

Plan Optimization

And *Best* Practices

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This framework is designed to help evaluate the effectiveness, competitiveness, and financial alignment of a Deferred Compensation Plan (DCP) across three key dimensions:

1. Plan Design
2. Plan Funding and Financial Management
3. Plan Administration and Compliance

1. Plan Design Best Practices

A. Eligibility and Participation

Best Practice: Align eligibility with strategic workforce goals (not just title-based thresholds).

What to Look For: Narrow eligibility or low participation rates.

Enhancements:

- Expand to highly compensated employees or key employees
- Consider short-term DCPs for retention

B. Deferral Flexibility

Best Practice: Provide multiple deferral methods and automation features.

What to Look For:

- Limited to percentage elections only
- Account-Based vs. Class-Year

Enhancements:

- Percentage + fixed dollar + tiered elections
- Evergreen elections
- Auto-escalation (i.e., automatic increases)
- No maximum deferral limit

C. Investment Menu and Portfolio Construction

Best Practice: Offer diversified, institutional-quality investment options.

What to Look For:

- Over-reliance on 401(k) lineup
- Missing asset classes

Enhancements:

- Broader asset classes
- Risk / return portfolios
- Ongoing benchmarking (ensuring best-in-class funds are being utilized)
- Fixed Rate (company's discretion for crediting rate)

D. Equity Deferrals and Diversification

Best Practice: Allow deferral and diversification of compensation types.

What to Look For:

- No RSU / PSU deferral
- Concentration in company stock

Enhancements:

- Enable equity deferrals
- Allow diversification

E. Distribution Flexibility

Best Practice: Provide flexible payout structures.

What to Look For:

- Limited elections
- Forced distributions
- Single vs. separate payment handling

Enhancements:

- Extend installment periods
- Allow fixed dollar amount payouts until the account is exhausted
- Preserve elections post-termination
- Survivor Benefit

F. Employer Contributions and Incentives

Best Practice: Use contributions for retention and behavior alignment.

What to Look For:

- Employer contributions that are limited to basic match restoration only
- No discretionary contribution feature
- No performance-based contribution opportunity
- Vesting schedules that do not support retention goals

Enhancements:

- Discretionary contributions
- Performance-based contributions
- Custom vesting
- Lost 401(k) match
- Protective claw back language dependent on form of separation of service

G. Plan Security

Best Practice: Provide participant protection.

What to Look For:

- No sources of informal funding
- No Rabbi Trust

Enhancements:

- Informal funding
- Utilize Rabbi Trust
- Broader asset backing

2. Plan Funding and Financial Management Best Practices

A. Asset / Liability Alignment

Best Practice: Maintain alignment between liabilities and assets.

What to Look For:

- Multiple carriers
- Mismatch of assets and liabilities
- Blend of taxable securities and/or corporate-owned life insurance (COLI)

Enhancements:

- Conduct regular asset / liability reconciliation to ensure alignment between plan liabilities and funding assets
- Align investment structure of plan assets with participant allocation elections to minimize profit and loss (P&L) mismatch
- Consolidate or streamline funding vehicles where appropriate to reduce complexity and improve tracking
- Implement processes or technology that monitor and manage P&L impact from asset / liability differences
- Establish guidelines for rebalancing and ongoing alignment between assets and liabilities

B. Funding Structure Optimization

Best Practice: Use efficient funding structures.

What to Look For:

- Legacy pricing
- Use of taxable securities for informal funding

Enhancements:

- Re-price or 1035 exchange assets
- Consolidate carriers
- Value of COLI over taxable securities

C. Cost Management

Best Practice: Continuously evaluate funding costs.

What to Look For:

- Funding costs that have not been reviewed recently
- Legacy COLI pricing or older policy structures
- Excess insurance cost relative to current market alternatives
- Cost drag that may be reducing long-term cash value growth

Enhancements:

- Benchmark pricing
- Reduce cost drag

D. Liquidity and Reallocation Constraints

Best Practice: Align participant flexibility with asset capabilities.

What to Look For:

- Reallocation mismatches

Enhancements:

- Evaluate carrier rules
- Synchronize timing
- Periodic correlation analysis

E. Financial Reporting and Transparency

Best Practice: Maintain clear reporting.

What to Look For:

- Limited visibility into asset and liability positions
- Infrequent or incomplete reconciliation reporting
- Lack of clear projections showing financial impact over time
- Reporting that does not support timely decision-making by finance or plan sponsors

Enhancements:

- Regular reconciliation
- Plan asset / liability projections

3. Plan Administration and Compliance Best Practices

A. Administrative Efficiency

Best Practice: Minimize internal burden.

What to Look For:

- Manual processes
- Self-administration

Enhancements:

- Use map*benefits* as the administration platform
- Automate workflows

B. Participant Experience and Engagement

Best Practice: Drive engagement through tools and education.

What to Look For:

- Low participation

Enhancements:

- Webinars and education materials
- Real-time access
- Mobile access
- Modeling and planning tools

C. Timeliness and Accuracy of Transactions

Best Practice: Ensure timely processing.

What to Look For:

- Delays in distributions

Enhancements:

- Implement administrative processes and technology that support timely transaction processing
- Reduce lag between valuation, approval, and distribution processing
- Establish clear service standards for payouts, reallocations, and participant requests
- Regularly review transaction workflows to improve accuracy and turnaround time

D. Compliance and Regulatory Requirements

Best Practice: Ensure compliance.

What to Look For:

- Missing filings

Enhancements:

- Confirm Top Hat filing
- Ensure 409A compliance

E. Reporting and Accessibility

Best Practice: Provide on-demand access.

What to Look For:

- Participants who must request statements manually
- Limited or delayed access to account information
- Reporting that is not available on-demand
- Lack of user-friendly tools for participants and plan sponsors

Enhancements:

- Quarterly participant statements
- 24/7 access statements
- Real-time dashboards
- Access to Live Chat



More Information

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