Executive Benefit Solutions

Attract. Retain. Reward.

Voluntary Key Employee Retention Plans for Nonprofits – An Update

Attract, retain, and reward key talent with the **EBS Triad Plan**

In the competitive world of nonprofit organizations, attracting and retaining top talent is crucial. These organizations face a unique challenge: without the ability to grant shares of equity or provide traditional deferred compensation plans, how can they offer compelling packages to high-caliber leaders and healthcare practitioners? This challenge is compounded by the restrictions of IRC Section 457(f), established in 1986. This regulation essentially discourages employees from deferring their compensation in nonprofit settings by taxing them as soon as their benefits become vested, regardless of whether they've received any distributions. This means that, despite not having immediate access to these funds, employees are taxed, undermining the very purpose of deferred compensation plans.

What is the EBS Triad Plan?

What sets the EBS Triad Plan apart from traditional deferred compensation plans as well as qualified plans is the way participants are taxed. Participant contributions are effectively made on a pretax basis, resulting in a reduction of current taxable income. Account balances accumulate on a tax-deferred basis. And when money is withdrawn from the EBS Triad Plan, it comes out on a non-taxable basis. A unique triad of tax benefits.

	EBS Triad Plan	Traditional Deferred Compensation
Contributions	Made with pre-tax dollars	Made with pre-tax dollars
Accumulation	Tax-deferred earnings	Tax-deferred earnings
Withdrawals	Received without income tax*	Taxed as ordinary income

**As its funding vehicle, the EBS Triad Plan uses a life insurance policy that has favorable tax treatment if withdrawals are made up to basis and then through a policy loan.*

The EBS Triad Plan offers employees of nonprofit organizations the opportunity to accumulate assets on a tax-favored basis without the restrictions of 457(f).

The EBS Triad Plan was designed according to the premise that some percentage of retirement savings should be in a vehicle that can generate non-taxable income during retirement and be safe from creditors of the sponsoring organization. Because program distributions are without taxation, the risk that future increases in tax rates will negatively affect the plan's financial benefits is removed.

How the EBS Triad Plan Works

The EBS Triad Plan achieves its tax-advantaged status as a result of being powered by an efficiently priced permanent cash value life insurance policy that provides two major benefits:

- A Cash Value account with a range of investment options with investment gains that are intended to be income tax-free.
- A Life Insurance Death Benefit that is income tax-fee when paid to your designated beneficiaries.

Why the EBS Triad Plan?

The EBS Triad Plan provides the power of pre-tax savings without the contribution limits or age restrictions of qualified plans. To get the maximum value from retirement accumulation, participants should first maximize their pre-tax contributions into their 403(b) and 401(k) plans.

Tax-free life insurance benefit

- Since the plan is being powered by a life insurance policy, you and your family will have a tax-free life insurance benefit too.

Two other features of the EBS Triad Plan are:

- The participant agrees to lower their compensation for a limited number of years, in order to save on Federal and State income tax
- The participant enters into a split dollar life insurance arrangement whereby the life insurance premiums paid by the organization are considered a loan. The loan is “non-recourse” to the participant with the policy itself being the sole source of repayment.

The policy has a dual purpose.

- First, it is structured to give you tax deferred growth and tax-free income.
- Second, the policy is owned by you, you name your own beneficiaries, and your employer takes an assignment of a portion of the death benefit to repay the loan plus required interest.

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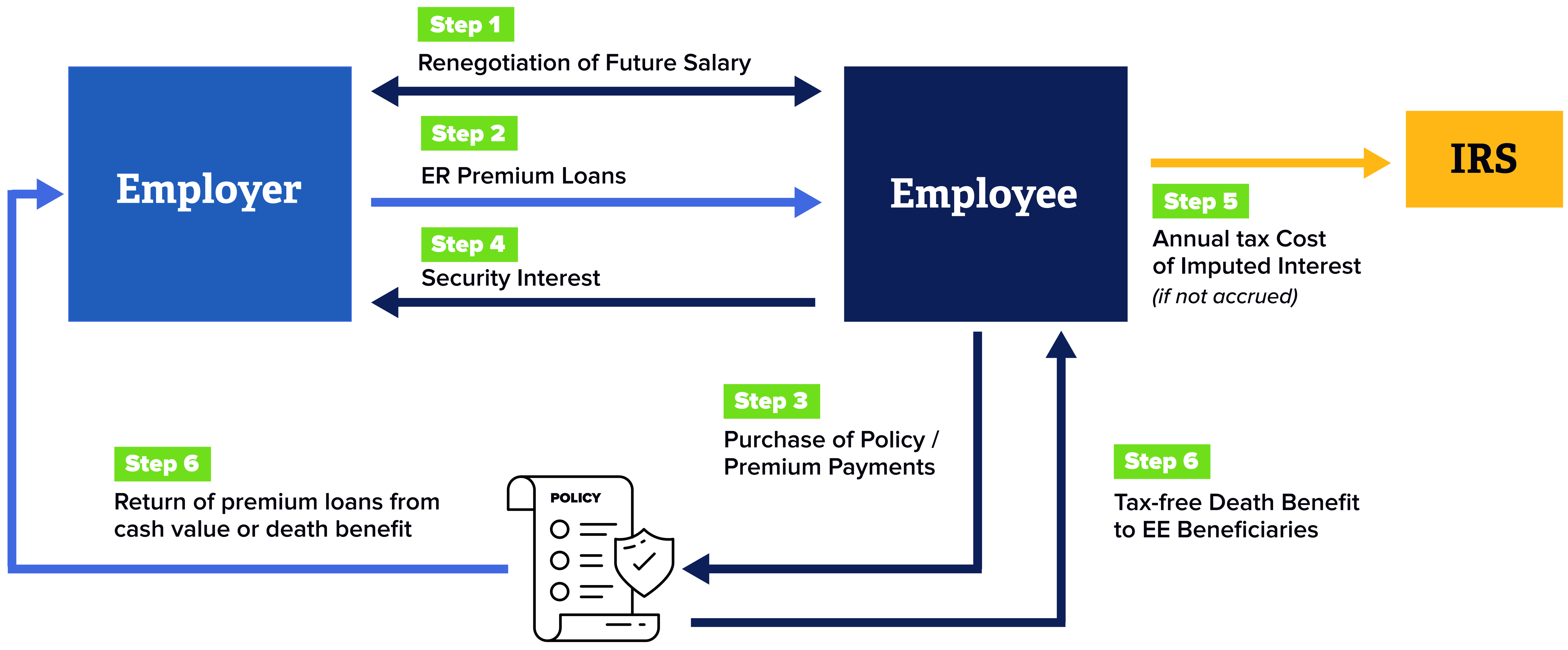
An illustration of how the EBS Triad Plan policy is structured.



	Employer	Employee
Policy Rights	→ To recover premium loans from policy cash value or death benefit → Secured by Collateral Assignment	→ Owner of policy, subject to rights assigned to Employer → Cash value and death benefits in Excess of Employer's Interest
Benefits & Costs	→ Reduction of compensation expense / conversion to an asset — "Premium Notes Receivable" → Cost Recovery upon repayment of premium loans → Relatively favorable 990 treatment → Opportunity cost of money	→ Reduction of current income taxes → Non-taxable supplemental retirement income → Supplemental life insurance coverage → Minimal cost

Get in Touch

The **EBS Triad Plan** can help level the playing field when it comes to attracting and retaining key talent. For more information, please contact an EBS principal.

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