Nonprofit Benefits—Meaning Over Money?

Your 2019 Strategy to Attract and Keep Top Talent

An Educational White Paper for Nonprofit Organizations Searching for Talent

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“Two roads diverged in a wood, and I—I took the one less traveled by,
And that has made all the difference.”

Business is taking on water in the choppy seas of a global talent shortage.

From multi-nationals to mini-malls, business owners face a rocky challenge to hire, train and retain key employee talent. In Gartner’s 4Q18 *Emerging Risks Report and Monitor*, **concern over talent shortage has become the top emerging risk companies confront globally,** behind the acceleration of privacy regulation and cloud computing.

Financial services, industrial, manufacturing, consumer services, government, and **nonprofit**, retail and hospitality sectors expressed the deepest concern. Nonprofits certainly should be concerned. They play an essential role in our economy, accounting for 10.1 percent of total U.S. employment and 5.4 percent of the nation’s entire GDP—$887.3 billion, the latest figures available from the Bureau of Labor Statistics.

The inability to find and hire top talent affects everything. Innovation. Competition. Revenues. Scalability. Keeping pace with the speed of technological change. So, if for-profits are up against the talent crunch, one can imagine the wound it inflicts on nonprofits.

Ask Billy Shore—founder and executive director of **Share Our Strength**, the “No Kid Hungry” nonprofit in Washington D.C.

Ask Gerald Chertavian—founder and CEO of **Year Up**, a nonprofit dedicated to moving urban youth from poverty to professional careers in one year.

Then, ask Jim McKelvey—co-founder of the mobile payment firm Square and now **LaunchCode**, a nonprofit formed to tackle the nationwide shortage of computer programmers. The U.S. Dept. of Labor projects that one million programming jobs alone will go unfilled in 2020.

Their solutions converged: Focus intensely on the mission. Pay competitively. Augment with great benefits. Traditionally, nonprofits paid less and offered fewer benefits in exchange for the opportunity to work in a purpose-driven organization. While this structure will always appeal to certain people committed to social justice, others need far more before they turn down a generous for-profit offer.

In September of 2018, the number of applicants applying for nonprofit jobs declined 27 percent year-to-date. In January there were "four applicants chasing every nonprofit job posted to ZipRecruiter.com. By September, given the explosive growth in openings and precipitous decline in applicants, there was one opening for every applicant." In D.C., the nonprofit mecca of the U.S., nine openings existed for every applicant in September. This high ratio of jobs to applicants highlights the evaporating talent pool.

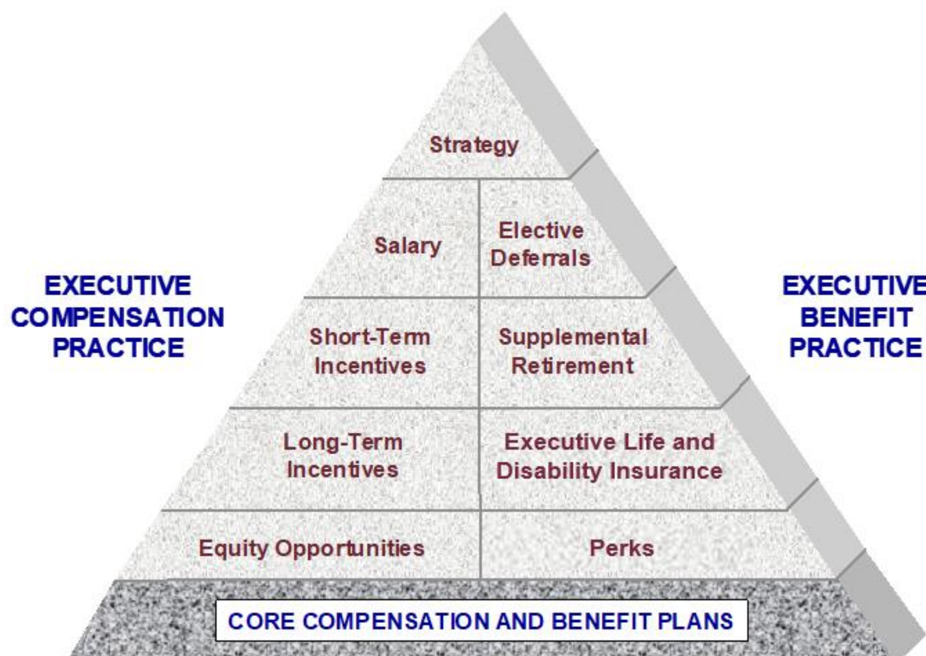
To solve the dilemma of meaning over money, try to think like your competition in the private sector. As General George Patton said about his enemy, "Rommel, you magnificent bastard! I read your book!"

