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NOLAN FINANCIAL REPORT

Retirement Planning for Executives
"Are you on your Own"

.Introduction

A recent study by Ernst & Young in July 2008 funded by the Americans for Secure Retirement (See Ernst & Young LLP 2008 - Retirement Vulnerability of New Retirees) presented some very powerful statistics and observations regarding expectations of retirees outliving their financial assets.

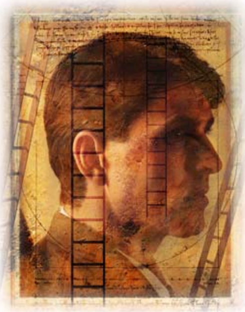
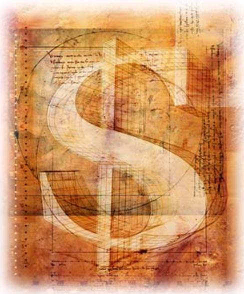
Among their key findings were the following:

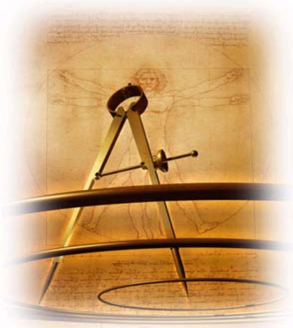
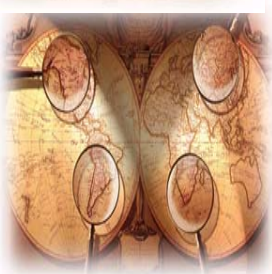
- Guaranteed income is projected to cover a decreasing share of retirement income leaving households with increased responsibility for their retirement and at increasing risk of retirement vulnerability.
- Americans' increased reliance on defined contribution pension plans and personal savings and the trend away from defined benefit pension plans and other guaranteed sources of retirement income raises serious sustainability challenges.
- Many Americans will have to reduce their standard of living significantly due to fluctuating investment returns and the probability of spending more years in retirement.
- The next wave of retirees (5-10 years from now) will have a higher risk of outliving their financial assets than those currently at retirement age.

These are extremely sobering statements and reinforce the need to be prepared on two fronts. Current tax laws give the typical employee the opportunity to participate in both Defined Benefit (DB) and Defined Contribution (DC) savings plans offered by their employer. These retirement savings vehicles address one side of the risk equation that affects Americans' ability to maintain their standard of living during retirement. For the executive this is even more exacerbated by the DB and DC investment limitations imposed by Congress. This requires the executive to rely upon the opportunity to participate in nonqualified DB and DC opportunities sponsored by their employer. These are plans such as SERPS or Deferred Compensation Plans. We will discuss these plans in more detail later.

Yet savings is just one aspect affecting retirement readiness. A less recognized but equally critical retirement vulnerability is the risk of outliving one's financial assets due to people living longer in retirement and market fluctuations affecting retirement asset values. We have discussed in other Nolan Financial Reports the concept of "Reverse Discrimination". While Social Security and company sponsored retirement plans such as 401(k) or pension plans will give the typical employee a retirement savings opportunity of close to 60%, for the typical senior executive, this opportunity is closer to 30%.

This study goes on to say that households approaching retirement face many uncertainties that increase the risk of


outliving their assets. The very real possibility of living to age 90 or 100 combined with the volatility of inflation and investment returns means that the risk of outliving one's assets is quite high. Without additional guaranteed lifetime income streams, such as income provided by an annuity, middle-income Americans are at high risk of outliving their financial assets and living their final years in poverty.

A greater focus on increasing retirement savings and vehicles that provide a guaranteed lifetime income stream will play a significant role in reducing the retirement vulnerability of retirees in the future. These statements are of even greater concern to the executive who is faced with the investments constraints that were discussed above.

Solutions

For the executive, this requires that they either create their own additional retirement opportunities through the use of annuities or some other type of tax deferred investment or encourage their employer to set up either a SERP or a deferred compensation plan that will supplement their qualified retirement planning opportunities.

