



Solving the Executive Compensation Dilemma

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Retaining and rewarding your key people is essential if you want to remain successful, especially when that key talent is among your top executives. However, most regular compensation and benefit packages actually penalize highly-paid employees. So what can you do to help ensure you are the employer of choice for top executives? Offer an Executive Deferred Compensation (EDC) plan.

Over the past few years, the demand for nonqualified plans has grown due to the competitive nature of recruiting and retaining quality employees. Designed for your top management and/or highly compensated employees, EDC plans (also known as Top Hat, Voluntary Deferral or 401(k) Mirror/Restoration plans) allow select employees to defer income tax on their current compensation, including bonuses. “Traditionally, this demand has come from larger organizations, but now we are seeing this among mid-sized companies as well,” said Rosemary Murphy, Director, ADP Executive Deferred Compensation Group, “Without such programs, upper management is severely challenged to save on the same pre-tax basis as rank-and-file employees. For most companies, EDC plans not only help with recruitment and retention, but help level the playing field for management-level employees.”

Good for Employers and Employees

EDC plans offer benefits for companies and their best talent alike:

- You have the freedom to select which members of your top management group are eligible for the additional savings opportunity.
- You can tailor the benefit to fit your executive group and your business strategy – without concern for the level of benefits provided to non-highly compensated employees or other non-eligible managers. “This compensation can also take many forms,” says Murphy, “Be it cash or stock based, or even ‘phantom’ investments.”
- Plan participants can contribute as much as you will allow ... up to 100 percent of compensation. You can choose to make contributions as well.
- Your executives can shelter large amounts of otherwise taxable income for a lengthy period of time.
- Having a plan encourages long-term commitment for all parties involved. Along with making the retirement benefits conditional and too good to leave, you can potentially offer some security for the employee against a surprise merger or other change of company ownership.

Managing Your EDC Program

So how do you develop, and manage, an EDC plan?

- **Don't go it alone.** “Companies do not have to – and arguably should not – act alone when developing and implementing EDC plans. Partnering with consultants, financial advisors and plan administrators provides key perspectives on how their compensation packages are aligned with corporate goals and financial considerations,” Murphy advises.
- **Keep the balance.** While your executives are faced with business decisions that affect many lives, one decision that doesn't change is how the majority of plan sponsors – who often are also plan participants – balance personal and professional interests. The overwhelming response from several ADP Fortune 500 EDC clients was, "responsibility is first and always to the company and the success of its programs." When developing EDC plan strategies, "there is never a doubt that you put consideration for the greater good before your individual needs." However, personal perspective can be beneficial. Decision-makers, who also are eligible to participate in a plan, have a unique perspective when thinking through how that plan will achieve intended goals for all parties.
- **Maintain checks and balances, from the inside.** Your EDC plan sponsors, who are also plan participants, need to balance their personal interests with those of the business and other stakeholders when designing and managing nonqualified plans. Some best practices from other successful companies include:
 - leveraging technology in all of your employee benefits offerings to keep the process simple, accurate and easily accessible.
 - organizing a committee that will oversee your EDC plan and conduct regular reviews, ensure that participants maximize their opportunities (while the company's assets are closely matching its liabilities), and vote on decisions regarding the overall plan.
- **Consider outsourcing:** Outsourcing your plan administration offers you ease of access and accountability for accurate recordkeeping along with daily plan valuation, interactive Web capabilities, on-line enrollment, live customer service and coordination of your trustee and/or financial advisors. All are elements of a successful EDC program.

The market for highly trained executives is very competitive, even in today's economic environment. Offering a nonqualified program as a key component of your compensation package will help you attract and retain the talent you want and need.

Learn more about [ADP's Executive Deferred Compensation Program](#).

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