Design a Competitive Comp Package

The design of a competitive compensation package poses continuing challenges to nonprofits. These challenges relate to the professionalization of the sector, the increasing desire to measure and reward success, and the need to attract, retain and promote the most talented people.

Due to increased competition from for-profit and other nonprofit providers, attitudes toward compensation practices have changed significantly in the last decade. Some nonprofits have shifted from fixed salaries to salaries with a variable cash-compensation component, based on fundraising, cost reductions, or specific program outcomes.

However, these variable plans face difficulty in recruitment when up against the for-profit sector, which uses a much larger arsenal of compensation tools. Invariably, nonprofit talent will also seek "comparable pay" to the for-profit world.



For-profit companies, especially the publicly traded, use a different monetary approach, heavily weighted in stock compensation. I recommend studying their playbook on how to attract and retain talent. The chart below shows a well-balanced for-profit plan with cash, stock, benefits, and perks.

A for-profit company can offer not only salary, bonus, and long-term incentives, but also attractive nonqualified deferred compensation (NQDC) programs. It's tough for nonprofits to compete for talent against for-profits on equity compensation or aggressive NQDC plans. This imbalance is particularly acute with the new tax rules, which raise the cost of competition in nonprofits, which we will address later.

In a recent Forbes article, "How Nonprofits Can Compete with Silicon Valley for Talent," author Pamela Hawley emphasized that "salaries aren't always as high in the nonprofit world, therefore, benefits become more important."

Our position paper addresses this salary schism with a range of creative benefit concepts already used by some enlightened nonprofits as they seek to fill critical gaps in talent attraction strategies.

Setting Executive Salaries

Benchmarking nonprofit executive salaries is more prevalent today than in the past. The impetus for this activity came from a new set of IRS regulations that allowed the levy of sanctions and fines on nonprofit entities who pay their executives so-called excessive compensation as compared to similar nonprofit and for-profit firms.[1]

The new regulations were fully implemented in 2002 and allowed for cross-sector comparisons, setting standards and procedures by which to justify compensation levels in nonprofits. However, increases in executive compensation remain prohibitive due to budgetary restrictions found in all industries, as well as a higher degree of scrutiny on pay relative to most for-profits.

Like for-profits, nonprofits consider many factors before setting executive salary levels. In a November 2018 article in Nonprofit Quarterly entitled, "What Drives Nonprofit Executive Compensation?" authors Keating and Frumkin stated:

> **"The short answer seems to be organizational size. According to our research findings, in most parts of the nonprofit world you will find a base rate of pay that increases in direct proportion (in most cases) to every $1000 of operating expenses.**
>
> **To better understand nonprofit compensation practices, we tested three main competing explanations. First, we considered whether executive compensation in nonprofits is a function of the size of the organization. Second, we examined the prevalence of pay-for-financial-performance in this sector. Third, we looked at the role of liquidity, or "free cash flow," and examined its effect on compensation.**
>
> **The second and third tests are particularly important in the nonprofit context: if a strong association exists between compensation and financial performance or liquidity, it would challenge the effectiveness of the nondistribution constraint, a standard that prohibits the paying out of excess earnings and requires instead their application to advancing the mission of the organization."**

[1] Excise Tax on Excess Benefit Transactions, 26 U.S.C. § 4958 (2002).

Use of Short- and Long-Term Incentive Plans

Short-term incentives are common in for-profits and generally associated with the achievement of annual financial and operational goals. Typically, these organizations set these goals at the beginning of a fiscal year, and their achievement is part of a tactical plan to advance the long-term mission or strategy.

