



Retaining Employees In A Competitive Market

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As the region's economy has returned to relative normalcy, or in some industries approaching new heights, many organizations are struggling to attract and retain top talent. Every organization wants to have the best workforce, and in today's economic environment there is stiff competition for personnel at the top of their field. Some companies are even making a habit of poaching their competition by offering overly inflated salaries, the promise of equity, or some other kind of incentive in an attempt to lure them away.

Losing a high-value employee can cost an organization dearly. According to the Center for American Progress, highly paid jobs and those at the senior or executive level tend to have a very high turnover cost, up to 213% of paid salary¹. What are you doing to win the war on recruiting or retaining talent?

It is essential for companies to differentiate themselves to both entice first-class workers to join, and to keep their most valuable employees. In this competitive landscape, offering a high salary may not be the same powerful motivator as it used to be. Companies are investing in creative methods of rewarding their employees. One of the simplest and most flexible strategies is to offer an Employee Retention Program, which is a discriminatory benefit plan allowing the employer to provide a unique benefit to selected employees. These programs provide key executives and other specific employees a way to save for retirement, create wealth, or otherwise accumulate assets on a tax-favored basis.

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Employee Retention Programs are simple to implement, inexpensive to administer, and offer multiple plan design options. For example, a program can be contingent on employer profit, employee performance, continuing employment, or any combination of these. Additionally, vesting schedules can be added to the plan to create a stronger incentive for the employee to stay with the company. The plans' potential benefits are equally diverse and can be a function of employee salary deferrals, company or employee contributions, and more.

Each Employee Retention Program is as unique as the organization it serves. That being said, following is an example of a fairly "typical" program structure:

Company A had recently lost one of its top performers to a competitor and was concerned with its ability to retain other key employees. To mitigate this risk the company established a retention program that would act as "golden handcuffs" to tie their most valuable employees to the company through a 5-year vesting schedule. The company decided to fund the program with annual contributions equal to 10% of the employee's salary. The contributions to the plan are not considered current compensation.

During the vesting period, the employer retains all rights and controls the asset. At the end of the vesting schedule, the company has the option to transfer the asset to the employee or renew the program. If the employee leaves before they are fully vested (5 years), then the employee will not be eligible to receive any benefit from the program, and the employer can choose to roll the plan assets to another or simply liquidate.

ADVANTAGES OF EMPLOYEE RETENTION PROGRAMS

For the Employee

- Enhanced compensation package including supplemental retirement income
- Potential earnings are tax-deferred until the employee receives compensation under the terms of the plan
- Exempt from government contribution and income limitations of qualified plans

For the Employer

- Involves less administration and fewer funding requirements than traditional qualified plans
- Enables the business to choose which employees receive benefits, how much they receive, and when they receive them
- Easy to explain and administer
- Cost recovery can be built into the plan

Employee Retention Programs are commonplace in high performing organizations and should be considered as a prudent business strategy for any firm looking to perpetuate and grow. Many approaches have been explored as methods to increase recruitment/retention, including compensation packages and rewards, robust and creative employee benefits, telecommuting options, and work/life balance initiatives. A company's greatest assets are its people, and a well-structured Employee Retention Program is just one of many strategies available to attract, retain, and reward top talent.

Parker, Smith & Feek is a full-service brokerage firm providing commercial insurance, risk management, surety, benefits, and personal insurance solutions. Tim Nierman is a Principal of Parker, Smith & Feek and leads the firm's Construction Practice Group. You can reach him at (425)-709-3707, or tenierman@psfinc.com

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¹<https://www.americanprogress.org/issues/economy/report/2012/11/16/44464/there-are-significant-business-costs-to-replacing-employees/>

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