

SSG FINANCIAL GROUP

Beyond the 401(k)

How Companies Use Executive Benefit Plans to Attract, Retain, and Reward Top Talent

A White Paper by SSG Financial Group

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Executive Summary

Every company competes for talent. The companies that win—that attract the best executives, retain them through critical growth periods, and reward them for the value they create—are the ones that go beyond what qualified retirement plans can offer.

The problem is structural. Qualified plans like 401(k)s are designed to treat all employees equally, with contribution limits set by the IRS that cap the benefit for highly compensated employees. In 2026, the 401(k) elective deferral limit is \$23,500 (with a \$7,500 catch-up for those 50 and older). For an executive earning \$400,000 or more, the 401(k) will replace a fraction of their pre-retirement income—creating a retirement gap that widens with every year of service.

This white paper examines the retirement income gap facing highly compensated executives, the three primary executive benefit strategies—Supplemental Executive Retirement Plans (SERPs), split-dollar life insurance arrangements, and nonqualified deferred compensation—and how insurance-funded designs create tax-efficient benefits that serve both the company and the executive while functioning as powerful retention tools.

Key Takeaway: Executive benefits are not a perk—they are a strategic tool for retaining the people who drive enterprise value. Companies that fail to offer them are not saving money; they are subsidizing their competitors' recruiting efforts.

The Retirement Gap: Why the 401(k) Isn't Enough

Qualified retirement plans are designed to provide broad-based retirement savings for all employees. They are governed by ERISA and the Internal Revenue Code, which impose contribution limits, nondiscrimination testing, and coverage requirements that constrain the benefit available to highly compensated employees.

The Math

Consider a 50-year-old executive earning \$500,000 annually. Their target retirement income is 70% of pre-retirement earnings, or \$350,000 per year. Between Social Security (approximately \$45,000 annually at full retirement age) and their projected 401(k) accumulation (assuming maximum contributions and a 6% return), the executive may have retirement income of approximately \$130,000–\$160,000 per year. The gap—approximately \$190,000–\$220,000 annually—is the retirement income deficit that the 401(k) alone cannot close.

This gap is not a marginal inconvenience. It represents a 40–50% shortfall in the executive’s retirement standard of living. The executive knows this. Their financial advisor knows this. And increasingly, the competitors trying to recruit them know it too.

The Retention Implication

An executive who recognizes that their current employer cannot provide retirement income security has an economic incentive to pursue opportunities that can. Whether through higher cash compensation, signing bonuses, equity, or supplemental retirement benefits, competing employers can offer packages that address the gap. The company that fails to close it is relying on inertia and loyalty to retain people who have a financial reason to leave.

Executive benefit plans flip this dynamic. Instead of giving the executive a reason to leave, they create a financial reason to stay—a “golden handcuff” that ties the benefit to continued employment, vesting over time and forfeiting if the executive departs before the schedule is complete.

The Three Primary Executive Benefit Strategies

1. Supplemental Executive Retirement Plans (SERPs)

A SERP is an employer-funded nonqualified retirement plan that provides a targeted retirement benefit to selected executives. Unlike a 401(k), a SERP is not subject to IRS contribution limits, nondiscrimination testing, or ERISA’s minimum participation requirements. The employer can selectively choose which executives to cover and can design the benefit formula to close the specific retirement income gap for each individual.

How it works: The company enters into a contractual agreement with the executive, promising to pay a specified retirement benefit (either a defined amount or a formula-based benefit) upon the executive’s retirement, death, or disability, subject to a vesting schedule. The benefit is typically funded informally through corporate-owned life insurance (COLI), which provides tax-deferred cash value accumulation during the executive’s working years and a death benefit that can recover the company’s cost if the executive dies before or during retirement.

The golden handcuff: SERPs typically include a vesting schedule—commonly 5–10 years—that requires the executive to remain with the company to earn the full benefit. If the executive leaves before vesting is complete, the unvested benefit is forfeited. This creates a powerful, quantifiable retention incentive: the executive can calculate exactly what they would lose by leaving.

2. Split-Dollar Life Insurance Arrangements

Split-dollar is an arrangement in which the company and the executive share the costs and benefits of a life insurance policy. The two primary forms are endorsement split-dollar (the company owns the policy and endorses a portion of the death benefit to the executive’s

beneficiaries) and collateral assignment split-dollar (the executive owns the policy and assigns a collateral interest to the company to secure its premium investment).

How it works: The company pays the premiums on a permanent life insurance policy. In an endorsement arrangement, the company retains ownership and recovers its premium outlay from the cash value or death benefit, while the executive's beneficiaries receive the endorsed portion of the death benefit. The economic benefit to the executive (the cost of the life insurance protection) is reported as taxable income, but the cost is typically modest relative to the benefit provided.

