Rabbi Trusts – Did You Know?

Did you know that the very first Rabbi Trust was, in fact, for a real rabbi?! Legend has it that he had been a great spiritual leader in his synagogue and was getting ready to retire.

By: Brent Longnecker

What Is A Rabbi Trust?

A Rabbi Trust is a non-qualified **deferred compensation plan** created as a retirement benefit to employees.

The Very First Rabbi Trust

His congregation wanted to bless him by setting up a retirement plan– a non-qualified benefit plan that he could draw upon as he enjoyed his retirement. Until then, most of these plans were promises to pay, and the employer could commingle monies. The rabbi wanted more security and protection, and the "rabbi trust" idea was birthed.

The IRS And Private Letter Rulings

However, it was a new idea and dealt with matters of taxation, so the IRS had to review and approve it to ensure their concept was sound and to ensure it did not create an immediate taxable event. The synagogue applied for a **Private Letter Ruling (PLR)** to the IRS and waited.

The person in charge of the IRS Office of Chief Counsel was a good friend of mine –Tom Brisedine. Tom had a brilliant tax mind and handled all the heavy lifting at the IRS over the 22 years he was there. In 1996, he joined Deloitte & Touche, where I was the National Partner in charge of executive compensation, and we would work on tons of projects together... and he would share the story of the Rabbi Trust with me. Tom would pass in 2015, but his legacy was solid, and he was behind the approval of that PLR in 1980 (PLR 8113107) … the very 1st Rabbi Trust!

Rabbi Trusts Today

Rabbi Trusts are still used by many companies throughout the U.S. –public, private, and not-for-profit. They were designed to protect **deferred compensation plans** for **executive benefits and compensation**. The employer cannot change the trust structure once it has been established. In addition, the funds cannot be commingled by the employer.

Are Rabbi Trusts Irrevocable?

The Rabbi Trust was ingenious – it enables the plan sponsor to put dollars into the trust irrevocably, and the dollars can only be used to satisfy the promises made to the executive. Once the executive is paid, if there are any residual dollars in the trust, it can revert to the plan sponsor. In a sense, it operates as a qualified plan trust but is not protected in the event of the plan sponsor's bankruptcy.

Pretty amazing. A rabbi, a synagogue, and a congregation would set the stage for decades in executive pay and benefits! Who would have thought?