To ensure that these awards do not become an "entitlement," the board must set stretch, but realistic, objectives and determine the actual level of accomplishment against those performance measures when granting awards. Paying out bonuses when the performance is not achieved, or when the measures are a "slam dunk," sends the wrong message and defeats the intent of the entire incentive system.

What's more, the primary point of incentives is to align payouts typically with some measure of relative achievement or performance improvement (e.g., above target pay for above-market performance, or no incentive payouts when it would otherwise be embarrassing to do so). "Slam dunk" goals also raise the potential for challenges under various tax regulations or scrutiny from the Board or external regulatory or quasi-regulatory entities.

Plan designs can include "milestones," which are specific financial or operational indicators that must be attained; otherwise, no awards are payable, regardless of performance achieved on assigned performance measures.

Long-term incentives are growing in prevalence and amount in nonprofits, but they are still used infrequently and consist of a much lower portion of the pay portfolio then found in for-profits. Similar to annual incentives, these plans pay out related to performance; however, the reward for performance over a multi-year period and are tied to long-term strategic objectives.

It is at this point that more creativity is needed in nonprofit plan design since nonprofit incentive vehicles tend not to reward key people at levels commensurate with for-profits.

To close the for-profit gap, nonprofits should consider some form of deferred wealth accumulation as part of their long-term incentive and general pay strategy. The specific design features may vary, but the basics are the same:

- Establish and monitor long-term performance goals;
- Set aside funds into a rabbi trust or similar arrangement, assuming executive achieves performance goals within a specific time;
- Ensure arrangement complies with IRC § 457(f) and 409A, which allow accumulation of monies until a future date for the executive to use, often in their retirement, if the arrangement meets certain requirements.

Although the amounts accumulated under this type of long-term incentive plan may not equal the potential value of stock-based plans at publicly traded companies, it might be more consistent with long-term compensation programs in privately owned for-profits and will certainly go a long way to making the nonprofit's executive compensation package more competitive.

Next, we'll discuss how certain arrangements can be used to get tax-free dollars into the hands of executives and key employees, which helps to close the gap with their for-profit competitors.

Advantage of Executive Benefits

Tax-exempt organizations face three challenges in providing executive benefits that for-profit companies do not: (1) tax-exempts cannot offer equity compensation; (2) NQDC arrangements provided by tax-exempts are taxable to the executives when the deferred compensation is no longer subject to a substantial risk of forfeiture (i.e., when it vests) versus generally when it is paid in the case of for-profit companies; and (3) the new 21 percent excise taxes on excess executive compensation paid by tax-exempts under IRC § 4960.

Nonprofit organizations consider compensation "subject to a substantial risk of forfeiture" if:

1. Entitlement to that amount is conditioned either (a) on the future performance of substantial services; or (b) upon the occurrence of a condition that is related to a purpose of the compensation such as performance goals); and
2. The possibility of forfeiture is substantial.

Importantly, the second requirement means that an amount is not subject to a substantial risk of forfeiture if it is unlikely that the employer will enforce the forfeiture. In assessing the likelihood of enforcement, the IRS considers the employer's past practices, what level of control or influence the party responsible for enforcing the forfeiture holds over the employee, and the enforceability of the provisions under applicable law.

Here are two examples Kelsey H. Mayo and Kara M. Brunk shared in an article they wrote in the National Law Review on how these rules may play in practice:

Example 1: On November 1, 2016, an employee terminates employment, and the employer agrees to pay the employee $200,000 on November 1, 2017, as long as the employee provides at least 50 hours of consulting services to the employer in the next year. The services provided are insubstantial when compared to the value of the payment, and the compensation will be subject to taxation on November 1, 2016. In contrast, if the employer agrees to pay that amount only if the employee provides full-time consulting services to the employer until November 1, 2017, the compensation is subject to a substantial risk of forfeiture and will not be subject to taxation until November 1, 2017.

