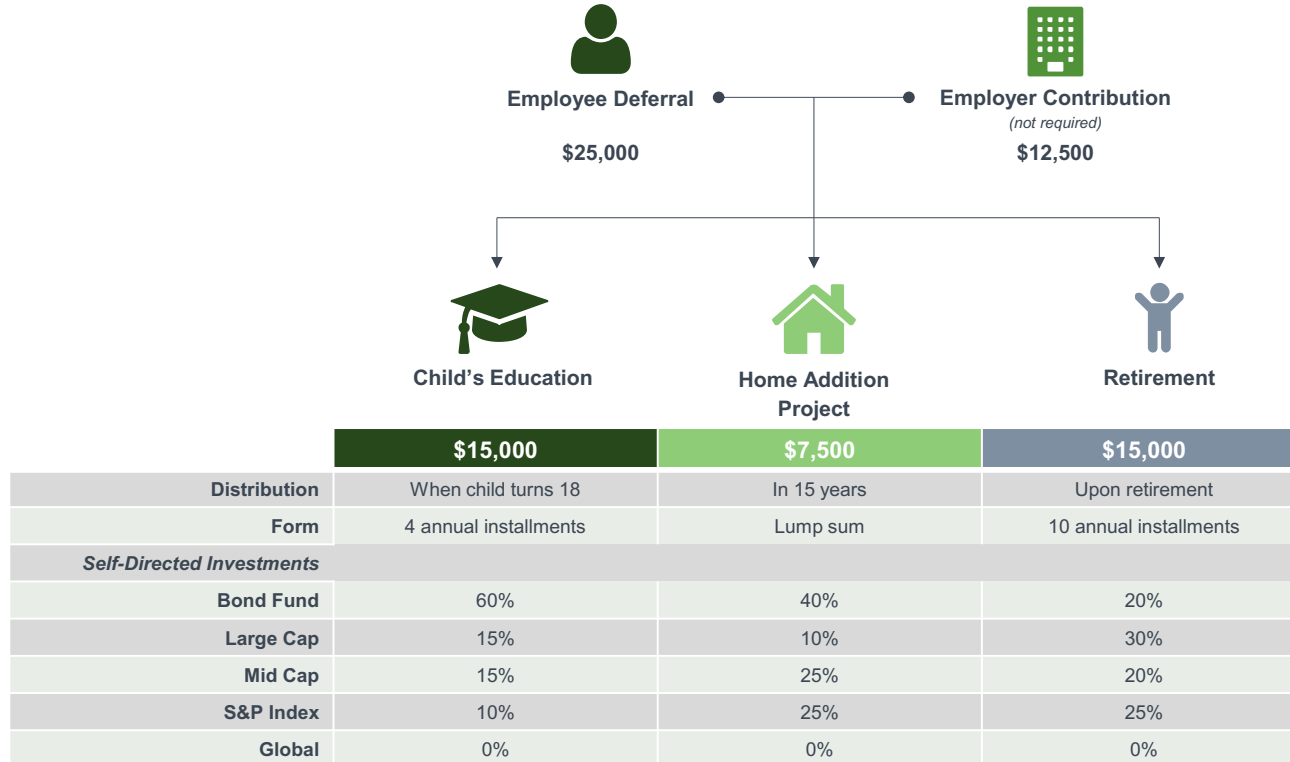
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### Priorities:

- Short to Mid Term
- Immediate financial and other benefits
- Remote work policies, generous time off and student loan repayment assistance..

**Retention Focus-** Banks can attract and retain these leaders by focusing on their immediate financial concerns, such as student loan repayment assistance or the purchase of a home. Think short and mid-term. Promising a retirement benefit if a Millennial continues to perform and stays with the bank for another 35 years is not retention plan. Defined contribution account balance plans with payouts every 3 or 5 years upon vesting are popular plans for younger executives. The idea being to focus on the short and mid term until longer term retirement type benefits become attractive to them. As with most Gen X, employer contributions are vital.

