

The Business Market in the "new normal" with Matt Schiff

Matthew E. "Matt" Schiff, CLU, ChFC, WMCP
President

Schiff Benefits Group, LLC

220 Gibraltar Rd, Suite 350

Horsham, PA 19044

610-292-9330

www.SchiffBenefits.com

MSchiff@SchiffBenefits.com



1


Topics for Today's Discussion



- The "new Normal"
- How does an employer provide benefits knowing cash flow is reduced?
 - What is the goal? How should it be structured – if any?
 - Eliminate? Reduce? Redirect?
 - Flat amount or percentage of salary?
 - Flexible or set based upon profitability?
 - All employees or just a few?
 - When is it paid? Retirement or "in service" :
 - In Service Benefit
 - When?
 - Lump or equal payments
 - Retirement Benefits
 - Time and form (409A rules)?
 - Employee or employer supplemental payments as well?

2

Don't get caught by surprise!



Schiff Group
Benefits Group
Financial Planning & Investment

For Agent Use Only

3

Our Story

For Agent Use Only

4

Schiff Benefits Group, LLC - Services



- **Help Establish Client Objectives**
- **Design**
- **Implementation** (enrollment and underwriting)
- **Administrative Support**



For Agent Use Only

5

Schiff Benefits Group– Professional Expertise



- **Accounting**
- **Actuarial**
- **Administration**
- **Compensation & Benefits**
- **Investment & Insurance**
- **Legal (outsourced)**
- **Systems (TPAs)**
- **Tax (outsourced)**



