

An Introduction  
to  
Compensation Consulting  
Services



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*Member of*



# Who We Are

Selectpath Benefits & Financial is an independent firm of professional financial advisors and employee benefits specialists based in London, Ontario. Through our strategic alliances with industry leaders in insurance and investments, we are able to offer our customers a broad range of products and services, which meet the highest standards for performance, stability and value. We are also able to serve a broad base of individual and corporate clients throughout the province.

## **History**

Selectpath Benefits & Financial evolved through a 1999 merger of Select Benefit Services and Sabourin Financial Group. All four principals acquired their experience working for Canada's largest insurance and investment companies. They worked independently before forming a partnership to provide greater level of service and wider range of investment and insurance products.

Together, the partners have more than 100 years of combined experience. Each brings a unique specialization, helping to create a corporation of highly skilled professionals. And each understands the true value of exceptional client service, giving it the highest priority. The success of Selectpath Benefits & Financial depends upon every member of the team, from the founding and associate partners to the client service representatives, providing value-added services and maintaining friendly, helpful, one-to-one relationships with our clients.

## **Vision Statement**

Through client focused interactions, positive stakeholder relationships and community involvement; we will be an Ontario market leader in providing group benefits, pensions and financial planning.

## **Mission Statement**

We will guide our clients along "the right path" to prosperity by providing customized solutions for individuals and corporations through

# Employee Compensation

This category of services encompasses all activities related to paying employees in exchange for their work. Our team of specialists and strategic alliances can assist employers anywhere in the work-pay relationship, from defining jobs, to assessing performance and market competitiveness, to determining total remuneration.

## Base Compensation

Base compensation is fundamental to all forms of employee pay and generally consists of two parts: planning and management.

Planning includes:

- Some form of job evaluation which results in internal equity
- Pricing which measures the competitive labor market and ensures external competitiveness.

Management includes:

- Administrative policy and procedure, which guarantees equal treatment of all employees
- Maintenance, which results in a program that is current at all times.

## Variable Compensation

Variable compensation is a system of incentives. The principal components inherent in a well-designed incentive system include: objectives to be attained, performance goals, elements and measurement standards, eligibility criteria for program participation, formula for awards, and timing and medium of award payments, i.e., current or deferred, cash, stock or a combination.

Other important considerations in the development of incentive compensation programs are the types of plans. Production incentives, sales incentives, profit-center incentives, cost center incentives, and corporate management incentives each have different objectives, plan elements, measurement standards, impact on profit and shareholder equity and, consequently, performance rewards. Since most variable compensation programs are developed from the base compensation structure, the proper balance between short-term and medium-term plans and the overall motivational impact of the program is paramount.

## Indirect Compensation

By definition, indirect compensation consists of a wide range of benefits and services, which provide a type of payment for work not included in wages, salaries or production-oriented bonuses. The basic elements of such compensation include:

- Health, accident and disability insurance
- Group life insurance
- Retirement coverage.

## **Executive Compensation**

Executive Compensation is a term used to cover a compensation process that takes into consideration value of work performed, competitive market conditions, incentives, and needs of the employee. Each of these elements is of varying priority to the company and/or employee, and may even be in opposition to each other. Most companies focus attention on compensation amounts and are generally unconcerned with compensation form. Executives are concerned with both amount and form and as needs change, the relationship between the two becomes critical.

Herein lies the need for a planned approach to executive compensation.

A typical Executive Compensation Program consists of:

### **Common Elements for all Executives**

1. Competitive Base Salary
2. Incentive Bonus
3. Government Mandated Insurance
4. Minimum Health Accident and Disability Insurance
5. Minimum Retirement Contribution

### **Additional Standard Benefits**

6. Greater Insurance of All Types
7. Larger Contribution to Retirement Resources

### **Special Executive Benefits**

8. Stock Options
9. Stock Purchase Plans (Subsidized)
10. Education Loans and Grants
11. Children's Allowances
12. Financial Counseling
13. Special Vacation Arrangements
14. Sabbatical Leaves
15. Medical Examination
16. Club Memberships
17. Company Housing
18. Housing Loans
19. Company Automobile
20. Shorter Workweek

# Highlights of Various Executive Compensation Strategies

## **SERPs**

A Supplemental Executive Retirement Plan (SERP) is a nonqualified plan that mirrors many features of qualified retirement plans such as pension and profit-sharing arrangements, but offers greater flexibility in its vesting, participation, non-discrimination and funding requirements. A non-qualified plan requires the company to offer the benefit only to a select group of management or highly compensated employees. In the case of a SERP, company money would be used to informally fund the plan.

When designing a plan, the ability to attract and retain key employees is paramount; however, many companies also use SERPs to overcome the effect of “reverse discrimination”. Reverse discrimination occurs because qualified plan and Canada Pension Plan rules favor non-highly compensated employees. As a result, many business owners and key employees will retire on an income significantly lower, as a percentage of final compensation, than rank and file employees.

A properly designed SERP can remedy this situation and help to equalize benefits.

## **Individual Pension Plans**

Over the past few years, much has been written on the benefits of establishing Individual Pension Plans (IPPs) for retirement planning. As individuals cope with currently low investment returns and low contribution rates for RRSPs, many have come to the realization that their RRSP does not provide them with the amount of tax sheltering desired for their retirement savings.