We are seeing a resurgence of the SERP and a better understanding of the various ways to design a SERP that can take advantage of both State Income Taxation as well as the Short-Term Deferral option under Section 409A. Nolan Financial has been introducing these options to its clients and has been receiving excellent feedback. We have seen these top executives going to their boards and compensation committees and asking that their SERP plan be amended to take advantage of these plan design enhancements.

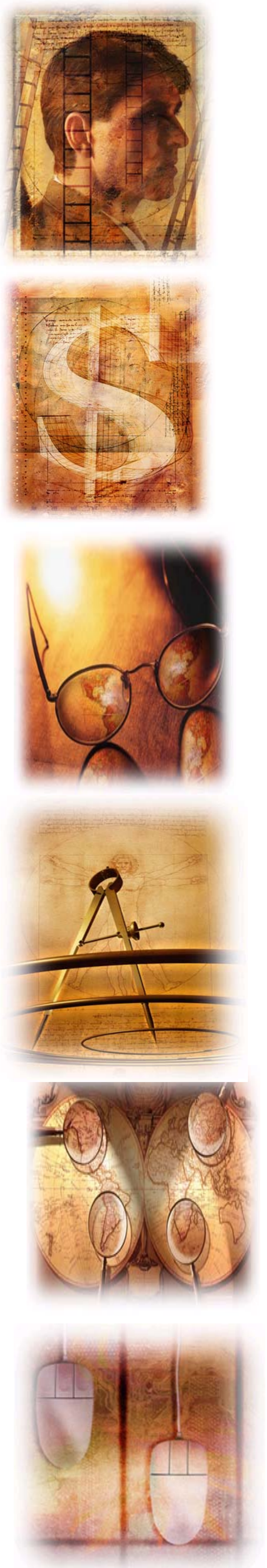
Non-qualified plans can also include benefits like supplemental life insurance, supplemental disability income insurance and long-term care insurance, according to the needs of the executive and their company. Oftentimes, there is a great need for customization and the need to find an organization with the expertise to design and administer these plans.

These non-qualified plans help close the "retirement gap" by allowing executives to put away the amount they will need for a retirement suitable with their current lifestyle. CEO's and business owners can also pick and choose who participates in the plan; better yet, they can customize a specific plan for each executive. Non-qualified plans also provide tax advantages, both for employees and businesses. Often, plans can be designed with minimal or no impact to the company balance sheet--and over time can actually improve it.

We often find these nonqualified plans to be better solutions than stock plans. While stock plans have their place in a well-designed executive compensation package, stock grants and options have their limitations, beyond the obvious ownership dilution.

The other hassle with stock- or option-based compensation is complying with the various rules and regulations such as FAS 123R. Among other things, for the private company that means running that gauntlet involves an annual company valuation. These can cost $10,000-40,000 a year.

One caveat to executive benefit plans: While they come with less red tape than stock or qualified plans, companies most likely will need a specialist to administer their plans. That's because executive benefit plans are covered by section 409A of the tax code, meaning that they require an experienced adviser who can avoid potential penalties or unexpected taxation.



SUMMARY

A well-designed and well implemented nonqualified plan is truly a requirement for today's company to help meet not only the retirement savings needs of today's executive but also to allow them to maintain a similar life style to the one they enjoyed while they were employed. A quality non-qualified deferred compensation plan or SERP can distinguish a company from its competition.

As discussed above, due to reliance on Social Security benefits and cutbacks in employer-sponsored plan benefits, the individual executive will be required to fund the majority of their own retirement. This is difficult to do without employer involvement. Now is a good time for the employer to review its executive retirement needs.

Nolan Financial has successfully designed and implemented nonqualified deferred compensation and SERP plans for both for-profit and non-profit organizations. We can help you do the same.

If you have any questions or interest in regard to designing, funding or administering a nonqualified deferred compensation or SERP plan,

Please contact:
Michael E. Nolan
Nolan Financial
President and CEO
Phone: 866-610-6442
Email: NolanM@Nolanfinancial.com

William A. Craig
Nolan Financial
V.P. Business Development
Phone: 866-810-6442
Email: CraigW@Nolanfinancial.com

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