



## DEFINED BENEFIT SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN

Solve for high-income earners' unique retirement savings challenges.

*A DB SERP is a highly effective compensation and retention strategy that provides income replacement benefits.*

### INTRODUCTION

A Defined Benefit Supplemental Executive Retirement Plan (DB SERP) is a nonqualified plan for highly compensated employees. It is structured to provide retirement benefits commensurate with executives' income that are above the restrictions placed on traditional qualified plan contributions due to benefit limitations or discrimination testing.

As an alternative to a deferred compensation plan where the participant or employer makes contributions, DB SERPs are generally entirely employer supported and

controlled, making them a valuable tool for rewarding and retaining top talent with a substantial benefit contingent on their commitment to staying with the organization over the long term.

Through these plans, a series of payments are made at retirement or some other predefined occurrence or future date. Benefit amounts are typically defined by a function of participant compensation, age, or service, giving companies exceptional design flexibility to customize the plan for the individual participant.

## DB SERP BENEFITS

### FOR THE EMPLOYER

#### Secure, motivate, and retain top talent

- Highly regarded benefit offering that helps differentiate a company from its competitors to entice top-performing executives
- Rewards and encourages leadership's long-term stability and commitment to driving business growth and improving the company's financial position

#### Minimize administrative hassle

- Straightforward to design, implement, and communicate
- Simpler and less costly to administer than a typical elective deferred compensation plan
- Benefit administration, accounting, and participant statements handled by plan record keeper

#### Retain control

- Not subject to ERISA participation, funding, vesting, or fiduciary provisions
- High design flexibility and customization make it possible to set eligibility parameters and structure the plan for individual executives' needs
- Company may choose to employ an informal funding vehicle to help recover benefit costs or pay distributions from corporate assets

### FOR THE EMPLOYEE

#### Address the retirement savings gap

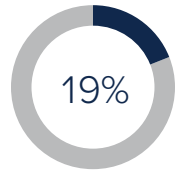
- Helps key employees make up for savings limitations imposed on qualified plans by providing retirement income proportionate to final years of compensation
- Delivers a meaningful financial benefit that generally doesn't require the employee to make contributions, assume market risk, or manage plan elections

#### Effectively plan for retirement

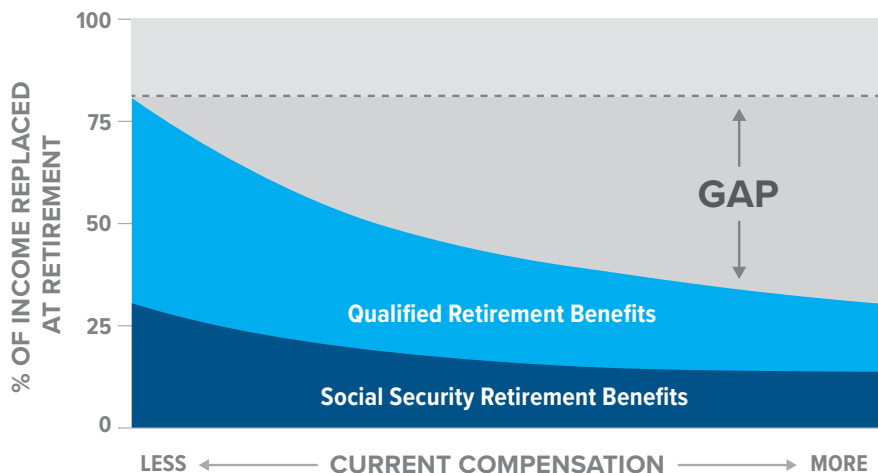
- A defined and relatively predictable stream of income offers a retirement planning advantage
- The benefit is subject to taxation only when received as income, presumably when the individual is in a lower tax bracket in retirement

19% of nonqualified plans are DB SERPs\*

\*2019 Prudential-PlanSponsor Executive Benefit Survey



### Retirement Savings Gap



The benefit can be based on a targeted compensation replacement ratio; e.g., 60% of final three-year average compensation.



