

The View from Level VII™

EXECUTIVE BENEFITS & COMPENSATION

How About That...The New Deferred Compensation Legislation Has Passed!

In our [August Issue](#) of *The View*, we shared that passage of the American Jobs Creation Act of 2004 (AJCA), the bill containing the nonqualified deferred compensation planning (DCP) provisions we have been following, might likely be delayed until later this year or next. Much to the industry's surprise the bill was passed very quickly, and was signed into law by President Bush on October 22nd.

Although DCP is alive and well, the new legislation codifies under Sec. 409(a) notable changes with respect to: 1) timing and election of distributions; 2) limiting re-deferral of distributions; 3) prohibition of deferral acceleration; 4) reporting of contributions on W-2; 5) elimination of aggressive security mechanisms; and 6) penalties for non-compliance. These changes are summarized in our [June Issue](#) of *The View*, and extensive detail provided by the AALU may be found on the [What's New](#) link at [WeirResources.com](#).

In general, the new rules apply to DCP plan amounts deferred after 2004. Pre-2005 deferrals will be treated under old law, as long as such existing plans are not "materially modified" after October 3, 2004. As previously communicated, IRS guidance on the plan amendment process is expected in the next 30 days and we anticipate a 3-6 month transition period for companies to comply.

As this new legislation applies to existing plans across the board, there is much work to be done in the coming months. DCP plan sponsors should begin to consider the what steps to need to be taken to respond to the new legislation. With our 30 years of experience in nonqualified consulting, supported by national resources exclusively dedicated to executive benefits planning, we can help. Contact us.

Weir Financial Resources, LLC is a financial advisory firm offering information, ideas and solutions in Executive Benefits, Business Succession and Private Wealth Planning.

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Executive Motivation — Where Does It Come From?

It seems there are still many companies that have still not become believers in the concept that "executive incentives pays big dividends"! Just as in any professional sports team be it football, baseball, basketball etc, the leaders of the team – more than any other team member — need motivation. Motivation comes in many forms: for some its ego and power, for others it's the satisfaction of winning the game and/or the championship at culmination of the season. Motivation however, without the right incentive just doesn't work in a professional team. Appropriate means of incentives is the key.

How often do we see big-name athletes getting millions of dollars as up-front bonuses...before they have played a single game. Then they often receive millions of dollars a year – guaranteed! Is that incentive, or just madness on the owner's part? Wouldn't it make more sense to create incentive in those athletes based on actual performance? We now see this slowly creeping into some players contracts.

Doesn't pay for performance also make for the most compelling approach for executives? They are members of the professional management team responsible for company results. The problem is that many companies, particularly private ones, are still reluctant about introducing really meaningful incentive plans for their top executives. This step, requires adoption of suitable incentive plans based on company: annual financial results; and long-term financial results (often over a 5-year period).

Why wait to increase your company's profits and valuation? These plans not only pay for themselves, they ensure executives are only paid for superior performance. **Harman & Associates** with its fortune 500 background, has extensive national and international experience in executive compensation planning for private and public companies would gladly assist in designing appropriate incentives for your company.

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In this and/or future issues you will find short, yet meaningful articles on:

- Human Resources
- Risk Management
- Executive Compensation
- Executive Benefits
- Employee Benefits
- Private Wealth Planning



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EMPLOYEE BENEFITS

Auto(k) - The New Automatic Drive to Retirement

Employers have increasing concerns that 401(k) Plans are not producing the desired retirement benefits for many employees. Deferral percentages are not adequate, and some studies show that almost 40% of all employees are not currently saving anything for retirement. To make matters worse, many employees who are using their 401(k) Plan savings opportunity are not adequately diversifying their investments. "Autopilot" 401(k) Plan designs, or Auto(k) Plans, can help eliminate these two major 401(k) Plan problems.

- ✓ New hires are automatically enrolled in the plan at a predetermined minimum contribution level, typically 3% to 5% of pay.
- ✓ Once enrolled, plan participants automatically have their savings percentage increased annually by 1%. These increases stop when a predetermined target is reached, typically 8% to 10% of pay.
- ✓ The automatic "default" investment option is a diversified, dynamically managed Lifecycle fund targeted towards the date when the employee would attain age 65. These funds are actively managed to become more conservative as the employee gets older.
- ✓ Employees are reminded of these "automatic" provisions periodically, and are allowed to change them at any time. Due to inertia, many employees will leave the default options in place.

We would welcome an opportunity to discuss the Auto(k) concept with you. **Benefits Advantage, Inc.** provides consulting and insurance brokerage services for all types of employee benefits programs. Emphasizing *personal service, creative ideas, and positive results*; Benefits Advantage Inc. has 30 years of experience working with employers.

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HUMAN RESOURCES

How Loyal are They?

Only about one-third of employees are committed to their employers, plan to stay for at least two years, and would recommend their company to job seekers, according to a recent survey of 2,400 employees released September 1. The remaining percentage of employees either feel "trapped" in their jobs or are actively looking for other opportunities, the study said.

This low commitment can be a "silent profit killer," because customer loyalty increases in direct proportion to employee loyalty, according to the research firm. Happy employees lead to happy customer and, often increased revenue.

According to the study most employee do not consider financial compensation key to their loyalty or disloyalty, but instead cite care and concern for employees and opportunities for growth and career development as top motivations. You can always buy employee retention by throwing more dollars at the situation, however, just because they stay doesn't mean they're loyal. They're just more trapped. You can't buy loyalty.

The study defines "loyal" employees as those who are more than merely "satisfied" with their jobs and the companies they work for, and also are pleased with their relationship with their companies. Such employees tend to recommend their employer as a good company to work for, limit their outside job-searching activities, turn down offers to work elsewhere, contribute "above and beyond the call of duty" at work, and plan to stay at least two more years, the survey said. "Trapped" employees, on the other hand, are not committed to their employers but plan to stay at least two years, and those "at risk" are neither committed nor planning to stay, the survey said.

If you'd like to learn more about the loyalty of employees and that your "most valuable asset" is properly attended to, please contact our offices. HR Professional Consultants provides outsourcing and project based Human Resources consulting services for companies of all types and sizes.

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