



4th Quarter 2015 Newsletter

10 Signs That Your Compensation Program Needs Work

At times, I come across compensation programs that I can only describe as needing help. I compiled the following list of telling signs that it is time to look at your various compensation plans:

- It's been 10 years or more since the company incentive plan was implemented or modified.
- You are paying big bonuses for average performance just to keep your employees happy.
- The main metric you use to determine current-year bonuses are last year's bonuses.
- At bonus time, you spend days trying to figure out fair discretionary bonuses only to end up with some unhappy employees.
- There is no communication about company financial performance during the year or if the employees will receive bonuses at year end.
- You feel like you are paying more than competitive compensation amounts but are still losing employees to competitors.
- You just gave one of your employees a big salary increase because you were concerned that he/she would leave the company.
- You are hiring young employees right out of college or with minimal experience at higher salaries than employees that have been with you for a few years.
- There are no compensation strategies guiding the overall compensation program. The program is a patchwork quilt of different compensation plans that are not well coordinated.
- A few senior employees keep asking about getting company stock.

A Compelling Case for a Nonqualified, Deferred Compensation Plan

I worked with a client recently that had a top heavy 401(k) retirement plan. The top heavy status limited the amounts that the more highly compensated employees could contribute to their 401(k) accounts. To make matters worse, these same employees were getting portions of their annual contributions refunded back to them. Needless to say, this is a bad situation. The highly compensated employees could not put away what they wanted to put away for retirement and they were also missing out on some of the company 401(k) match.

Because of the demographics associated with their field workers, it is very difficult to get higher participation rates or higher contribution rates for the 401(k). I suggested a type of nonqualified, deferred compensation plan known as an Excess Benefits Plan for the group of highly compensated employees that had their contributions limited. It is a special nonqualified plan that can mirror the 401(k) plan in terms of vesting, payments, and other requirements. The contributions into the nonqualified plan are equal to the amounts that could not be put into the 401(k) because of its top heavy status, including the forfeited matching amounts. Excess Benefits Plans enjoy special treatment by ERISA and IRS 409A to ensure easy compliance with the appropriate regulations. Just like the 401(k) the contributions into the Excess Benefits plan are tax deferred until payment.

Article Spotlight



There are no compensation strategies guiding the overall compensation program. The program is a patchwork quilt of different compensation plans that are not well coordinated.

Article Spotlight

It is a special non-qualified plan that can mirror the 401(k) plan in terms of vesting, payments, and other requirements. The contributions into the nonqualified plan are equal to the amounts that could not be put into the 401(k) because of its top heavy status, including the forfeited matching amounts.

A Word from Rick Sharpnack



Now may be the right time to have some compensation benchmarking done. All of the 2015 industry compensation surveys are done, and we are coming up on salary adjustment time around the first of the year. It makes sense to create your salary adjustment budgets after knowing what is going on with salaries for various key positions. There are always certain positions whose salaries are increasing by more than just the annual cost of living due to the demand for those positions versus the supply of those employees. Project superintendent has been one of those positions the last few years. Contact me if you would like to discuss having key employee salary benchmarking performed.