For Agent Use Only

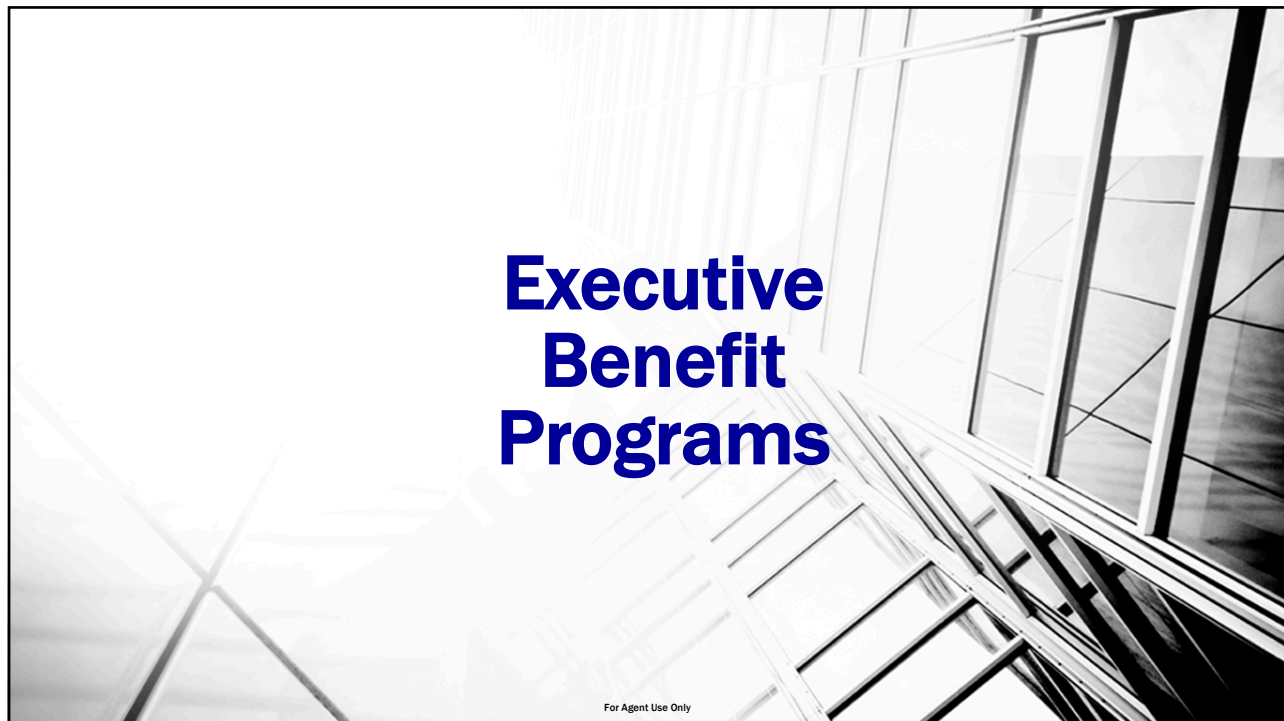
6

Schiff Benefits Group, LLC Representative Clients

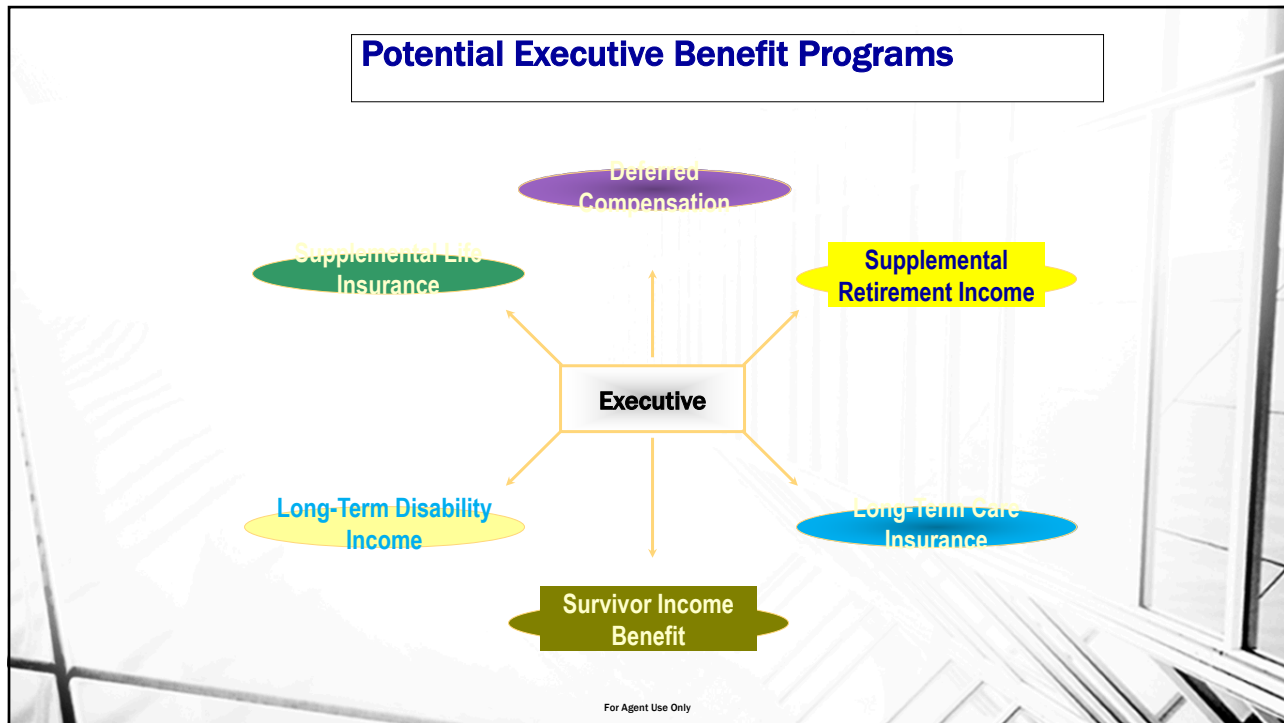


7

Executive Benefit Programs



8




9



10

<http://schiffbenefits.com/wp-content/uploads/2017/01/SRG-Executive-Benefits-Grid.pdf>

