Principal®

Overview | Nonqualified deferred compensation plan

Special plan, exclusively for you

Your employer recognizes the special value you bring to their organization. That's why they've implemented a benefit designed exclusively for employees like you.

It's called a nonqualified deferred compensation plan, and here's how it works. You take what is in essence a pre-tax IOU on a portion of your income that your employer agrees to pay you at a later date. It'll also include any gains or losses from the allocations you choose according to the plan provisions.

DECIDE

Defer a portion of your compensation based on your financial goals. This reduces your taxable income.

INVEST

While not directly investing, your account is credited with any gains or losses based on reference investments you choose.

ENJOY

Receive the compensation you previously deferred, plus any potential earnings credited to your account.

The potential benefits

Unlike qualified savings vehicles, such as 401(k) or 403(b) plans which carry government imposed restrictions to saving, deferred comp plans can be designed in many different ways to offer different benefits to meet your needs.

Take advantage of pre-tax savings. Setting aside some income before taxes are taken out and growing that savings on a tax-deferred basis puts more of your money to work for you.

Save more for retirement. Since this plan has different rules than a 401(k) or IRA, you'll be able save more for retirement while spreading out when you'll owe taxes and potentially seeing a greater return.

Enjoy flexibility. You choose when to take money from the plan based on your personal savings goals (within whatever rules your employer has set up). And with no age-based rules around the timing of distributions, you can retire on your schedule.

Some things to consider

- Deferred comp plan payouts are taxed as ordinary income and subject to state and federal taxes.
- Deferred comp plans do not allow rollovers or loans.[1]
- Your deferred compensation would be owned by the organization until they are paid out.
- You decide when you'll take the payout the year you make the deferral, and there are restrictions around changing scheduled distributions.[2]
- Your plan benefits aren't protected in the event of bankruptcy of your organization.

How this fits your financial plan

These questions will help you determine if a deferred comp plan is a good fit for you. If you answer yes to more questions than not, there's a good chance the plan is right for you.

- Close to maxing out, or have already maxed out, qualified plan contributions?
- Interested in a lower current tax rate?
- Concerned about meeting your retirement savings goals?
- Confident that you can afford to defer some of your current income?
- Confident in the continued success of the organization?

8 in 10 participants say the deferred comp plan is **important** to helping them reach their financial goals.[3]

Learn more

Contact your financial professional or go to **principal.com/nqlearn**.

[1] There are no loans or rollovers into an IRA or other qualified plan. However, plan-to-plan transfers are possible.

[2] Where deferrals are applicable to the plan type and employer set up.

[3] 2023 NQ Plan Participant Satisfaction Survey, October 2023.