Example 2: Each year an employer credits $10,000 to an executive's account under the employer's Supplement Executive Retirement Plan (SERP). Under the terms of the SERP, the executive is entitled to receive the account balance only if he or she remains employed for at least five years. However, in the past, the employer has paid out the SERP account balance even if the executive terminates employment with less than five years of service. The SERP credits are not subject to a substantial risk of forfeiture because, under these facts, it is unlikely that the employer will enforce the forfeiture. As a result, each amount is taxed to the executive when it is credited to his or her SERP account.

[2]A **substantial risk of forfeiture** exists if an employee's right to deferred compensation or transferred property is contingent on the performance of **substantial** services in the future or on the occurrence (or nonoccurrence) of a given event.

Tax Cuts and Jobs Act

The new 21 percent excise taxes under the 2017 Tax Cuts and Jobs Act have made planning around executive benefits more difficult. While corporate America views the tax cuts as a windfall, they represent a clear challenge for nonprofit organizations.

Conceptually, the new excise taxes under § 4960 are designed to provide symmetry with the disallowance of a deduction for compensation in excess of $1 million for publicly traded corporations under § 162(m). Since the loss of a deduction doesn't matter to a tax-exempt entity, Congress decided to impose 21 percent excise taxes on "excess executive compensation."

- ***Which Employees are Covered Under the New Excise Taxes?***

  The definition of a "covered employee" under § 4960 includes more than officers. It includes *any* current or *former* employee who is (or was) among the five highest paid in a tax year beginning after December 31, 2016. Once an individual is classified as a "covered employee" for a taxable year, he/she will be considered a "covered employee" for all future taxable years (even after separating from employment). *That means the excise taxes could be triggered by deferred compensation payments to a former executive after retirement.*

- ***What is "Excess Executive Compensation?"***

  IRC § 4960 adds two new 21percent excise taxes that apply to tax-exempt organizations that provide:

  Remuneration in excess of $1 million ("Excess Remuneration Tax"); and/or

  Compensation contingent on a separation from employment equal to at least three times average pay ("Excess Parachute Payment Tax").

  For purposes of the Excess Remuneration Tax, remuneration generally is defined as "wages" for federal income tax purposes (§ 3401(a)), modified to exclude (i) any excess parachute payments, (ii) any Roth 401(k) contributions, and (iii) any amounts paid to a licensed medical professional for the direct performance of medical or veterinary services.

Also, amounts are counted as remuneration when they are no longer subject to a substantial risk of forfeiture (§ 457(f) standard discussed above), which can be a different timing rule that applies for purposes of the wage withholding rules. Thus, the remuneration counted for purposes of applying the excess remuneration tax will not always equal the amounts reported in box 1 of an employee's W-2.

- ***What is an "Excess Parachute Payment?"***

  The excess parachute payment tax is triggered if the present value of any "parachute payments" payable to a covered employee equals or exceeds three times the employee's average annual compensation ("base amount"). For this purpose, parachute payments generally include payments that are contingent on a covered employee's involuntary separation from service (e.g., certain severance pay, deferred compensation that vests upon an involuntary separation, and continuation of healthcare benefits). However, if the three-times threshold is met, the 21 percent excise tax applies to the extent the total parachute payments (not present value) exceed the covered employee's-base amount (not three times the base amount). For example:

  1. If the present value of deferred compensation and continuing healthcare coverage triggered by an involuntary separation from employment was $900,000 and,
  2. The employee's base amount was $200,000,
  3. The benefits would represent an "excess parachute payment" (as $900,000 exceeds three times $200,000, or $600,000),
  4. And, the organization would be subject to excise tax in the amount of $147,000 (($900,000 - $200,000) x 21percent).

  Note: As illustrated in this example, the excise tax applies to an "excess parachute payment," even if less than $1.0 million.

- ***When Do the New Excise Taxes Apply? Do Grandfather Rules Exist?***

  The two new excise taxes under § 4960 are generally effective for taxable years beginning after December 31, 2017. No grandfathering rules or transition relief have been provided to date. However, in the first set of guidance provided by the IRS, Notice 2019-9, the IRS explained that the new excise taxes generally do not apply to remuneration and parachute payments that were paid or vested before the effective date.