# Maximum Flexibility Approach for all Generations



# New Design Trends Meeting the Need Trend 1

## Life events

Companies with plans designed with the most flexibility are seeing participants utilize NQDC Plans in non-traditional ways. While in the past most plans and participants were focused on retirement, in recent years there has been more focus on planning for events while actively employed. Allowing this flexibility enhances retention.

## Features.

1. Higher Education Costs
  - Use as a Section 529 Plan alternative with greater flexibility
2. Purchase of a home or other property
3. Milestones-Wedding anniversaries, turning age 50, Sabbatical
4. Balloon payments
5. Vacation
6. Relocation upon Retirement-10-year rule- substantially equal payments. Potentially avoid state income taxes on amounts deferred. CA to TN, FL TX

## Trend 2

### Maximum flexibility

When designing a nonqualified plan, It's very important to try to anticipate any future uses from the beginning. If the purpose of the plan Initially is to allow just one person (CEO age 60) to defer salary and bonus until retirement with no employer contribution will that always be the case? Would you like to be able to use the plan for deferred signing bonuses, employer retention bonuses or in service benefits such as paying for a child's education?

Designing the plan with all the bells and whistles to begin with can avoid the need to amend a plan Later. Basically, you can have a Ferrari and drive it like a Yugo.

### Features.

1. Defining eligibility as at the discretion of a committee.
2. Allowing for changes in investments .
3. Including the ability to defer income in retention plans.
4. Allowing for in service distributions for income deferred
5. Allowing for each employer contribution to have a separate vesting schedule , payout date and duration
6. Including matching contribution language
7. Including all sources of income for potential future use
8. Turn plan features on and off

## Trend 3

### Tax planning

#### Do you live in a state with an income tax?

What about the Trump Tax Cuts? While the legislation made some tax cuts to corporate profit permanent, lowered individual tax rates will expire on Dec. 31, 2025, and will revert to pre-TCJA levels.

### Features.

1. Current Income Taxes-Reduce current taxable income and defer taxation until retirement at a lower tax bracket
2. LTI payments
3. Relocation upon Retirement-10-year rule-substantially equal payments. Potentially avoid state income taxes on amounts deferred. CA to TN, FL TX
4. Spousal income planning-married filing jointly
5. Other taxable events
  - Gift taxes
  - Sale of assets (land, collectibles, etc.)

## Case Study

### Meeting the Need

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Bank CEO age 63 retiring at age 65 with an existing defined benefit plan in place paying 35% of final pay for 15 years. Worried about retention and succession. Current CFO age 38, current President 55, VP age 30.

## CEO

No change to benefit, retiring

## President

Implementing same DB design as CEO, retirement-focused

## CFO

Implementing DC plan that pays out 20% in 2034 for 6 years for college expenses. Additional 20% at retirement

## VP

Implementing DC plan that pays out vested balance every 3 years

# Seizing Opportunity

## Approach to Optimizing Executive Benefits

### **Leverage NQDC plans for Retirement Preparedness**

Given that 83% of executives are satisfied with how NQDCPs impact their retirement readiness, consider expanding and optimizing these plans. Work with your benefits consultant to design NQDCP structures that align with varying executive retirement strategies and timelines.

### **Align benefits with changing executive demands**

With 44% of executives increasingly demanding of their benefits, it's crucial to stay attuned to their evolving needs. Regularly survey your executive team and industry trends to ensure your benefits package remains competitive and relevant.

### **Balance retention efforts with financial prudence**

While 86% of business leaders rank executive benefits as important or critical, 70% aren't planning to add new benefits. Focus on optimizing existing packages for maximum impact. Work with your benefits consultant to find creative ways to enhance value without significantly increasing costs.

### **Address economic concerns through benefits design**

Given that some executives are increasing NQDCP participation to combat inflation and prepare for future tax rates, consider adjusting your plans to address these concerns. Offer flexible deferral options and investment choices that can help executives navigate economic uncertainties.

Executive Benefits



## Contact

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**Todd Carpenter, NQPA™**

SVP, Business Development

*Executive Benefits*

P: 615.376.0213

E: [tcarpenter@nfp.com](mailto:tcarpenter@nfp.com)

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