



Alternative Funding Approaches

Executive Compensation and Benefits



Nonqualified Executive Benefit Programs and Other Unfunded Liabilities

Nonqualified executive benefit programs represent a promise by the company to pay benefits to participants, often over a period of many years and long after the participant has left the company's employ. These commitments often involve substantial sums and companies and participants understandably may be concerned about the company's ability, and sometimes willingness, to meet these long-term promises.

In order to properly manage finances and address program participants' concerns, companies often set aside funds on a regular basis to meet these nonqualified executive benefit obligations and other long-term commitments. Funding approaches vary, but the funding mechanism usually involves either mutual funds or a company-owned life insurance (COLI) arrangement or a combination of the two.

The choice between mutual funds and COLI generally involves a comparison of net after-tax yield, considering related costs and expenses, with a decision based on experience and personal preference. The choice of a particular mutual fund or account allocation within a COLI contract typically focuses on historical investment return.

THE A&M ADVANTAGE

A more informed benefit funding decision can lower the cost of a company's benefit program and have a better likelihood of accomplishing the company's business objectives. Alvarez & Marsal (A&M) Executive Compensation and Benefits (ECB)'s alternative funding approach can help you make a more efficient and cost-effective funding choice for your program.



A&M ECB's comprehensive approach considers all the principal attributes of each funding alternative. These attributes include:

- Ability to have the funding grow on a tax-free basis
- Balance sheet impact of the benefit program
- Ability to access cash in the early years
- Providing a supplemental survivor benefit pre- or post-retirement
- Ability to include nontraditional assets in the funding pool

The first step is to understand the company's situation. For example, a company may place more value in lowering the overall cost of funding than on the ability to vary annual contributions. A&M ECB will work with the client to identify its business and financial objectives and weigh their importance. Different funding approaches will be measured in their ability to meet these objectives. A weighted score is then calculated to determine how each of the funding approaches addresses the company's needs.

It is unusual for one option to score the highest in all categories. Deciding on the most appropriate option therefore involves a decision as to how the attributes of different funding approaches will contribute towards meeting the company's requirements. A&M's approach gives a client the ability to select the funding approach that will best meet its objectives.

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Companies, investors and government entities around the world turn to Alvarez & Marsal (A&M) when conventional approaches are not enough to activate change and achieve results.

Privately-held since 1983, A&M is a leading global professional services firm that delivers performance improvement, turnaround management and business advisory services to organizations seeking to transform operations, catapult growth and accelerate results through decisive action. Our senior professionals are experienced operators, world-class consultants and industry veterans who draw upon the firm's restructuring heritage to help leaders turn change into a strategic business asset, manage risk and unlock value at every stage.

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