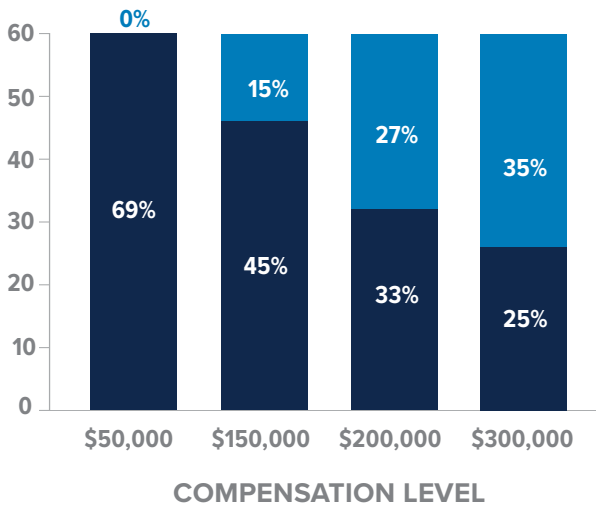
## SAMPLE DEFINED BENEFIT SERP STRUCTURE

The benefit is typically defined as of a certain age or retirement status based on a percentage of average income during the three or five years preceding retirement. While there may be offsets based on Social Security income and employer contributions in other company-sponsored benefit plans, DB SERPs directly address the need to generate the amount of income required to maintain a highly compensated employee's standard of living in retirement.

The following chart illustrates a hypothetical annual retirement benefit, taking into account a final average compensation amount, the income replacement ratio, and other plan benefit calculations.

### Benefit Restoration

Sample Retirement Income Replacement Ratios



■ SERP  
 ■ Qualified Defined Benefit Pension Plan and 100% Social Security

## DB SERP CONSIDERATIONS

### DESIGN

A successful DB SERP helps ensure an executive's retirement readiness while meeting specific corporate objectives, and its design should reflect the need to achieve those respective goals. Fortunately, DB SERPs offer great flexibility to positively impact income replacement, attraction, reward, and retention efforts.

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
- Benefit levels
- Compensation definitions
- Vesting
- Credit for past service
- Benefit offsets (e.g., Social Security)
- Benefit-triggering events (e.g., death, early termination)

### INFORMAL FUNDING

While companies can pay DB SERP benefits out of cash flows or investment funds, most plans are informally funded with corporate-owned life insurance (COLI), of which the employer is the purchaser, owner, and beneficiary. To achieve the maximum return from the COLI, the policies are generally held until the death of the insured, when the proceeds are tax-free to the company. At the time of distribution, the benefits are deductible to the company and taxed as ordinary income for the executive.

## SUMMARY

Companies offering programs designed to recruit, reward, and retain the key employees that help drive their success know to include an appealing incentive plan that better prepares executives for a financially secure retirement. DB SERPs are designed to help companies solve the wage replacement challenge for high-earning individuals planning for retirement, which is a powerful incentive for driving loyalty and performance, as well as a competitive advantage in the battle for executive leadership.

**A company ready to implement a DB SERP will require an executive benefit specialist with expert services and capabilities specific to nonqualified defined benefit plans.**

When looking to offer the most effective nonqualified retirement benefits to highly valued employees, choose a provider with all-encompassing, defined benefit-specific capabilities from a consultative, compliance, and technical standpoint. Working with a skilled partner that has expertise in defined benefit plan design, implementation, administration, accounting, reporting, actuarial science, and informal funding can help the plan achieve successful outcomes for the company and key employees alike.

This material and the opinions voiced are for general information only and are not intended to provide specific advice or recommendations for any individual or entity. To determine what is appropriate for you, please contact your M Financial Professional. Information obtained from third-party sources are believed to be reliable but not guaranteed.

The tax and legal references attached herein are provided with the understanding that neither M Financial Group, nor its Member Firms are engaged in rendering tax, legal, or actuarial services.

If tax, legal, or actuarial advice is required, you should consult your accountant, attorney, or actuary. Neither M Financial Group, nor its Member Firms should replace those advisors.

Securities offered through M Holdings Securities, Inc., a Registered Broker/Dealer, Member FINRA/SIPC.

M Benefit Solutions and M Holdings Securities, Inc. are affiliated companies.

File #6556671.1 Expiration 04/2027