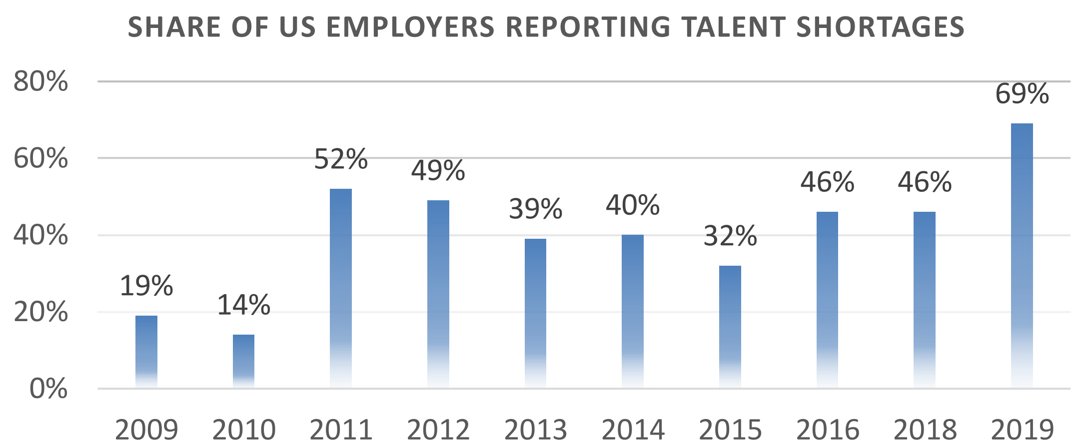
NOLAN FINANCIAL

Addressing the Skilled Labor Shortage in America: Long Term Bonus Plans

The current labor market in the United States is facing a critical issue; a growing shortage of workers that possess the necessary technical skills to meet the demand of employers. One of the main factors driving this issue is slowing population growth. The 2020 Census shows US population growth fell from 13.2% in 2000 to 7.4% in 2020, the slowest pace since the Great Depression. Unlike the Great Depression, this slowdown is part of a long-term trend tied to an aging population, decreased fertility rates and lagging immigration. While this is a not completely new issue, the short-term and long-term trends outlined below combine to increase the likelihood of this skilled labor shortage continuing for years to come.

- Long-Term Trends
  - Shifts in demographics, aging workforce, and slowing population growth
  - Lack of vocational training, apprenticeships, and trade school graduates
  - Falling labor force participation rates
- Short-Term Trends
  - Changes in demand and availability due to COVID-19



These factors combine to put increasing pressure on employers to not only attract the best available candidates to fill these open positions but retain the valuable skilled employees they have one staff.

The Long-Term Bonus Plan (LTBP) Solution

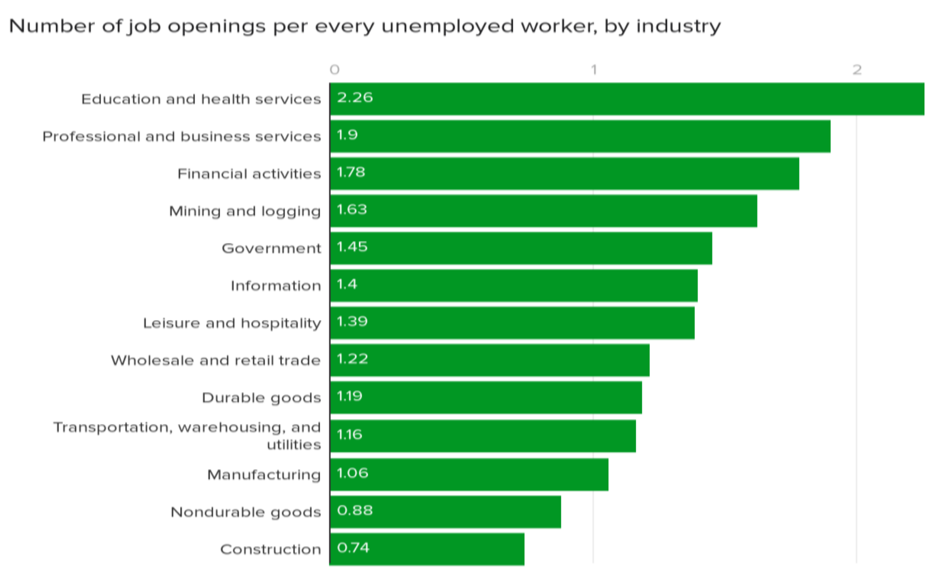
The question becomes, how does a company position themselves to attract and retain the necessary skilled labor in their industry within current regulations? In most cases this employee population would not fall within traditional nonqualified arrangements, such as a supplemental executive retirement plan. This is due, in many cases, to the number of employees that would receive the benefit exceeding the nonqualified regulations and/or compensation would not fit the definition of a "top hat" plan. A Long-Term Bonus Plan (LTBP) allows a company to provide a valuable benefit that can be offered to a larger population outside of the traditional executive and director group.

Mechanics of LTBP

- The employer enters into an agreement with a group of employees to provide an employer contribution to a long-term bonus plan.
- The contributions are subject to a vesting schedule and benefits are paid upon completion of the vesting period.
- In order to avoid being subject to ERISA, a LTBP will be acceptable as long as the total vesting and payout period is no more than 10 years, 7 years being more conservative.
- The contributions are not currently taxable to the participants and account earnings accrue on a tax deferred basis.
- When the benefit is distributed, it becomes tax-deductible to the employer and reportable as income to the participants.
- Benefits remain subject to claims of creditors of the employer until paid out to the participants.

What Industries and Clients will benefit from an LTBP?

While the term skilled labor may bring certain industries, fields or occupations to mind, the current shortage is wide reaching. Industries across nearly the entire labor market are experiencing some level of deficiency.



Long-Term Bonus Plans (LTBP) offer a straightforward and valuable benefit to both the company and its skilled workforce.