What is the price of simplicity? Without a doubt, it just increased by 21%.

TRISCEND^NP's Executive Compensation and Benefits Study consistently reports of large non-profits paying out or accruing over $2 billion in deferred compensation annually to attract and retain talent in their competitive markets. Now, in 2018, the nonprofit sector is facing the implications of the "Tax Cuts and Jobs Act," (the Act) which (at best) threatens to exacerbate the expenses associated with such plans or (at worst) discourage non-profits from offering competitive pay and benefits to the key leaders they so desperately need.

The Act imposes a 21% excise tax on compensation over $1 million for certain highly compensated present and past employees. The tax is paid by the organization (not the employee) and deferred compensation plans structured with lump sum payments at retirement are more likely to trigger the tax. As the larger non-profits attempt to peer over the horizon of excise tax implications, they are starting to fall into one of two schools of thought.

Some see it as a price of doing business. This price, however, may not be measured in monetary amounts alone, it can also be measured in missed opportunities for improved stewardship of the organization's financial resources and the impact of negative publicity. Decision makers in this camp may be placing too much value on the status quo of traditional executive benefit plans, or merely allowing other pressing obligations to absorb their attention.

Others, in the opposite camp, are moving Heaven and Earth to avoid the excise tax at all costs. Unfortunately, not all boards are equipped with the tools necessary to facilitate a formal evaluation of the options and alternatives. Without expert guidance, boards may be inclined to reduce, eliminate or avoid compensatory benefits or to select a plan recommended by an existing vendor without evaluating alternatives. Regardless of philosophy, both camps must be wary as they navigate this terrain amongst their constituents and stakeholders.

In the new tax environment, understanding both the value and the risks of your benefit programs is imperative. How does your plan compare to competitors? Does your vesting structure meet your retention goals? What you thought was a good fit previously might no longer create value and sustainability for your organization and stakeholders. Understanding the risks is also important. How do interest rates, mortality tables, and tax rate assumptions impact your plan? How are the assets invested and what degree of market risk is the organization and/or executive exposed? Under what conditions are the benefits taxed, forfeited or subject to the general creditors of the organization?

As to the "simple" solution, it probably doesn't exist. The more simplistic the plan, the less likely it is to adequately serve a sophisticated and nuanced nonprofit organization, and the more likely it is to create more complex problems, such as unnecessary risks, poor executive retention and excise tax exposure. Selecting a qualified third party to analyze your executive benefits plan can remove the uncertainty and provide you with all the information you need to make an informed decision about executive benefits for your organization, executive and stakeholders.

Contact us for a plan review and assessment.

Alexandria Staron
Vice President
Triscend^NP, LLC
(972) 410-3725
astaron@triscendnp.com