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Long Term Bonus Plan Design Considerations

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. A Long Term Bonus Plan (LTBP) offers an immensely flexible benefit that can help companies attract and retain the labor force that makes them most successful. Considerations for properly designing and implementing a LTBP include:

Eligibility & Contribution Amounts

- Properly designed LTBPs are not subject to ERISA.
- There are no limitations to the type/number of employees/contractors that could be considered eligible.
- Contribution amounts/frequency may be discretionary, based upon a percentage of compensation, or tied to some specific performance metric achieved by the participant or the company.
- Companies may also establish different contribution formulas for different tiers of participants based on their position, tenure, etc.

Investment Returns

- There is no requirement to credit investment returns.
- LTBPs may have investment return based upon a fixed interest rate, an indexed return based on a stated rate (ex. Prime Rate), or a rate calculated based on company performance.
- Alternatively, participants could be given a menu of investment options, similar to a 401(k) plan, to choose from.

Vesting

- In order to avoid subjugation to ERISA, LTBP contributions should be 100% vested no more than 7 years following crediting.
- Vesting schedules can be designed based upon a cliff or graded methodology and, most often, the basis for vesting is when the contribution is credited. This design keeps participants incentivized as a portion of their LTBP balance is always at risk of forfeiture.
- Vesting may be accelerated based upon certain specified events (death, disability, Change in Control, Age, Age + Years of Service, etc.).
- Vesting can be structured differently for different contributions and/or different tiers of participants.

Distribution & Taxes

- Awards and any applicable returns 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.

Company Financing

There is no requirement to fund a LTBP. However, if desired, Nolan Financial can analyze funding alternatives based on plan design and support ongoing funding needs.

Benefits of Partnering with a professional Recordkeeper

Finding the balance between retention and reward is critical to the success of a LTBP. In addition to supporting the design and ongoing recordkeeping for LTBPs, Nolan Financial can customize a web-based participant experience and communication campaign. A properly designed LTBP, incorporating design flexibility and coupled with the support of a recordkeeping specialist can help an organization achieve their retention goals.

Want to learn more about how a properly designed LTBP can help your organization attract and retain the personnel you need? Contact Nolan Financial:

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Cash Flow Illustration

The below example demonstrates how a LTBP could be designed to retain the services of key personnel.

Plan Year	Age (EOY)	Annual Bonus	Account Earnings	Ending Balance	Benefit Payment
1	41	10,000	300	10,300	-
2	42	10,000	609	20,909	-
3	43	10,000	927	31,836	-
4	44	10,000	1,255	43,091	-
5	45	10,000	1,593	54,684	-
6	46	10,000	1,593	54,684	(11,593)
7	47	10,000	1,593	54,684	(11,593)
8	48	10,000	1,593	54,684	(11,593)
9	49	10,000	1,593	54,684	(11,593)
10	50	10,000	1,593	54,684	(11,593)
11	51	10,000	1,593	54,684	(11,593)
12	52	10,000	1,593	54,684	(11,593)
13	53	10,000	1,593	54,684	(11,593)
14	54	10,000	1,593	54,684	(11,593)
15	55	10,000	1,593	54,684	(11,593)
16	56	10,000	1,593	54,684	(11,593)
17	57	10,000	1,593	54,684	(11,593)
18	58	10,000	1,593	54,684	(11,593)
19	59	10,000	1,593	54,684	(11,593)
20	60	10,000	1,593	54,684	(11,593)
21	61	10,000	1,593	54,684	(11,593)
22	62	10,000	1,593	54,684	(11,593)
23	63	10,000	1,593	54,684	(11,593)
24	64	10,000	1,593	54,684	(11,593)
25	65	10,000	1,593	54,684	(11,593)
26	66	-	-	-	(54,684)

Assumptions: *Interest Return of 3%; Each annual contribution vests 5 years following award, accelerated vesting upon attainment of age 65 (if still employed); Distributions occur following vesting.*

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