

Daily valuation of deferred compensation plan liabilities and corporate assets

Nonqualified deferred compensation plan administration can provide for online plan administrative services and automated asset management. Plan participant accounts often have a similar “look and feel” to that of an Internal Revenue Code Section 401(k) plan (401(k) plan). Participants are usually offered investment alternatives that are daily valued. Plan sponsors have online access to view and manage corporate assets used to informally finance the plan, along with plan liability (participant account) detail. In addition, reports can typically be generated for various timeframes. The trend is for administrative services of taxable investments and/or corporate-owned life insurance (COLI) to be seamless.

Factors that drive the need for daily valuation

- **Many investment alternatives.** Participants want to be able to diversify their portfolios, as well as know what’s in their account at any time. If the company offers multiple investment offerings of well-known mutual funds, participants will demand current, updated information. The deferred compensation plan should offer the same type of information to participants as their 401(k) plan.
- **Investment transfer capability.** Participants have become more sophisticated in the investment management of their 401(k) plans, and they’re demanding the same capabilities in their nonqualified plans. Online, daily investment transfers have become the norm in deferred compensation plans and can only be done in accounts where all values are updated daily.
- **Corporate asset management.** As companies give their participants more flexibility, the management of corporate assets to control the company’s exposure to changes in the participant’s accounts becomes more important. Well-managed corporate assets should mirror any movements in the participants’ accounts. It’s prudent for a company that wants its corporate assets to mirror the value in the participants’ accounts to get daily reports on the relative positions in all deferred compensation accounts and “rebalance” corporate assets to align the asset with the liability. If this is not done, the assets financing the plan may or may not keep up with the plan liability, the amount owed to the participants.

Deferred compensation plans that offer “best practices” features require sophisticated plan administration. Companies that want to properly manage these plans, and manage the corresponding risk on the corporate balance sheet, should consider using daily valuation of all plan information as a basis for their management processes.



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