



PHANTOM STOCK PLANS

Take the alignment of compensation and enterprise value to the next level.

Companies with ambitious growth expectations motivate top brass to work harder and help them earn more profit with a phantom stock plan.

INTRODUCTION

A phantom stock plan is a nonqualified plan for highly compensated employees structured to provide a tax-advantaged retirement planning benefit that is linked to the performance of the company. The selected participants enjoy the benefits of sharing in a company stock's growth over time as a result of their successful work efforts, and because no actual stock is issued, the company's shareholders don't run the risk of seeing their shares or voting control diluted.

The participants and the employer can make contributions to the plan, and the value of the phantom shares tracks the rise and fall of the underlying company stock. Because the benefits are designed as a long-term incentive, their distribution is typically deferred until retirement or another specific future date or event.

The benefits can also be subject to vesting schedules set by the company, contingent on the achievement of specific performance goals, or otherwise tailored to optimize strategies that lure top talent to stay with the organization and be rewarded handsomely for increasing profits.

Ultimately, phantom stock plans function similarly to other nonqualified programs and are subject to many of the same rules and regulations. They offer participants an opportunity to defer beyond the contribution limits of qualified savings vehicles and provide the sponsoring organization favorable tax and accounting treatments. Phantom stock plans require serious consideration be given to plan design, informal funding, benefit security, and ongoing administration.

PHANTOM STOCK PLAN BENEFITS

FOR THE EMPLOYER

Secure, motivate, and retain top talent

- Highly effective compensation and retention strategy that aligns the executive's and the company's interest in profiting from efforts that increase company value
- Rewards and encourages leadership's long-term stability and commitment to driving growth and improving the company's financial position

Mitigate risks and minimize issues

- Avoids passing on the cost of actual stock ownership
- No risk of diluting shareholder ownership or voting rights
- Less costly to implement than a plan offering actual stock options

Retain control, manage costs

- Not subject to ERISA participation, funding, vesting, or fiduciary provisions
- Significant flexibility to meet unique plan design objectives
- Offers a meaningful financial benefit without increasing current payroll
- Company may choose to employ an informal funding vehicle to help recover benefit costs or pay distributions from corporate assets
- Benefits are deductible to the company when paid