Advice for Form 990 Disclosure

As an aside, it is important to mention disclosure. Whether C-suite executives, physicians, or foundation directors, all tax-exempt employers must complete certain disclosure requirements on incentive compensation and nonqualified supplemental savings and retirement programs.

For example, Form 990, Schedule J, Part I, Question 4b asks if during the year any Officer, Key Employee, Director or Trustee participated in, or received payment from, a supplemental nonqualified retirement plan. If the answer to Question 4b is "yes," then a description of the plan must be included in Schedule J, Part III. And if your organization provided supplemental retirement benefits, that amount must be reported in the Summary Compensation Table, and in Schedule J.

Know that many of the planning opportunities discussed in this paper could have favorable disclosure requirements.

Benefit Design Objectives

As discussed earlier, nonqualified executive and key employee benefits are one effective way nonprofit organizations can compete with the for-profit world. Therefore, it is important that you begin setting your plan objectives before launching into the evaluation of alternatives. A nonqualified plan can simultaneously help an organization to attract, retain, reward and motivate key employees.

We encourage you to invest time, do your homework, and select the precise design features that meet your organization's objectives. Note a few guidelines to help you below:

Again, remember all nonqualified plans can support your organization's goals to attract, retain, reward, and motivate key employees. Because of the intrinsic flexibility of these plans, you can also structure them to emphasize one area of need over another by adopting some of these key features:

Attract	Retain	Reward	Motivate
Deferral of signing bonus	Organization contributions with a vesting schedule	High deferral limits	Performance-based contribution or match by the organization
High deferral limits	Retirement incentive	Flexibility	Bonus crediting rate based on performance
Flexibility		Incentive payments	
Offer employment contract with benefits	Contribute amounts over 401(a), 403(b) and 457(b) IRS limits	Contribute amounts over 401(a), 403(b) and 457(b) IRS limits	

Note: Any of the above concepts need to conform with 457(f) regulations, including those concepts discussed in this report that avoid the regulations.

Now that you have selected your primary plan objective(s), let's begin to lay out plan design options with more detailed comparative analysis.

Fortunately, benefit plan alternatives can help nonprofit organizations retain their key employees and directors. Depending on organizational objectives and executive or employee needs, nonprofit organizations should consider the following five plan designs for offering nonqualified benefits:

- 457(f) Plans
- Split-Dollar Life Insurance Plans
- Executive Bonus Arrangements
- Restricted Executive Bonus Arrangements
- Insured Security Option Plans (ISOP)

Factors to Consider

The key to selecting the right benefit program is best determined by which of the following factors are most important to the organization and the key employee: 1) tax-deferral for employee, 2) avoiding a "substantial risk of forfeiture", 3) flexibility, 4) avoiding or minimizing excise tax to organization, 5) golden handcuffs, and/or 6) providing cost recovery to the organization.

1) **Tax Deferral:** In many cases, the main reason to implement a nonqualified plan is to allow executives and other key people to defer taxation on income until the money is needed, such as for retirement. For employees of nonprofit and tax-exempt organizations, benefits which offer tax deferral must generally comply with IRC § 457(f).

2) **Avoiding "Substantial Risk of Forfeiture":** The price for unlimited contributions and tax deferral when working for nonprofit and tax-exempt organizations—the benefit must be subject to a "substantial risk of forfeiture." For-profit companies generally hold an advantage in this context— amounts deferred generally are not taxable to the employees until paid.

   In the case of nonprofits or tax-exempt entities, it comes down to when the employee vests in the benefit. As discussed above, according to IRS § 457 (f)(3)(B), a benefit is "subject to a substantial risk of forfeiture" if such person's rights to such compensation generally are conditioned upon the future performance of substantial services. Employees and directors may prefer to seek a benefit arrangement which avoids this requirement.

3) **Flexibility:** Because of the "substantial risk of forfeiture" issue, benefits which allow the deferral of taxation generally will be paid out in a lump sum. The IRS requires the employee to recognize the present value of the benefits as ordinary income, even if benefit payment takes place over years. Employees and directors who want to take payments in other than a lump sum, or who want the ability to change the schedule of payments, will seek a plan design not subject to the restrictions of IRC § 457(f).

