For many plan advisers, deferred compensation is an unexplored area of retirement services—but one that offers many potential rewards. Here, advisers will discover plans with large account balances, hands-on access to a client’s senior executives, and opportunities to forge relationships with decision makers within a client’s organization.

Of course, no reward comes without risk. The legal, administrative and funding complexities of deferred compensation can pose significant challenges. Advisers can mitigate risk—and chart a successful course into this line of business—by partnering with providers who specialize in deferred compensation.
Not all providers are created equal, however. In choosing the best firm to work with, advisers must discern the quality, depth and breadth of a provider’s deferred compensation services. This can be done by considering the answers to several basic questions.

**Does the provider specialize in deferred compensation?**

Because deferred compensation plans must meet a plan sponsor’s broad spectrum of needs, no two plans are alike. The on-balance-sheet nature of deferred compensation also requires detailed financial reporting, asset/liability correlation, and other specific services in order for sponsors to appropriately manage the financial impact of their plans.

Specialty providers often offer a consultative approach that incorporates the needs of the plan sponsor and its executives. Some go further, performing comprehensive diagnostics and gathering competitive industry and peer intelligence to enhance the plan.

Make sure your provider also has the consulting and legal expertise to navigate one of deferred compensation’s biggest operational risks—compliance with 409A, the section of the Internal Revenue Service code that regulates the tax treatment of non-qualified deferred compensation. 409A errors can result in significant tax and penalties for plan participants—and can potentially impact the plan sponsor, provider and adviser as well.

**Does the provider offer unbiased investment services?**

Advisers should be able to rely on the provider to support them in investment menu construction, manager selection, and fund performance monitoring. You should find a provider that does not subject plans to pre-determined or proprietary fund requirements.

**Is the provider experienced in plan funding matters?**

Specialty providers can mitigate benefit security and funding risks by analyzing all funding options (Rabbi trusts, mutual funds, company stock, corporate owned life insurance, etc.). This expertise ensures the funding strategy is aligned with corporate and financial objectives. It is also critical that the provider help maintain a consistent correlation between plan assets and liabilities, in order to neutralize the effect of market changes on the sponsor’s P&L and balance sheet.
A full suite of services.

Deferred compensation is too complex for a fragmented approach. Specialty providers offer a comprehensive range of services (consulting, compliance, administration, participant communication, etc.) that can be delivered on an integrated basis.

This can help advisers and their clients mitigate risks associated with deferred compensation. It also enhances an adviser’s success in this field. The rewards are the ability to capture current and future assets, to demonstrate additional value to clients, and to enhance relationships with senior executives (who make critical decisions regarding their company’s benefits programs).

Again, no reward comes without risk. But with an expert partner as a guide, plan advisers can navigate risks, grow their deferred compensation business, and help their clients achieve their goals.

About the Author:

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Founded in 1984, The Newport Group is a leading financial services firm—specializing in the creative design and administration of retirement and executive benefit plans, as well as investment and fiduciary consulting services. Through its innovative and customized solutions, Newport is uniquely positioned to satisfy the distinct financial needs of employers and employees, and has done so for hundreds of the country’s largest and best-known companies.

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