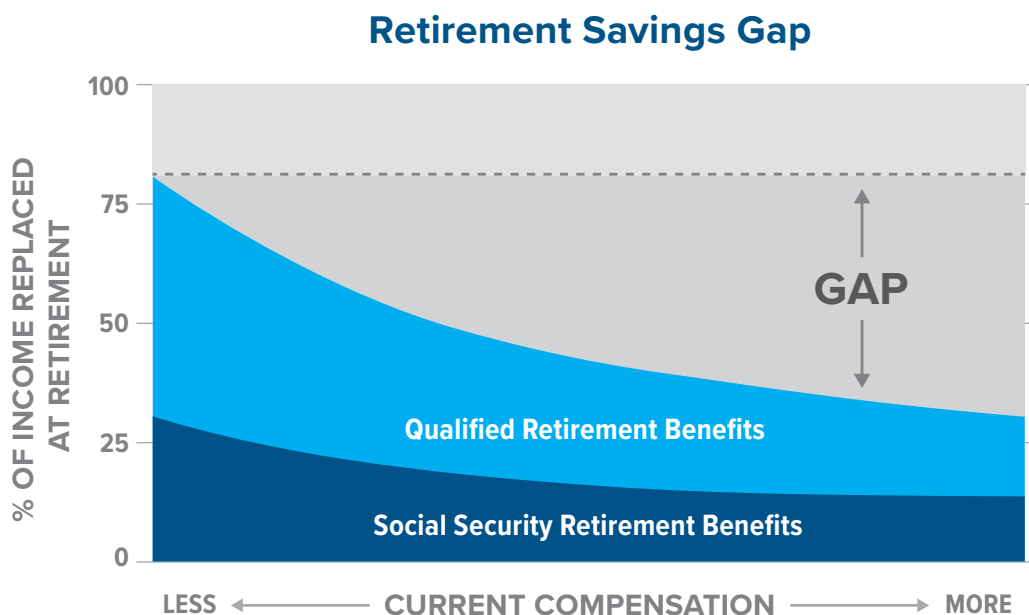
FOR THE EMPLOYEE

Address the retirement savings gap

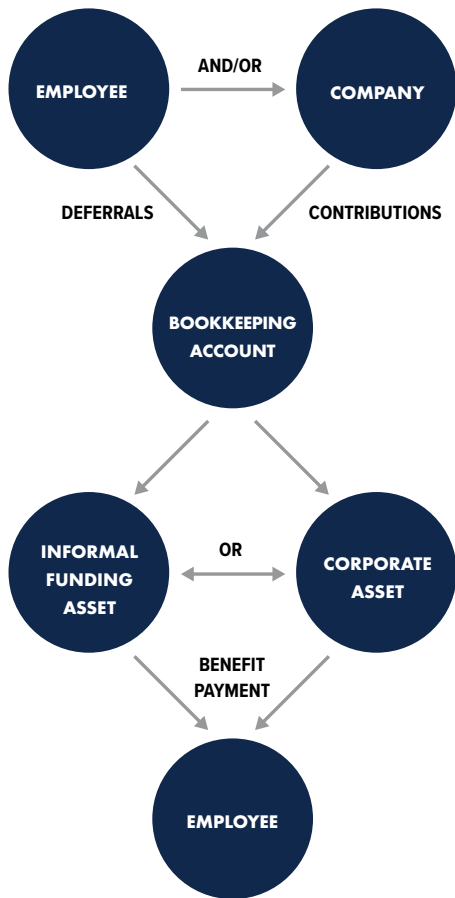
- Helps key employees make up for deferral limitations and discrimination testing restrictions imposed on qualified plan savings opportunities
- Generates commensurable compensation that enables high-income earners to achieve their financial goals for near-term life events or retirement planning

Enjoy a tax-favored benefit

- Contributions and earnings are tax-deferred
- Benefits are subject to ordinary income tax only when distributed
- May help decrease tax burden if the individual is in a lower tax bracket in retirement



MECHANICS OF A TYPICAL PHANTOM STOCK PLAN



DESIGN

When appropriately structured, a phantom stock plan can help address the income replacement inadequacies of qualified plans for highly compensated leaders while positively impacting employee productivity and motivation to produce tangible results in the company's valuation.

A wide array of features can be customized to be especially advantageous for both the company looking to optimize its return on talent investment and the individual executive securing a generous benefit in exchange for a long-term engagement:

- Eligibility
- Contribution types
 - Employee
 - Employer
 - Defined
 - Discretionary
- Vesting
- Basis for "stock" valuation
 - Actual
 - Hypothetical tied to:
 - Book value
 - Return on equity
 - Return on assets
- Benefit-triggering events (e.g., death, early termination)

A phantom stock plan can help strengthen the bond between the executive and company relative to a unified vision of future success. It is a powerful tool for elevating a nonqualified benefit's ability to:

- Attract
- Align
- Motivate
- Retain
- Reward
- Replace income





SUMMARY

At a time when finding and retaining strong leadership is vital to the ongoing viability and financial strength of a company, a well-structured compensation and benefits package that supports retirement readiness can be the key deciding factor for whether or not a highly valued employee pursues other career opportunities.

A phantom stock plan effectively rewards the time and effort executives have devoted to helping a company grow and succeed by giving them a significant stake in the results. When the organization offers a benefit that provides such a compelling reason for its top-performing employees to stay and realizes notable gains in profit and shareholder value, it's a win-win outcome for all.

When looking to offer the most effective pay strategies to highly valued employees, choose a provider with all

A company with growth ambitions ready to implement a phantom stock plan will require an executive benefit specialist with expert services and capabilities specific to nonqualified deferred compensation.

encompassing, nonqualified-plan-specific capabilities from a consultative, compliance, and technical standpoint. While generous in their flexibility, nonqualified plans are governed by a unique regulatory structure and must adhere to specific design and operational rules.

Working with a skilled partner that has expertise in phantom stock plan design, implementation, administration, accounting, reporting, and informal funding can help the plan achieve its stated objectives.

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