Executive Benefit Plan Comparison




	Executive Bonus Plan (EBP)	Non-Qualified Deferred Compensation Plan (DCP)	Non-Qualified Supplemental Executive Retirement Plan (SERP)
General Overview	<ul style="list-style-type: none"> The company pays the annual premium on a life insurance policy owned by the key employee The amount of the premiums are treated as employee bonus compensation 	<ul style="list-style-type: none"> Tax-advantaged savings opportunity for the key employee <ul style="list-style-type: none"> Key employee elects to defer current income on a pre-tax basis Earnings accrue on a tax deferred basis The company can elect to provide a percentage match or additional contribution 	<ul style="list-style-type: none"> The company agrees to provide supplemental retirement income benefits for the key employee <ul style="list-style-type: none"> Can be structured as a "defined Benefit" or a "defined contribution" plan
Target Employer	<ul style="list-style-type: none"> Employers with 10+ employees C Corporations Mid to Large S Corporations (for employees; not owners) Attractive executive benefit plan alternative for pass through entities 	<ul style="list-style-type: none"> Employers with 45+ employees C Corporations (owners and key employees) Mid to large S Corporations (for employees; not owners) Employers with good succession planning in place 	<ul style="list-style-type: none"> Employers with 45+ employees C Corporations (owners and key employees) Mid to large S Corporations (for employees; not owners) Employers with good succession planning in place
Target Employees	<ul style="list-style-type: none"> Employees who would appreciate permanent life insurance coverage; and the tax-deferred cash value build-up in the policy, Employees that may be more sensitive to benefit security. 	<ul style="list-style-type: none"> Employees who want to make pre-tax salary deferral contributions 	<ul style="list-style-type: none"> Employees who will experience a retirement income shortfall from qualified plans due to IRS caps
\$\$	Uses Company \$\$ <ul style="list-style-type: none"> Opportunity for employee to contribute 	Uses Employee \$\$ <ul style="list-style-type: none"> Opportunity for company to contribute 	Uses Company \$\$
Income Tax Consequences	<ul style="list-style-type: none"> Premium payments are currently deductible to the company as compensation expense Amount of Premium payments are currently taxable to the employee. Employer could pay tax cost via a double bonus Any policy cash values grow tax deferred 	<ul style="list-style-type: none"> No current tax deduction for employer No current taxable income for employee Employer get tax deduction when benefits are paid Benefits are taxable to employee when received Pass-through Entities – Employee deferrals would be taxable to the business owner(s) 	<ul style="list-style-type: none"> No current tax deduction for employer No current taxable income to employee Employer gets tax deduction when benefits are paid Benefits are taxable to employee when received

11

<http://schiffbenefits.com/wp-content/uploads/2017/01/SRG-Executive-Benefits-Grid.pdf>

Executive Benefit Plan Comparison (Cont.)



	Executive Bonus Plan (EBP)	Non-Qualified Deferred Compensation Plan (DCP)	Non-Qualified Supplemental Executive Retirement Plan (SERP)
Impact on Financial Statements	Current charge to earnings for bonus. Bonus reportable as compensation	Must accrue benefit liability and expense during working years of employee	Must accrue benefit liability and expense during working years of employee
Vesting and Control	Employee owns the policy. Rights can be limited through a Restrictive Endorsement	<ul style="list-style-type: none"> Employee deferrals are 100% vested Employer contributions may have a vesting schedule as determined by the employer 	A vesting schedule is possible as determined by the employer.
Employer Cost Recovery (recoupment of premiums)	No – not always, but employer can purchase key man insurance to recover employer costs	Typical to recover the net after-tax cost of the plan	Typical to recover the net after-tax cost of the plan
Plan Performance Risk	Employee enjoys the benefits and bears the risk of the policy performance	Employer bears all of the plan risk with respect to assets held for plan purposes Plan Assets subject to corporate general creditors	Employer bears all of the risk with respect to assets held for plan purposes Plan Assets subject to corporate general creditors
Security	Employee's benefit is effectively secured by the policy that he or she owns	Employee is an unsecured creditor of the employer and has no interest in any assets held for plan purposes	Employee is an unsecured creditor of the employer and has no interest in any assets held for plan purposes

