

WHAT IS THE PRICE OF SIMPLICITY?

Non-Profits Could Lose Over 2 Billion Dollars in Capital

Whether they realize it or not, leaders make thousands of decisions every day. The resulting “decision fatigue” causes leaders to value the elegance and utility of simple solutions. Simple solutions allow for decisions to be made more quickly, both for individuals and committees tasked with solving a problem. These approaches can be good in many situations, but leaders should be wary of oversimplifying complex problems.

Non-profit leaders have the unique challenge of balancing the need to attract and retain key talent in today’s competitive environment with the need for sound fiscal stewardship of the organization’s resources. The balancing act can become precarious when you add strict regulatory and public oversight of executive compensation and benefits and the limited tools available to non-profits. As a result, we see non-profit leaders resort to what they believe to be “simple” solutions to supplemental executive benefits without considering the potential costs; deferred compensation being the most predominant.

According to TRISCEND^{NP}’s Executive Compensation and Benefits Study, deferred compensation arrangements are so prevalent that over **2 billion dollars in deferred compensation was accrued or paid by large non-profits in 2014 alone. This is an increase of 18% over the prior year¹.**

Unfortunately, such plans are susceptible to two very dangerous traps.

The illusion. Simplicity is often confused with familiarity. Peel back the layers of any plan and you find complexities, nuances, and risks. While a supplemental plan laid out on a spreadsheet can appear simple, the reality is usually the opposite. What interest rate, mortality table and tax rate assumptions were assumed? How are the assets actually invested? Under what conditions are the benefits paid, taxed, forfeited or subject to the general creditors of the organization?

Suddenly this spreadsheet plan has become incredibly complex and will likely require the services of an actuary to make any sense of it in the future.

The price. If simplicity truly does exist, what are you paying for it? Often what you are giving up in exchange for simplicity is not worth the price, which is usually paid in the form of unnecessary risk and lost capital. Non-profits used to bear most of the risk with defined benefit pension plans. Now non-profits are shifting risk in a big way by freezing old pension plans and replacing them with defined contribution plans. So what does that mean for the retiring executive? It means their retirement dollars are now 1) paid in large lump sum amounts subject to higher tax brackets and 2) exposed to market volatility. Further, let’s hope the executive doesn’t retire at the wrong time. Drawing down on the nest egg in a bear market can have devastating implications for the unlucky executive.

The illusion and price of simplicity are often overlooked or ignored. We encourage you to start asking the difficult questions about your organization’s plan. How attractive and retentive is it really to your executives? Is the supposed simplicity of the plan and the ease of which the board of directors came to a decision a fair exchange for the risks that more and more executives are now required to burden? Is the decision consistent with a board member’s fiduciary duty to the organization?

Was that truly the best stewardship of 2 billion dollars in 2014?

It is our business to help non-profit organizations of all kinds make appropriate, informed decisions about executive benefits that serve the best interests of the organization, executive, and community. We look forward to continuing the exploration of these concepts with you, and we invite you to learn more by reading [“It’s Time to Modernize Executive Retirement Benefits, Part 2.”](#)

¹TRISCEND^{NP} sources Form 990 data directly from resources made available by the Internal Revenue Service. For purposes of this communication, TRISCEND^{NP} evaluated all non-profit organizations who filed a Schedule J between 2012 and 2014 and reported current revenue in excess of \$100 Million.

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TRISCEND^{NP}, LLC, is national company specializing in design, implementation and administration of solutions for high-performing organizations in the area of talent management and capital optimization. With offices in the Dallas and New York metro areas, the company serves all non-profit organizations.