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How to Retain Employees With ‘Golden Handcuffs’

By: Todd Martin

When you have a good employee, especially one who plays a key role in your company, you will do a lot to keep them. From vacation time to attractive pay, insurance benefits to flexible schedules, smart employers pull out all the stops to keep their valuable, high-level employees on board.

One strategy to help retain key employees that you might not be using is to have what's called a golden handcuff agreement with them. Golden handcuffs offer a way for employers to increase the financial and retirement benefits given to their key employees in exchange for certain service requirements that must be upheld by those employees. In exchange for meeting these requirements, the employee can receive a variety of extremely valuable financial benefits that make it much harder for them to consider walking away.

Golden handcuff options

One of the most powerful things about golden handcuff agreements is that they are truly flexible. You can choose whatever option best fits your needs and your employee's. This also allows you to tailor a plan that really appeals to your key employee and gives them that extra incentive to stay. Some of the benefits you might consider include: Supplemental Executive Retirement Plan: When you want to give a key employee more extensive retirement benefits, a SERP often fits the bill. A SERP can be used to offer deferred compensation and death benefits.

Stock options: These give your key employees the opportunity to buy company stock at a set price within a certain time frame. To create golden handcuffs with stock options, you simply ensure that the options can't be exercised until a much later date.

Nonqualified deferred compensation: This form of deferred compensation plan works outside the Employee Retirement Income Security Act, which generally makes it taxable to the employee.

You can talk to an advisor to see whether an ERISA plan or a non-ERISA plan is a better fit for your situation.

Funding your golden handcuffs

For some employers, the idea of golden handcuffs might be appealing, but the thought of funding it is closer to intimidating. That's why business owners need to explore the various strategies available to set funds aside and grow them so they can fulfill the promises made in the golden handcuffs agreement without severely inhibiting the growth of their business. Some of these strategies also provide supplementary benefits that can benefit the business owner.

Good talent is hard to find – and even harder to hold on to. With a golden handcuffs agreement and a strategy in place for funding it, you have a solid plan for growing your business and retaining the employees who may be integral to your success.

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