12



Sample Benefit Plan

82% of Fortune 1000 have some "plan"

13

Post Covid Retirement Benefit Design Changes

- Eliminate Employer 401K Cash Flow (\$182,000)
 - Eliminate Safe Harbor Contribution
 - Eliminate Company Match
 - Reduce Company Match
- What is the Impact?
 - Will there be refunds in January?
 - Is there an alternative?
 - Can it be done at almost no cost?
 - Can this be done on a discretionary basis?
- Alternative:
 - Benefits of Change
 - Redirects Refunds
 - Eliminates Company Cash Flow
 - Allows for rewarding those the company needs to reward
 - Has no material impact on employee, plus provides flexibility to employer.
 - May provide key man life insurance
 - May create an asset that provides liquidity for operational purposes

14

NQDC 409A Projected Benefits									
<u>Last Name</u>	<u>First Name</u>	<u>Gender</u>	<u>Birth Date</u>	<u>Age</u>	<u>Retirement</u>	<u>Ret Date</u>	<u>Compensation</u>	<u>Death Benefit</u>	<u>Ret Benefit</u>
Client	A	Female	04/12/1977	42	65	07/01/2042	185,021.00	185,021.00	90,066.97
Client	B	Male	11/13/1959	59	65	07/01/2025	275,000.00	275,000.00	0.00
Client	C	Female	10/24/1966	52	65	07/01/2032	162,300.00	162,300.00	38,021.51
Smith	D	Male	05/04/1972	47	65	07/01/2037	196,000.00	196,000.00	91,784.59
Smith	Joe	Male	01/09/1968	51	65	07/01/2033	194,125.00	194,125.00	49,753.24
Smith	Kelly	Male	03/21/1980	39	65	07/01/2045	190,895.00	190,895.00	147,191.66

Assumes 6% account growth on deferral account

Each Participant has a different deferral percentage from 10-20% of compensation

15

COLI (71% of Companies Informally Fund these benefits with COLI)

- **Unique financial vehicle for generating surplus to meet company selective benefits obligations**
- **Company is sole owner, premium payer, and beneficiary of COLI policies**

16



Examples of uses of COLI

- Provide Supplement Income
- Provide Supplemental Insurance (Discriminatory)
- Recover the costs of a SERP
- Fund Buy/Sell Arrangements
- Recover Qualified Pension Costs
- Recover Long Term Care Costs
- Recover ESOP Funding Liability

*Guaranteed Issue – Min 10 Lives

17



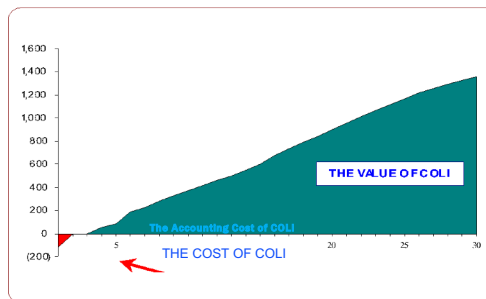
Summary Analysis - COLI

LMNO Corporation

SERP-PLUS™ Integrated Actuarial Financial Model (IAFM™) Highlights

Plan Year	COLI Asset Value	COLI Earnings Impact
	Value	Impact
1	313,050	(115,066)
2	739,702	(1,464)
3	1,193,779	25,960
4	1,677,092	55,197
5	2,191,560	86,352
6	2,803,802	188,291
7	3,451,052	227,788
8	4,149,256	283,573
9	4,884,812	326,121
10	5,659,034	370,371
15	10,103,744	598,716
20	15,766,647	902,163
25	22,543,137	1,168,665
30	30,142,183	1,356,622
Ultimate	52,447,716	40,346,049