4) **Avoiding the 21 Percent Excess Tax to the Organization:** Worth repeating, the bill known as the Tax Cut and Jobs Act of 2017 (the "Act") added new IRC §4960, which imposes 21 percent excise taxes on employers in either or both of two specific situations:
   - remuneration in excess of $1 million paid to a covered employee by an applicable tax-exempt organization for a taxable year, and/or

   - any excess parachute payments, which are triggered if the present value of any parachute payments (generally defined as any payments contingent on an involuntary separation from employment) equal or exceed three times a covered employee's average annual compensation. However, if the three-times threshold is met, the 21% excise tax applies to the extent the total parachute payments (not present value) exceed the covered employee's base amount (not three times the base amount).

   This new law should not be confused with the excise tax levied on executives and the organization for excess benefit transactions under the IRS Intermediate Sanctions (IRC 4958) which continue in effect. The focus is on compensation in excess of certain amounts specified under the new law.

   The separation payment provision may impact a large group of employees making much less than $1 million, resulting in an excise tax on the organization for certain covered employees. Failure to recognize this provision may result in a rude awakening when those employees depart their employment.

   Only one benefit design, other than managing compensation below the limits, can avoid excise tax payment, and that is split-dollar life insurance, which is not available in all states. More details later in this paper.

5) **Golden Handcuffs**: Golden handcuffs or what we refer to as, "putting glue in the seat," to ensure key employees stay the course is a key motivator of nonqualified plan design.

6) **Cost Recovery:** A nonprofit or tax-exempt organization may want to take a chapter out of their for-profit competitors' playbook and design these benefit plans to recapture the cost of the benefits.

Types of Nonqualified Benefit Plans

Depending on the objective and the factors discussed above, you may consider one or a combination of the designs stated earlier: 457(f) plan; Split-dollar life insurance plan; Executive bonus arrangement; Restricted executive bonus arrangement; or Insured Security Option Plan (ISOP).

The 457(f) Plan

If your nonprofit or tax-exempt organization allows executives (or other highly compensated employees) to defer larger amounts than stipulated in the 457(b), do consider a 457(f) plan. While no specific limits restrict what you can contribute to a 457(f) plan, the amounts are subject to a "substantial risk of forfeiture" * and the claims of the sponsoring organization's creditors.

For example, the organization decides to structure an agreement for the CEO. It sets aside amounts on behalf of the CEO and/or allows him or her to defer a portion of their compensation. The agreement states the CEO is eligible for the deferred 457(f) amounts provided he is still employed on December 31, 2023. The "risk" is "substantial" because if he is terminated or leaves the organization before that date, he would not be entitled to the money.

> *__The Deferral of Compensation and a Substantial Risk of Forfeiture under Section 457.__
> 'Compensation deferred under a 457(f) plan is includible in income on the later of the date on which the participant obtains a legally binding right to the compensation or the date the substantial risk of forfeiture lapses (vesting or receipt). What's more, the future date cannot be "rolling" merely to defer taxation longer. Once December 31, 2023 arrives, the CEO cannot change the date to 2026 simply because he signs another three-year contract. We will offer you a planning concept shortly on how to roll forward amounts deferred. The rolling vesting requires you to follow special rules. We wish to impress on our readers, the CEO or other select executives must pay tax on the amounts deferred immediately when the lapse of a substantial risk of forfeiture occurs, regardless of when those amounts pay out. In effect, "vesting" and payment usually occurs at the same time. While both 457 plans, (457(b) and 457(f)), options serve as attractive retirement planning tools, please recognize they carry significant restrictions, even pitfalls, which merit careful consideration during the plan design phase.'

From a design standpoint, these plans will fit situations where:

- The nonprofit organization wants to give key employees or directors an incentive to remain with the organization (golden handcuffs);
- The employee wants tax deferral; and
- The organization wants a simple solution

Split-Dollar Life Insurance Plan

Rarely a week goes by without the phrase "split-dollar life insurance" coming up and discussed in the offices of nonprofit organizations across the country. Donors, alumni and friends of the organization show significant interest in the topic.

