

Inspire and Retain Top Talent with Supplemental Compensation Plans

By Jeffrey Waldron, JD, LLM, Architrave Partners, LLC

The noble goal of most business owners is to build an enterprise of enduring and transferable value. One of the most important components to achieving this goal is retaining and inspiring your key employees. You no doubt have many important employees and it would hurt to lose any of them, but there are likely a handful of employees that are so essential and uniquely suited that their departure would have a significant negative impact on your business and could threaten your enterprise value.

Retaining and inspiring this key group of people is one of the most important elements in building an enterprise of enduring and transferable value. Of course this starts with a competitive salary, good benefits, and an energetic and satisfying work environment. However, these short-term incentives are greatly enhanced with the addition of a long-term benefit that builds demonstrable economic value and is specifically tailored to the needs of your company and each key individual.

This article covers five reasons why you should consider implementing a Supplemental Compensation Plan for your key employees, and the benefits that come with it. Lastly, there are some thoughts on why granting ownership is seldom the best compensation tool.

Why you should consider implementing a Supplemental Compensation Plan

Often referred to as a “non-qualified plan,” a Supplemental Compensation Plan can be a powerful tool to enhance retention of key employees. A “qualified plan” receives certain tax advantages, but it is subject to restrictive and burdensome regulations, and it's not conducive to tailoring a benefit for a select group of key employees. A “non-qualified” Supplemental Compensation Plan, on the other hand, is the ideal tool. Below are five reasons you should implement a Supplemental Compensation Plan for your key employees:

- 1. Your key employees are being recruited.** What makes your key people valuable is precisely what makes them attractive to other companies. They are being recruited. A Supplemental Compensation Plan helps increase their loyalty by recognizing their unique importance.
- 2. Helps level the playing field.** Most public companies are not shy about issuing stock options and restricted stock to executives. For many, the stock compensation can exceed salary. Private companies do not have the same luxury. A Supplemental Compensation Plan helps level the playing field by providing a significant wealth building vehicle such as a long-term retirement benefit uniquely designed for each key person.

3. **Emotional governor (aka “golden handcuffs”).** Typically, the term “golden handcuffs” has negative connotations. The goal here is not to trap the employee, but rather to cause them to be more careful and deliberate when choosing whether to stay or go. The decision to leave is often driven by some negative element of the current position, or a perceived opportunity in the new position. If the employee would forfeit the substantial economic benefit being earned in the Supplemental Plan by leaving, it brings another layer of gravity to the decision and encourages them to slow down and temper emotions.
4. **Establishes long-term vision and sense of security.** Long-term financial security weighs on your employees’ minds. Current polls indicate that the fear of living too long has replaced the fear of dying. Pension plans are all but extinct, what comes of social security is anyone’s guess, and the volatility of the stock market can be nauseating at times. A Supplemental Compensation Plan, which can be designed to deliver lifetime income, can give your key employees a substantial retirement benefit and a deep sense of security and gratitude. This will give them the fortitude to focus their energies on making your company great and to press on when the going gets tough.
5. **Opportunity to show love and to reiterate often.** We help our clients educate their employees regarding the substantial benefits of the Plan, and to help them really understand the power of what is being put in place for them. Furthermore, this is not a one-time event. Every time a contribution to

the Plan is made, there is an opportunity to reiterate what is being built for the employee and his or her family’s future.

Ownership is seldom the best compensation tool

Many employers and employees alike believe that granting ownership is the most desirable supplemental compensation tool. While this may sound like a good idea in theory, it is rife with potential pitfalls. There are times when making an employee an owner is the right move: to initiate an internal transition of ownership to the employee. Two reasons it rarely makes sense as a compensation tool:

1. **Laws and lawyers.** Minnesota law is very friendly to minority shareholders. They have rights to information, and rights to block certain actions. Courts have broad discretion in resolving disputes, and there are entire law firms whose sole practice area is shareholder litigation. Litigation is extremely expensive and disruptive, and this risk is often not given due consideration when making someone a shareholder.
2. **The benefits for the employee are more speculative and vague.** There is generally no liquidity in a minority interest of private stock. The payoff for the employee will come when/if the company is sold, or when their stock is bought out. The concept can be so abstract and contingent that it does not have the desired effect. Supplemental compensation concepts are a better “first step” toward ownership because these plans offer more concrete and specific benefits without the legal risks to the enterprise.

When designed and implemented well, a Supplemental Compensation Plan can be a powerful way to retain and inspire your key team members. At Architrave Partners, LLC, we provide our clients expert advice and access to leading tools and methods for attracting, inspiring, and retaining top talent.

About Architrave Partners, LLC

Architrave Partners, LLC is a relationship driven financial solutions firm. We give families and businesses a new way to protect and grow the things they value most.

Our team unites some of the best minds in the industry to deliver full-spectrum, forward thinking, life-enhancing care and counsel across multiple generations.

So no matter whom we serve or what their story is, the clients who value our unique approach will gain financial security they can see and peace of mind they can feel.

For more information, contact Jeff Waldron at 952-657-7204 or jwaldron@ArchitravePartners.com.

About the Author



Jeff Waldron, JD, LLM | Business Advisor, Architrave Partners, LLC
email: jwaldron@architravepartners.com | phone: (952) 657-7204

Jeff Waldron is a business advisor with Architrave Partners, LLC. He advises private businesses in the areas of Supplemental Compensation Plan design and Business Continuity Planning. Prior to helping found Architrave Partners, he practiced as a corporate and transactional attorney. He has a law degree from Drake University, a Master of Laws (LLM) in Taxation from New York University, and his undergraduate degree from Minnesota State University, Mankato.

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