



Qualified SERP:

Supplemental Executive Retirement Plan

A Qualified SERP is an amendment to an existing tax-qualified pension or profit sharing plan that allows employers to offer ultimate level of benefits to its key executives. With a Qualified SERP, employers are able to shift all, or a significant portion, of accrued non-qualified executive retirement benefits into the employer's qualified Defined Benefit retirement plan. Both the employer and its executives enjoy unique tax advantages and other benefits provided under the Internal Revenue Code and ERISA.

Advantages

Under the Internal Revenue Code, the amount of benefits that can be paid to certain highly compensated employees under tax qualified retirement plans is limited. The traditional response has been to establish a non-qualified SERP to provide the lost benefit. Unfortunately, non-qualified plans don't offer comparable tax advantages to employers like qualified plans. At BPAS, **we consult with Plan Sponsors on techniques that allow SERPs (as well as other non-qualified deferred compensation benefits) to be secured under and paid from qualified plans.** The advantages are:

- Benefits are **funded through an ERISA Trust** secure from company and executive creditors.
- Contributions **grow tax-deferred** in the ERISA Trust.
- The company can take a **tax-deduction for contributions in the year they are made** as opposed to a deduction in the year benefits are paid to the executive.
- Unlike non-qualified SERP benefits, **qualified SERP benefits are not subject to FICA tax.**
- Executives have more **flexible payment options**, including a lump sum, if the plan has that option for other participants.
- If the plan allows a lump sum at retirement, **it can be rolled over on a tax-deferred basis** to an Individual Retirement Account or Individual Retirement Annuity.

Example

Company XYZ has a Defined Benefit (DB) plan that provides 1% of the final average compensation multiplied by an employee's years of service. XYZ would like to provide its President with a benefit equal to \$100,000 per year beginning at age 62. However, at age 62, the benefit formula would be much less than the target of \$100,000 due to the compensation limit that applies in a qualified plan (i.e., \$265,000 in 2016). Implementing a Qualified SERP would allow XYZ to provide the \$100,000 benefit for its company President.

BPAS Actuarial & Pension Services has extensive experience with Qualified SERPs. We help companies across the nation assess whether a Qualified SERP is the best pension strategy. Our team of experts can design and implement a SERP that's right for your company, too.

Services include:

- Review of existing qualified and non-qualified arrangements
- Determination of benefits included in the qualified plan
- Non-discrimination testing necessary to demonstrate compliance with applicable IRS regulations
- Financial analysis
- Plan amendments and board of directors resolution



Ready to learn more? Let's talk.

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