Client Alert: Use Deferred Compensation Plans In Place of Salary Reductions

The COVID-19 pandemic has had profound impacts on the day to day business of most American companies. Shelter in place orders and social distancing recommendations, while necessary, also mean that customers are less frequent, and revenues are harder to come by. Cash flow needs have become paramount as a result, which has led some companies to take hard but necessary steps to retain that cash flow. In some cases, that has meant reducing pay to a majority of employees.

Deferred compensation arrangements can provide the same immediate cash flow relief as compensation reductions, but without the permanent effects. By shifting from a reduction in pay to a deferral of pay, companies retain the cash that would have otherwise been paid. That cash can then be deployed where the immediate need is required, but importantly, will be paid to employees when a more normal business environment returns.

For companies which have been forced to reduce compensation at all levels of the organization, non-ERISA deferred compensation plans can be particularly practical. These underutilized plans can improve cash flow immensely even with small deferral contributions. However with a promise to pay in a short time frame, employers can maintain goodwill with employees better than with a salary reduction.

If you would like to learn more about how deferred compensation plans can be utilized to improve cash flow, please reach out to your Mullin Barens Sanford Associate.

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