**<u>Executive Benefit Pitfalls in Non-Profits</u>**

Every day I am either on the phone, emailing or sitting in front of a Non-Profit CFO, CAO, or VP of HR talking about their Health Insurance. They stay up at night thinking about their Health Insurance because it affects almost all the employees. All of this focus and all of this worry on Health Insurance has to some degree creates a myopic view of the organization's benefit plans. In my experience this blindness to the rest of the plan can create some cavernous pitfalls for the Executives the organization, its donors and its members rely on the most.

Below are three simple, if not classic examples, of where a simple annual review can save an organization a bundle of time, money and face if the worst were to happen to one of your Executives.

**<u>1. Benefits built for the masses shorting Executives:</u>** Imagine 3 highest paid Executives. Picture their bills, their savings, and their lifestyle. Now imagine them trying to meet those same bills on 60% of their income, as that is the standard benefit on most Group Long Term Disability Plans. Go one step further, consider their new income of 60% of their full income has ceiling of $6000/month. Now consider being in a room with one of these Executives and explaining to their spouse that the $150,000 to $200,000 or more per year that they have been used to earning is now $72,000 (before taxes). A simple annual review of plan limits and salaries, then classing out benefits, can avoid this problem all together. A tangent to this issue is the ADEA Benefit Reduction Schedule for Life and LTD. They should be reviewed annually and Executives need to be aware of the fact their benefits are shrinking as they age. Depending on the carrier and situation the ADEA schedule can and probably should also be adjusted.

**<u>2. Benefits not matching contracts:</u>** Your organization likely prides itself on its rich benefit plans and how you are able to serve all your employees. But do these rich benefits match what your board has promised your Executive Director or others via contract? On multiple occasions in the last year I have looked over an Executive's contract which included language which entitled the Executive's Family to a year of "tax free" salary over and above the group term life insurance or some other benefit over and above what all other employees receive, and this promise is left as an unfunded liability. This unfunded liability could cause chaos with budgets if the worst were to occur, and a simple review of the contract and a plan (insurance or otherwise) could have avoided the problem all together.

**<u>3. Creating unneeded tax liability for an Executive Director's Beneficiaries:</u>** Consider the situation above, but in this case the organization was smart and purchased extra life insurance on the Executive Director. However, the board in its wisdom decided to have the organization own the policy and name the Executive Director's spouse the beneficiary. This arrangement, corporate owner, Executive insured and Executive's Family as Beneficiary, known in the insurance world as "The Unholy Trinity", can make the benefit of that life insurance policy completely taxable to the spouse as a gift or salary. The policy itself represents an uncompleted gift or promise to pay salary, and the Executive's death completes the gift or promise. This situation is easily avoidable either through Tax Planning devices on how you recognize the premiums paid or legally by setting up owners properly. Once more, simple reviews and proper planning can avoid the problem all together.

Each scenario is above is real and they happen in non-profits all the time. They are dark pits that often are stumbled into at the worst time for you, the Board, your organization and your Executive's family. A regular annual review of everything but the Health Insurance can fix each of these problems and the process is not tough.

Outside of rent and salaries, benefits is likely the highest cost item on your budget. Though Health Insurance makes up 85% of that budget item, take a little time each year to look at the other 15%. The short time it takes can save an untold amount time and money you will spend climbing out of a dark hole.