Why companies use it: Split-dollar provides the executive with a significant life insurance benefit at little or no personal cost, while the company recovers its investment. When structured properly, the company's net cost can be zero or near-zero—the premiums are effectively a loan that is repaid from the policy's value. For executives who need personal life insurance for estate planning or family protection, split-dollar is an exceptionally efficient benefit.

3. Nonqualified Deferred Compensation (NQDC)

Nonqualified deferred compensation allows executives to defer a portion of their current compensation—salary, bonus, or both—to a future date, typically retirement. The deferred amounts are not currently taxable to the executive and not currently deductible by the company. Tax is deferred until the compensation is actually paid out.

How it works: The executive elects to defer a specified amount of compensation before the tax year in which it is earned (under IRC Section 409A timing rules). The deferred amounts are credited to a bookkeeping account maintained by the company and may earn a notional investment return. The company informally funds the obligation—often through COLI—but the assets remain corporate assets subject to the claims of general creditors. The executive receives distributions according to a schedule elected at the time of deferral.

The key risk: Unlike qualified plans, NQDC benefits are unsecured promises to pay. If the company becomes insolvent, the executive's deferred compensation is a general creditor claim—not a protected retirement asset. This is the trade-off for the tax deferral advantage: the executive accepts credit risk in exchange for the ability to defer taxation on amounts far exceeding 401(k) limits.

How Insurance Funds the Promise

Each of the three executive benefit strategies described above creates a future payment obligation for the company. The question is how to fund that obligation efficiently. Corporate-owned life insurance (COLI) has emerged as the dominant informal funding vehicle for executive benefits because it addresses several challenges simultaneously.

Tax-Deferred Accumulation

COLI cash value grows tax-deferred, providing a more efficient accumulation than a taxable corporate investment account. Over a 15–20 year accumulation period, the tax-deferral advantage can produce 20–30% more available capital than an equivalent taxable investment, depending on the corporate tax rate and the policy’s internal rate of return.

Cost Recovery Through the Death Benefit

When the insured executive eventually dies (whether during employment, in retirement, or years later), the company receives the death benefit income-tax-free. This death benefit recovers the company’s premium outlay and, in many cases, the full cost of the benefit payments made to the executive. For a properly designed plan, the company’s net long-term cost can approach zero—the executive receives the retirement benefit, and the company recovers its investment through the death benefit.

Balance Sheet Flexibility

COLI is a corporate asset that appears on the company’s balance sheet at its cash surrender value. It provides liquidity that can be accessed through policy loans if the company faces an unexpected need for capital. While the primary purpose is to fund executive benefits, the asset’s flexibility provides an additional layer of financial resilience.

Matching Asset to Liability

The executive benefit obligation is tied to a specific person’s career and life. COLI is tied to the same person’s life. The cash value accumulates during the executive’s working years (when the company needs to build the funding), and the death benefit pays out at death (when the company needs to recover its cost). This natural alignment makes COLI a structurally superior funding vehicle compared to generic corporate investments.

Hypothetical Scenario: Meridian Technology Solutions

The following scenario is hypothetical and provided for illustrative purposes only. It does not represent any actual client of SSG Financial Group. Individual results will vary based on specific circumstances, policy terms, and applicable law.

Background

Meridian Technology Solutions is a privately held software company with \$65 million in annual revenue, 280 employees, and a five-person executive leadership team. The company competes for talent against publicly traded technology firms that offer equity compensation, stock options, and robust benefit packages.

Meridian's CEO, Karen Walsh (age 52, earning \$550,000), has been with the company for 12 years. Her CFO, VP of Engineering, VP of Sales, and VP of Product are all in their late 40s to mid-50s, earning between \$300,000 and \$425,000. All five executives participate in the company's 401(k) plan but face the same structural limitation: the plan cannot provide retirement income proportional to their earnings.

Meridian has lost two senior leaders to publicly traded competitors in the past three years. Exit interviews consistently cited "long-term financial security" and "equity opportunity" as primary motivators.

The Problem

- **Retention risk:** Each of the five executives has been contacted by recruiters in the past year. Without a differentiated long-term benefit, Meridian is relying on current compensation and cultural attachment—neither of which has prevented departures.
- **Retirement income gap:** Karen's 401(k), even at maximum contributions, will provide approximately \$140,000 in annual retirement income (combined with Social Security). Her target is \$385,000—a gap of \$245,000 per year. The other four executives face proportional gaps ranging from \$120,000 to \$190,000 annually.
- **No equity alternative:** As a privately held company, Meridian cannot offer stock options or RSUs that compete with public company equity packages. The executive benefit plan must serve as the private-company equivalent of equity-based retention.
- **Key-person exposure:** The loss of any one of these five executives would materially impact client relationships, product development, or revenue. The company has no insurance-based protection against this risk.