IPPs have long been viewed by professional advisors as having more tax advantages than traditional RRSP programs. As we move into the future, the advantages of IPPs relative to RRSPs will continue, ensuring that IPPs remain a viable, tax effective, retirement planning tool for certain groups of business owners, incorporated professionals, and key employees.

IPPs permit more contributions to be made toward retirement savings than RRSPs. More contributions means more tax sheltered funds are working to provide a larger retirement nest egg. More contributions also mean larger tax deductions. The annual contribution to an IPP is dependent on your age and, in most cases, allows a larger funding opportunity than that available under an RRSP. However, the real advantage of an IPP is its ability to provide pension benefits for prior periods of employment.

A custom designed plan ensures that every opportunity is fully researched and that the plan meets the needs of both the member and the company.

## **Survivor Benefits**

In many companies, group term life insurance plans do not provide adequate life insurance protection for executives, or if they do, the executives may be paying high-imputed income costs. Concurrently, companies often do not have access to the appropriate expertise or product necessary to set up executive life insurance plans such as Group Term Carve-Out, Split Dollar, and Death Benefit Only.

## **Split Dollar Insurance**

"Split-dollar" is a method of financing the acquisition of life insurance, but it is not a particular type of policy. Any permanent life insurance policy— including individual and survivorship policies, whole life, universal life and variable (but not term) policies—can be split-dollar solutions. There are a couple of types of split-dollar agreements, but the executive supplementary retirement funding is the most common in which the corporation and the executive jointly own interests in a policy. The executive's interest is designed to fund supplementary retirement income. The corporation's interest is designed so that it recovers the bonuses given to the executive to pay premiums as well as the premiums it paid. This sharing arrangement can be effective in funding a supplementary retirement plan for an executive and yet potentially avoid classification as a retirement compensation agreement (RCA).

## **Executive Health Care**

Canadians are privileged to have universal access to physician and hospital services. Most employers supplement the government program with medical and dental plans. Some employers pay special attention to the health of their executives by providing early treatment intervention, coordinated patient management and immediate care through a private health service plan. It takes an average of 5 weeks to see a specialties and 16 weeks to actually receive treatment. Funding decreases are making the waiting lists even longer. As a result, Canadians travel to the USA for immediate treatment rather than waiting for months in a Canadian queue.

Organizations can't afford key people to be unproductive for months while they worry if they are ill and when they will be treated. They certainly don't want them traveling to a foreign country for diagnosis and treatment that could be performed here. In many provinces, employers may purchase medical services for their staff that the employees are prevented from purchasing themselves. These employers contract with private medical clinics to provide healthcare to their key employees and their families. The cost of these services is a bargain compared to the lost productivity of highly paid staff.

As part of building a healthy, motivated and productive management team, some companies provide an Executive Health Program to provide, comprehensive annual diagnostic medical examination, personal health audit and lifestyle evaluation, advice for appropriate treatment strategies, coordination and facilitation if abnormalities materialize, rapid referrals (within 4 days) to leading specialists, and treatment abroad if the wait is too long in Canada.

## **Health Spending Accounts**

A Health Care Spending Account (HCSA) is an easy way for employers with diverse workforces to acknowledge plan members' different priorities and needs at different stages in life. For example, HCSA can be designed to recognize a broader definition of eligible dependents, making funding available for the health care of a parent who requires eldercare, or any other financially dependent family member for whom a medical tax credit could be claimed. Applied in conjunction with an existing group benefits plan, a health care spending account can be used to "top up" core benefits and pay for expenses not completely reimbursed by the plan. These include amounts exceeding the plan's maximums, deductibles, coinsurances or any other portion of a claim that isn't paid under the plan.

## **Critical Illness Protection**

This benefit provides financial assistance and support to employees diagnosed with a defined critical illness such as cancer or multiple sclerosis. Benefits are in the form of a pre-determined lump sum payment. Critical illness plans usually require the employee to survive the illness for a stated period of time. The benefit is designed to address the potential gap between traditional life and disability insurance plans. A person suffering from a critical illness is often still able to work but experiences high out of pocket costs resulting from the illness. Critical Illness protection is often overlooked when structuring a complete risk management portfolio.

## **Disability Income Protection**

Disability insurance is one of the most overlooked of executive benefits. Although a person's chance of having a disability of longer than 90 days is greater than dying during his working years, (7.5 times greater than that of dying at age 22, 5.5 times greater at age 37 and still 2 times greater at age 62) a higher percentage of employees purchase individual life insurance. To compound the problem, many executives are not aware of the inadequate coverage offered under a typical group disability program, due to their higher levels of monthly compensation. (Reverse discrimination)

## **Long Term Care**

Long Term Care Insurance (LTC) is one of the fastest growing benefits offered in the marketplace today. The concept of LTC is based on the fact that Canadians are living longer and healthier, thanks to better diet, better medical care and safer living & working environments. Greater longevity has increased the odds that a person will need sustained care as they age. Unfortunately many people mistakenly believe that Medicare will cover the cost of long-term care. The reality is that Medicare only covers nursing home costs for a very short period following a hospital stay to recuperate from an acute illness or injury.