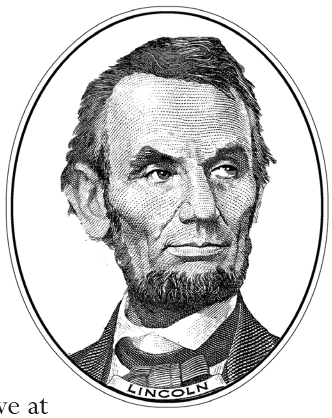
Spring 2016

VIEWpoint

MANAGEMENT COMPENSATION RESOURCES

Letter from Scott



With the 2016 Presidential election year in full swing, I hope that the"Trump and Sanders revolutions" are entertaining you… (and that Washington and Lincoln have completed their revolutions in the grave at the same time!)

All I can say at this point is "thank goodness for Caller ID and DVR TV recording" so that we can avoid all of the political junk flying around! Oh, and god forbid that those are the two names on the ballot in November! (Is Canada accepting new immigrants from Minnesota?!?)

Seriously, I hope this letter finds you well and that 2015 closed on a good note — and that 2016 looks even better! We are busy answering year-end questions from clients and their accountants / auditors… so please feel free to call on us if you need similar questions answered. 2016 is continuing to be as busy for us as 2014-15 were, with several new client engagements beginning already in this first quarter!

I am excited to share that I have taken on an increased role with the American Cancer Society (ACS) and will be serving as the volunteer Chairman of the Board for the Midwest Division during 2016 (and then as Immediate Past-Chair in 2017). I am honored to be selected for this role and am hard at work trying to transform the Midwest Board as the National organization does the same! I was in Atlanta at a National ACS Leadership conference in January and the new national CEO is a former corporate executive who is already bringing needed business discipline to the organization. More to come on that during the year…

Thank you for your continued interest and please let me know how we can be of service to you and your Company.

We are busy answering year-end questions from clients and their accountants / auditors ... so please feel free to call on us if you need similar questions answered.

Today's Workforce Reality Requires Investing in Talent Retention

In the face of increasingly difficult labor markets, a growing number of Midwestern companies are investing in sustainable talent programs to ensure a stable, productive workforce. For some this might seem like a trend but it isn't; it's our new "Workforce Reality." We're all familiar with the reality (and complexity) that is the U.S. labor market — but as the Baby Boomer generation retires, the workforce shortage will only intensify.

Some business owners have chosen to view the talent shortage as a short-term problem, or are applying only short-term fixes: signing bonuses to attract workers, and increasing use of external fee-based recruiters. But every executive knows it is easier to grow your business by selling more to existing clients than it is to find new clients. The same is true for talent. The best way to grow key employee talent is to nurture and retain your existing employees.

Stability of your workforce is key — especially when it comes to your managers and leadership team. Employers can no longer be afraid that they will become suppliers of skilled workers to their competitors. In today's "workforce reality," firms that invest in developing and retaining talent realize a competitive advantage — and those who lag put their businesses at risk.

(Talent, continued on page 2)

MCR

(*Talent*, continued from page 1)

I recently read an article in which a CEO shared how she views employee turnover as a quality control problem. Her position was that if manufactured goods produced at her plant failed at such a high rate, she'd be out of business. So why tolerate a workforce that so under-performs? She shared how her business had eagerly made investments in plant and equipment over the years to boost productivity and improve quality. So she began investing in talent development with the same zeal. Turnover fell, as did absenteeism and output increased.

The numbers speak for themselves. Ask yourself, what's the true cost to hire a single worker? Make sure you include all the costs. Lost production — or overtime expense — from an unfilled opening. Recruiting and HR costs for hiring. The ramp-up time before a worker earns his or her keep. Once you have that number — and it's in the tens of thousands of dollars for most jobs — you can begin to calculate how an investment in retaining employees can yield a positive return.

Retaining employees doesn't "just happen;" you need to have an active, effective retention program in place. This starts with asking — and listening to — employees about how they're doing at regular intervals. Doing this can A) make them feel valued, and B) enable you to make adjustments to keep them from leaving.

Beyond actively listening to your employees, a retention program works to develop employee loyalty as well as fostering a "sense of ownership" in the success of the company. If an employee is invested — emotionally and financially — they are less likely to job-hop. Employee stock ownership (ESOP) is the ultimate retention program, however, adopting an ESOP structure is a complicated process that doesn't fit every corporate situation. More immediate strategies for creating "ownership" include engaging employees in decision-making discussions, implementing an incentive bonus structure, and potentially other types of long-term incentive compensation.

Through the years I've met with hundreds of Midwestern companies who have struggled with employee retention. Key employee retention has never been more crucial to the success of your business. Bottom line: employee training and retention deserves the same management focus and intensity you bring to sales, manufacturing, cost control, and finance.

Quick Tax Issues & Updates

#1 With the new year in full swing and inflation is low (at least according to the IRS), the values for many employee benefit plans, etc. haven't changed from 2015:

- Maximum Annual 401(k)457/403(b) contributions: $ 18,000
- Social Security Wage Base $118,500
- Maximum wages allowed in Defined Contribution and Defined Benefit plan calculations: $265,000
- Maximum Defined Contribution amount $ 53,000

#2 Last summer, the IRS provided an Audit Techniques guidebook to field agents for Nonqualified Deferred Compensation plans. In the book, agents are encouraged to:

- Review plan documents and ensure IRC 409A compliance;
- Ensure that the Plan is also in operational compliance with 409A;
- Look for proper elections of deferred compensation and any improper deductions by companies for wages not taxed to employees; and
- Proper FICA tax withholding and reporting under those separate rules.

We haven't heard of any increased IRS audit activity as yet in this area, but we stand ready to assist any of our clients should their nonqualified plans get audited. Please let us know immediately if an audit arises.

#3 In December 2015, the staff of the Joint Committee on Taxation (JCT) released its annual Federal Tax Expenditure Estimates for the Senate Finance and House Ways and Means Committees. This is an annual report that has for the prior 41 years included a line item depicting the tax "cost" of the inside cash value growth on life insurance and annuity products.

After many years of industry cajoling and lobbying, JCT finally decided to actually analyze these transactions and report them as a non-tax favored item. Since insurance is purchased with after-tax dollars, and cash value grows tax-deferred until liquidated, at which time any gain is taxable as ordinary income — the industry has always argued that cash value growth should be treated the same as the growth of any other investment asset — like mutual funds, etc. And now JCT finally agrees.

Representative Erik Paulsen is a member of the House Ways & Means Committee and he (and his staff) has been very helpful in this effort over the years.

MCR
MANAGEMENT COMPENSATION RESOURCES