

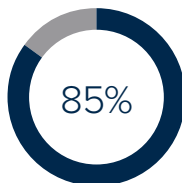
EXECUTIVE BENEFITS INSIDER

RABBI TRUSTS

Rabbi trusts are the favored security choice for companies that want to efficiently protect assets used to informally fund nonqualified benefit plans.

More than two-thirds of plans set funds aside to cover future obligations. Of those that do, 85% utilize a Rabbi trust.

2022 PSCA Non-Qualified Plan Survey

**CHALLENGE**

Unlike qualified plans, nonqualified benefits are unsecured promises of the employer to make future distribution payments as they come due. They cannot be formally funded, exposing participants to the risk that a company may refuse or be unable to fulfill its obligations due to a change of heart, change in control, change in management, or insolvency/bankruptcy.

SOLUTION

Many companies establish a rabbi trust with an independent trustee to enhance participants' security without jeopardizing tax deferral and help reduce the risk of nonpayment. Contributed assets "informally fund" the nonqualified benefits.

For employees expecting to derive much of their retirement income from nonqualified benefits, a rabbi trust may help instill confidence that their employer will satisfy future payment obligations. Consequently, nonqualified plans may be perceived as more valuable and attractive.

WHAT IS A RABBI TRUST?

A rabbi trust is a grantor trust established by the plan sponsor and engages a third-party trustee.

It helps current management efficiently segregate and protect assets earmarked for future nonqualified plan obligations while offsetting benefit liabilities.

HOW DOES A RABBI TRUST WORK?

The trust pays participants from its assets as benefit payments become due. For book and tax purposes, the trust and its assets remain on the corporate balance sheet, and earnings flow directly to the income statement. The company takes no tax deduction, and the employee pays no taxes until the benefits are paid.

The trust's assets remain subject to general creditors' claims if the company becomes insolvent or goes bankrupt.

A PROPERLY CONFIGURED RABBI TRUST:

- Is typically structured as irrevocable to help ensure trust assets are only used to pay plan benefits (provided they are also subject to creditors' claims if there is an insolvency/bankruptcy)

- Can include provisions that:
 - Distribute excess assets to the corporation upon request, provided all participant benefit obligations are met
 - Allow the plan sponsor to seek trust reimbursement for any distributions paid directly by the company
 - Prevent new management from replacing the current trustee or amending the trust for a specific period of time following a change in control
- Will ensure the nonqualified plan is not considered "funded" and, therefore, will not subject the plan to most ERISA provisions

Most employers aim to provide the greatest benefit security possible for both their qualified and nonqualified plans. A rabbi trust helps mitigate against most — but not all — of the risks that apply specifically to nonqualified plan participation. A more secure benefit offering reinforces a company's ability to attract and retain key talent and is a best practice for plan design in today's highly competitive job market.

Gateway Financial | Four PPG Place, Suite 600 | Pittsburgh, PA 15222

412.497.1750 | gatewayfinancial.biz

Securities and Investment Advisory Services offered through M Holdings Securities, Inc., a Registered Broker/Dealer and Investment Adviser, Member FINRA/SIPC.
Gateway Financial Group, Inc. is independently owned and operated.

This material is intended for informational purposes only and should not be construed as legal or tax advice and is not intended to replace the advice of a qualified attorney, tax advisor or accountant. Please consult with your qualified attorney, tax advisor or accountant.

Securities offered through M Holdings Securities, Inc., a Registered Broker/Dealer, Member FINRA/SIPC. #3093550.1

M Benefit Solutions and M Holdings Securities, Inc. are affiliated companies.

M Financial Group | 1125 NW Couch Street, Suite 900 | Portland, OR 97209 | 503.238.1813 | fax 503.238.1815 | mfin.com/mben