COLI Annual Earnings Impact



- A COLI Level Annual Premium = \$428,116
- B COLI Ultimate Gain = \$40,346,049 (Ultimate Return = \$52,447,716)
- C COLI Earnings Gain from Program Year 3 Forward
- D COLI Impact on Company Earnings (ICE) = 57.1%

18

Administration



- Will provide specimen documents for your attorneys
- Will provide all the accounting entries necessary
- Will have online accounts values
- Employer and Employee Portal
- Online Enrollment
- Policy value reporting (if needed)
- Accounting and Tax Reporting
- Link to Payroll
- Communication for participants both at enrollment and ongoing

19

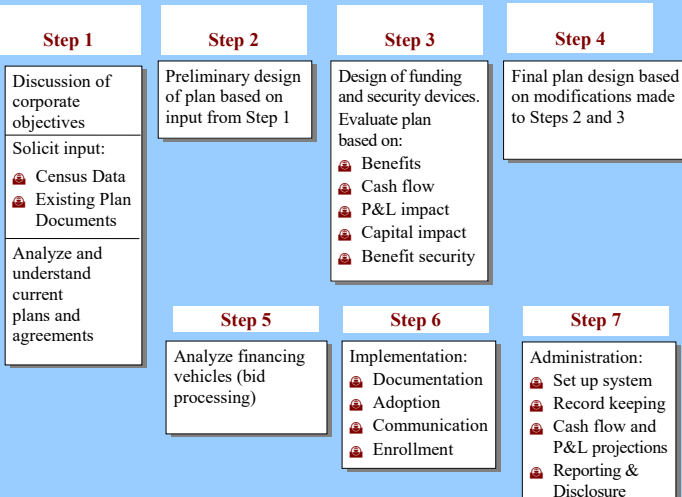
Schiff Benefits Planning Process




Schiff Benefits' approach is to assist Business entities in the design, financing and securing of nonqualified executive benefit plans.

Select a plan development team, including:

- △ Human Resources
- △ Finance
- △ Legal
- △ Other key executives



20



Matthew E. Schiff, CLU, ChFC, WMCP


President

Mr. Schiff is President of Schiff Benefits Group, LLC, specializing in the design, implementation, financing, and ongoing administrative support of supplemental executive benefits programs. Mr. Schiff has 30 years of experience in the financial services industry and is recognized as a leader in the deferred compensation and business consulting field. Prior to starting Schiff Benefits Group, LLC, Mr. Schiff was a Managing Director with NYLEX Benefits, a subsidiary and the executive benefits consulting arm of New York Life Insurance Company where he helped build it from scratch into an industry leader.

Mr Schiff was an integral part of the AALU's Non-Qualified Plan Committee during the drafting and implementation of 409A, the governing law for Non-Qualified Deferred compensation plans. Those laws remain in effect today and are the bulk of the work that he and his firm focus on.

Mr. Schiff is a graduate of Tulane University, holds numerous professional designations, is a member of AALU and has served in leadership roles, including:


- Association for Advanced Life Underwriting (AALU) and member of the following committees:
 - Annual Meeting Planning Committee
 - Communication Committee
 - Exhibitors Committee
 - Non-Qualified Plans Committee
 - Political Action Committee
 - Membership Committee
- 9 time consecutive Top of the Table Member (Million Dollar Round Table)
- Lifetime Court of Table Member of MDRT
- Vice President of The American College Alumni Board




Mr. Schiff is an accomplished competitive sailor who now spends most of his "free" time with his son who plays travel hockey, or with his two adult daughters. When not doing family stuff, you'll find him on the golf course, or playing soccer.

21

The Business Market in the "new normal" with Matt Schiff



Matthew E. "Matt" Schiff, CLU, ChFC, WMCP
President
Schiff Benefits Group, LLC
220 Gibraltar Rd, Suite 350
Horsham, PA 19044
610-292-9330
www.SchiffBenefits.com
MSchiff@SchiffBenefits.com



22