

WHITE PAPERS

RETIREMENT PLANS AS AN ELEMENT OF TOTAL COMPENSATION

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While the concept of total compensation has been around for some time, very few organizations have developed a cohesive total compensation philosophy. Total compensation refers to the value of all things that an organization has to offer for employment. Examples are paid time off, tuition reimbursement, health insurance, qualified and non-qualified retirement plans, dental insurance, disability insurance, and, of course, your hourly or salary pay.

By looking at total compensation, it is significantly easier for management to analyze and benchmark the benefits they offer and the priorities of their employees. This is critical in times of expanding employment as businesses look to hire quality employees, as well as in tough economic times as they look to reduce the total compensation to employees.

Consistently, national surveys reveal that employees prioritize elements of their compensation with wages being most important, followed by health benefits, with retirement benefits ranking third. With this in mind, some business owners would prefer to pay all compensation out in cash and leave issues of retirement planning to employees. While intuitively this may make sense, potential employees do view certain benefits as prerequisites to considering an employer.

When reviewing your retirement plan as a component of your total compensation philosophy, it is important to target benefit levels to your employee base. While younger employees and less highly compensated employees generally prefer to have the vast majority of their compensation paid in cash, older employees and higher wage earners view retirement plans as essential elements in their compensation package, allowing them to shelter income from current taxation.

While 401(k) plans have some very attractive elements in targeting compensation structure to match employee needs, typically employer contributions to those plans have been less targeted, as a flat profit sharing contribution, or a deferral match.



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To help better target those dollars employers should review and consider alternative permissible allocations to 401(k) and profit sharing plans, such as:

Social Security Integration – Providing larger percentage of pay contributions for employees earning in excess of the social security limit (\$87,900 in 2004). This provides more tax-deferred income to higher income earners more concerned with current taxation.

Age-Weighting – Provides larger contributions to older employees. This provides more tax-deferred compensation to those nearest retirement and traditionally more concerned with post-retirement income.

New Comparability – Permits, within the boundaries of discrimination testing, employers the ability to provide different levels of benefit within a 401(k) or profit sharing plan, to different “groups” of employees. Typical examples might be management and non-management or owners and staff. This type of allocation methodology traditionally provides the greatest opportunity for employers to customize benefits to match the needs of their workforce.

Lastly, while largely ignored by smaller employers, traditional **defined benefit plans** provide some very unique targeted compensation benefits with significant benefits for employees with length of service for your organization.

While non-traditional in nature, this type of detailed review can help organizations better tailor their benefits, often improving employee satisfaction while reducing costs to the company.

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