The Solution

Working with SSG Financial Group, Meridian's board implemented a three-component executive benefit strategy:

1. **SERP for all five executives.** Each executive receives a supplemental retirement benefit designed to close their specific income gap. Karen's SERP provides \$245,000 annually for 20 years beginning at age 65. The other four executives receive proportional benefits. Each SERP includes a 7-year cliff vesting schedule—the benefit is fully forfeited if the executive leaves before year 7. This creates a quantifiable retention incentive: Karen, for example, would forfeit approximately \$4.9 million in present value by leaving before vesting.
2. **COLI funding on each executive's life.** Meridian purchased permanent life insurance policies on each of the five executives. Combined annual premiums total approximately \$320,000. The policies' cash values are projected to accumulate the funds needed to pay the SERP benefits over each executive's retirement. The combined death benefits of \$12 million will ultimately recover Meridian's total cost, making the net long-term expense approach zero.

3. **Endorsement split-dollar for Karen (CEO).** In addition to the SERP, Meridian established an endorsement split-dollar arrangement on Karen’s life, providing her beneficiaries with a \$3 million death benefit. Meridian retains the right to recover its cumulative premium investment from the policy’s cash value or death benefit. Karen reports the economic benefit (approximately \$4,000–\$8,000 annually) as taxable income—a modest cost for \$3 million in life insurance protection.

The Outcome

Before Planning	After Planning
Retirement income gap of \$120K–\$245K/year per executive	Gap closed via SERP benefits tailored to each executive
No differentiated retention tool for key leaders	7-year vesting creates \$2M–\$5M retention incentive per executive
Two senior departures in three years	Quantifiable cost of leaving reduces flight risk
No key-person insurance protection	\$12M in COLI death benefits protect against executive loss
No private-company equivalent to equity compensation	SERP + split-dollar serves as long-term wealth-building alternative
Full cost borne by company with no recovery mechanism	COLI death benefits projected to recover full plan cost over time

Meridian’s executive benefit program does not increase the company’s long-term cost—the COLI death benefits recover the investment. What it does is transform the company’s competitive position in the talent market: Meridian can now offer its executives retirement income security, life insurance protection, and a financial reason to stay that no recruiter can easily replicate.

Section 409A: The Compliance Framework

Nonqualified deferred compensation plans (including SERPs and NQDC arrangements) are subject to IRC Section 409A, which imposes strict rules on the timing of deferral elections, distribution triggers, and payment schedules. Noncompliance with Section 409A results in immediate taxation of all deferred amounts, a 20% additional tax penalty, and interest charges—applied to the executive, not the company.

The key 409A requirements include: deferral elections must be made before the beginning of the tax year in which the compensation is earned (with limited exceptions for new plan participants and performance-based compensation); distributions must be triggered by one of six permissible events (separation from service, death, disability, change in control, unforeseeable emergency, or a specified time/schedule); and amounts cannot be accelerated once the distribution schedule is elected.

Proper 409A compliance is essential and should be designed into the plan from inception. SSG Financial Group works with the company's legal counsel to ensure that the plan's design, documentation, and administration satisfy all 409A requirements.

The Role of the Advisory Team

Executive benefit design sits at the intersection of employment law, tax planning, insurance structuring, and human capital strategy. It requires coordination among the company's employment attorney (plan documentation, ERISA compliance, 409A), the CPA (tax modeling for company and executive, accounting treatment), the HR leadership (integration with total compensation strategy), and the insurance specialist (policy design, COLI structuring, cost recovery modeling).

SSG Financial Group serves as the insurance and financial planning specialist within this team. We design the COLI funding structure, model the plan economics for both the company and the executive, project the cost recovery timeline, and ensure that the insurance components are precisely calibrated to the plan's benefit obligations.

For CPAs, attorneys, and financial advisors whose clients are competing for executive talent, we offer a resource: the ability to design, model, and illustrate executive benefit strategies that address the specific retention and retirement income challenges their clients face. We welcome the opportunity to collaborate.

Conclusion: Retain the People Who Build the Value

The executives who drive a company's growth are the same people who are most likely to be recruited away. They have the most marketable skills, the most visible track records, and the most to gain from a competing offer. The only sustainable defense against this reality is to create a financial structure that makes staying more valuable than leaving.

Executive benefit plans—SERPs, split-dollar arrangements, and nonqualified deferred compensation—provide that structure. They close the retirement income gap, create golden handcuffs that vest over time, and deliver benefits that the executive cannot replicate by simply changing employers. When funded by COLI, the company's net long-term cost approaches zero—making executive benefits one of the highest-ROI investments a company can make in its own future.

The companies that lose their best people are not the ones that can't afford executive benefits. They are the ones that never offered them.

SSG Financial Group helps companies design and implement executive benefit strategies that attract, retain, and reward top talent while creating tax-efficient outcomes for both the company and the executive.

Schedule a complimentary 20-minute consultation: [Book Your Consultation](#)

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