Even media outlets from ABC News to ESPN, along with the financial planning community, all are discussing the topic as a compensation solution for nonprofits.

What has piqued the interest of so many? Essentially, two recent developments:

1. The University of Michigan (U-M) included in head football coach Jim Harbaugh's compensation arrangement split-dollar life insurance.
2. Arrival of the new 21 percent excise taxes applicable to "excess executive compensation" paid by a tax-exempt organization under the 2017 Tax Cuts and Jobs Act.

Tax-exempt organizations have long dealt with the onerous tax restrictions under Section 457(f) and understand the potential for planning around those restrictions using split-dollar life insurance arrangements. However, the potential to also use split-dollar to mitigate the potentially significant additional expense of the new 21 percent excise tax has triggered a renewed interest in exploring further the potential benefits of split-dollar arrangements.

The concept is simple and straight forward. First, split-dollar life insurance isn't a form of life insurance product, like term-life insurance, whole life or universal life insurance; it is a form of ownership of cash value life insurance.

The split-dollar strategy allows the sharing of the cost and benefits of a permanent life insurance policy. Use any kind of permanent life insurance policy that builds a cash value. However, the type of policy and structure is critically important and should be tailored to the objectives of the organization and the needs of the executive, be it retirement income or death benefits.

Split-dollar brings together the life insurance and supplemental savings needs of an employee with the premium paying ability of the employer, appealing to both employers and employees. The employee receives the life insurance protection he/she needs at an affordable cost and supplemental tax-advantaged savings in the form of cash value accumulation. The employer can custom design a program for selected key employees and provide a valuable benefit on a cost-effective basis.

Historically, what has made split dollar attractive is the opportunity for both tax leverage and interest rate arbitrage. For more background on the subject, download the EBS white paper.

The split-dollar plan design works best when the employee wants flexibility and control of the policy and the organization wants low Form 990 disclosure; to lower or eliminate benefit liabilities on its balance sheet and does not want the benefit impacted by the 21 percent excise tax.

Executive Bonus Arrangements

An executive bonus arrangement provides a life insurance policy for executives, directors or other key employees using after-tax dollars contributed by the organization. The organization pays the premiums on a life insurance policy owned and controlled by the employee and treats the premium payments as bonuses to them.

The employee uses the premium to purchase a life insurance policy, which provides income-tax free cash value build-up that can be accessed (via withdrawals and loans) for retirement income, as well as tax-free death benefits.

Executive bonus arrangements best fit situations when the employee wants flexibility and control of the policy (or benefit), and the organization wants a simple solution, a voluntary retirement savings vehicle over and above the 401(a), 403(b) and 457(b) plans, as well as lower reporting requirements on Form 990.

These bonus arrangements fall outside the purview of § 457(f) and 409A because they are not deferred compensation plans and they are taxable in the year paid (when premiums deposited).

Restricted Executive Bonus Plan

A restricted executive bonus arrangement is the same as the executive bonus plan with one slight change. Instead, the restricted executive bonus plan carries a “claw back” provision in the event the employee leaves employment before a certain number of years. The restriction is placed on the policy to limit the employee’s ability to access cash values without the consent of the organization.

The restricted executive bonus plan best fits situations where the employee wants flexibility and control of the policy (or benefit), and the organization wants a simple solution and golden handcuff security on the employee.

Under this arrangement, the tax treatment is the same as the executive bonus plan but adds the ability to provide an incentive to the executive to remain with the organization for years.

Insured Security Option Plan (ISOP)

The ISOP is a proprietary and patented concept with unique features not found in other funding arrangements. Like the executive bonus plan, it’s a “Roth” type after-tax strategy with contributions made with after-tax dollars; the cash value grows income tax-deferred, and the income at retirement is non-taxable.

