Employers, Are You Ready for the Great Resignation?

Actionable Ideas to Recruit, Retain and Reward Key Talent

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"Creating Income in Retirement"

Overview Americans continue to leave their jobs in record numbers. According to the Bureau of Labor Statistics, between April 2021 and December 2021, nearly 33 million people left their positions. This is a jaw-dropping amount accounting for over 20% of the U.S. workforce. No industry has been spared and employers of all sizes have been impacted with increased resignations occurring in both smaller businesses employing one to nine workers as well as larger companies with 1,000 and more workers.

Employee Benefit News reports that the cost of losing an employee is roughly one-third of the employee's annual salary. But what about the indirect costs a lost employee generates? A departed employee may poach other talent and/or clients. Remaining employees often find their workloads increased, negatively impacting their work environment. Clients and customers may suffer from diminished service and a lack of output. When combined with direct costs, the real cost of losing a key employee can easily cost 1-2 times their annual compensation.

One way employers are fighting this trend is by stepping-up their benefits game by offering benefit packages their employees want and that help attract, retain and reward them. The two main areas employers are targeting include compensation-based and supplemental benefits.

Compensation Based Strategies

Just throwing cash at employees does not solve the problem and, in fact, merely escalates costs without any incentive that employees will either come on-board or stay for the long haul. For many employees, a 401(k) or a similar qualified plan is viewed more as an entitlement rather than a benefit.

Employers are increasingly offering nonqualified plans which allow employees to save more – from either deferring their own compensation, deferring additional employer compensation or a combination of the two - while allowing the employer to include golden handcuffs in the form of restrictions such as performance goals and vesting schedules.

Deferred Compensation Each year, an employee is given an option to defer a portion of their compensation. The employer may elect to match a part of or all of the employee's deferral. Similar to a deferral into a qualified plan, the deferral into a nonqualified deferred compensation plan will grow tax-free and, at the employer's choosing, the growth rate could be linked to a fixed rate, tied to a market index, tied to company performance or be based on any number of formulas. Restrictions to a deferred compensation plan are generally reserved to the employer's contribution, if any.

Most companies choose to fund their deferred compensation plans with cash value life insurance due to the tax benefits, ability to have liquidity for a lump-sum payment in the case of a death of the plan participant and the ability to re-coup a portion or all of the costs of a plan via the policy's death benefit.

Restricted Executive Bonus Arrangement (REBA) Selected employees are bonused money to pay for a cash value life insurance policy that the employee owns. Structurally, the policy is 'maximum funded' to keep insurance costs low while growing the policy's cash value tax-free. In the future, the employee can access the policy's cash value in the form of tax-free withdrawals and loans.

The employer may choose to gross up the bonus amount to cover an employee's taxes on the bonus. In order to retain and incentivize a REBA participant, the employer places a restrictive endorsement on the plan, restricting the employee's access to cash value for a period of time while encouraging performance and long-term employment in order to obtain additional bonuses.

Loan Regime Split-Dollar Allows an employer to lend the premiums to select employees and business owners for a cash value life insurance policy at low Applicable Federal Rates (AFR), secured by the policy. The cost to the owner or employee is only the interest due on the loan. The policy can be tailored to provide needed death benefit protection or to accumulate funds to help supplement retirement. Structured properly, distributions from the policy can be income tax-free. Split-dollar plans are most effective where the business is taxed at a substantially lower tax rate than the owner or key employee, so using corporate dollars to pay for premiums will cost less than using personal funds.

What's In It for You

Nonqualified benefits can be offered selectively, funded above and beyond ERISA limits and offer tremendous design flexibility.

When sufficient key people participate, policies can often be acquired without insurance exams which makes implementation expeditious and simple. Best of all, many plans can be designed so that the employer recovers all the costs, including the time-value of money.

Supplemental Benefits

Ernst & Young estimates that by 2030, there will be a $240 trillion dollar retirement savings gap and a $160 trillion protection gap. Many benefit plans offered by life insurance companies or funded by life insurance are uniquely positioned to address these gaps. These supplemental plans offer income and legacy protection and provide benefits that close the gap between traditional group benefits that may only cover a sliver of what a key employee or their family will need to maintain their lifestyle.

Life Insurance

Offered to key employees above and beyond any group life insurance benefit plan where the group plan death benefit is only one or two times the employee's salary. Supplemental life insurance typically comes in the form of yearly renewable term or a permanent cash value policy and often has a death benefit of 10x salary or more. Some employers offer coverage for spouses, domestic partners, and children. While group life insurance may or may not be portable, supplemental plans usually are so the employee can take it with them.

Disability Insurance

The odds of a disability event lasting 90 days or longer before age 65 is as high as 1 in 4.

A supplemental disability policy helps cover the difference between what the employee will receive from the employer's group long-term disability policy (generally capped at 40% to 60% of base salary) as well as provide what the employee might need to maintain their current lifestyle if they are unable to work due to injury or illness.

To close this protection gap, specialty plans are available that can replace base salary and incentive compensation for highly compensated employees. Maximum benefits up to eight-digits make such policies popular and meaningful for many professional partnerships and corporations.

Supplemental disability policies typically do not require medical underwriting, are portable and costs are often discounted.

Long Term Care (LTC)

According to 2020 statistics from the U.S. Department of Health & Human Services' Agency on Aging, someone turning age 65 today has an almost 70% chance of needing some type of long-term care services and support in their remaining years. Women need care longer (3.7 years) than men (2.2 years) and 20% of today's 65-year-olds will need it for longer than 5 years. Employers are stepping in and helping to fund either traditional or hybrid LTC plans.

With a traditional stand-alone policy, benefits are selected at the outset and the employer or employee may choose from a number of benefit periods, elimination periods and inflation protection options. Growing in popularity, hybrid long term care insurance policies combine an employee's long-term care benefits with a cash value life insurance policy. The appeal of the hybrid policies is the guarantee of return of premium should the employee never need to receive long term care. Also, the employee's beneficiary will receive an income tax-free life insurance benefit, avoiding the inherent "use it or lose it" nature of the traditional LTC policies.

Our Strategic Partners

LION STREET.

Successful benefit programs require clear communication and robust and secure technology to administer them. Our strategic partners have the infrastructure and expertise to ensure that benefits are tailored to employee needs and create long term value.

The Great Opportunity

Employers can make The Great Resignation their Great Opportunity. The job market is in the middle of a major transformation. Over the past two years, employees have realized that they want something different, something more, from their employers. And they're quitting to find it.

This moment presents an opportunity for organizations to re-evaluate priorities and choose to focus on listening to what their employees want. A big part of this is about making employees feel seen, appreciated, and recognized by offering attractive benefit plans.