What makes the ISOP unique occurs during the accumulation of the earnings on the cash value. The policy credits earnings on the pre-tax amount. With an executive bonus plan, the organization or employee contributes $50,000 pre-tax and once taxes are paid (assume 40%), the after-tax amount goes into the policy, $30,000 ($50,000 minus 40% tax equals $30,000).

With the ISOP, the employee or organization makes the $50,000 contribution into the ISOP policy and the taxes of 40 percent in our example are withdrawn from the policy. The policy will credit earnings on both the cash value and loan amount at the same rate. The policy will credit earnings on the pre-tax amount; that is, in this example, $50,000. This crediting could increase retirement income by 25 to 40 percent depending on the age of the employee.

GT/EBS Recommendation on Benefit Plans

With these five plan designs, nonprofit and tax-exempt organizations add healthy muscle to their ability to attract, retain, reward and motivate key employees. And, if the organization wants to recover cost and escape the 21 percent excise tax, we recommend you offer a golden handcuffs provision and give the employee tax deferral and flexibility with a split-dollar life insurance plan.

If the organization primarily wants golden handcuffs, consider the 457(f) plan or ISOP with restrictions. Or if the employee and organization want a simple arrangement for employee maximum flexibility, as well as an additional means to save for retirement, consider the ISOP or executive bonus plan.

Alternative Perks to Consider

Depending on the executive, there are alternative perquisites with more value than the usual salary and benefits. For example, if a new executive must move to a new area to accept a position with your organization, consider covering **relocation expenses**.

Consider an extremely timely perk to help candidates **pay down student loan debt.** Or you might offer to cover the costs of attending school part-time for an advanced degree related to your nonprofit's mission. And don't forget about work-life balance, so essential to the Millennial generation. Many key employees will accept less pay for a shorter full-time workweek (such as 35 instead of 40 hours) or the opportunity to telecommute or work on a flexible schedule.

Financial planning is another valuable perk used in the for-profit world. New research underscores a growing awareness of how financial fitness initiatives and financial wellness programs help employees reduce stress and better focus on performance in the workplace.

Compared to five years ago, the share of employers offering one-on-one retirement plan investment advice rose by 14 percentage points—from 41 percent to 55 percent, according to the Society for Human Resource Management's (SHRM's) *2018 Employee Benefits* survey report, which based its findings on responses to polling SHRM members.

Financial well-being offerings, however, go well beyond 401(k) or 403(b) advice. For example, these offerings now include budgeting and spending habits, short- and long-term savings goals, student-loan management, and even home purchasing advice.

A 2018 survey report from Prudential Financial Inc., a retirement and financial benefits provider**,** reveals:

- The percentage of employers offering financial wellness programs rose to 83 percent, up from 20 percent in 2015.

- Employers who offer financial wellness are more satisfied with their total benefits program (61 percent) than those who do not (44 percent).

The survey, conducted in late 2017, draws on responses from nearly 800 decision makers for group insurance benefits at U.S. businesses with at least 100 full-time employees.

"Employers and employees report higher satisfaction with their benefit plans when financial wellness programs are offered," said Vishal Jain, financial wellness officer for Prudential's workplace solutions group. “Employees increasingly look to their employers to help them achieve financial security, and employers are seeking data and insights on how to respond and influence better outcomes."

Enpo Tu, COO of My Financial Coach, www.myfinancialcoach.com says, “I see an increased interest in organizations wanting to help employees better understand their employer-sponsored benefits so they can better integrate these benefits with personal assets.” My Financial Coach provides a technology platform to integrate, store and leverage corporate benefits with personal assets with 24/7 access to unbiased Certified Financial Planner™ professionals.

While there are many ways to enhance an offer to a nonprofit candidate, a well-thought-out executive benefits program promises to build a foundation for employee performance, well-being, and longevity.

And consider this:

Nonprofit organizations fill a critical role in the social and economic well-being of the United States. They are indispensable to economic development, the arts, cultural awareness, education, health, science, social justice, creating meaning and purpose in society.

“Two roads diverged in a wood, and I—I took the one less traveled by,
And that has made all the difference.”

America needs dedicated men and women to do well by doing good.

Society depends on it.

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To learn more about how nonprofits can attract and keep top talent, please contact:

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