



Nonqualified deferred
compensation plans

4 business needs deferred comp can help meet



A versatile tool that helps enhance your benefits package, and so much more

A nonqualified deferred compensation plan gives you options and flexibility to drive progress toward many types of organizational goals and strategies that impact your success.

First, take a look at the primary business needs that many plan sponsors want to solve. Then see how the flexibility in plan design can be used to implement a deferred comp solution tailored to your specific business drivers and strategies.

PRIMARY BUSINESS NEEDS

1

Retain key employees by helping them save more.

Qualified plans are a good start in saving for retirement, but they have limits and coverage testing requirements that cause problems for highly compensated employees. They don't allow them to defer the same percentage of income as other employees, they limit incentive choices and flexibility, contributions affect 401(k) participation testing, and they may even result in contribution refunds. A deferred comp solution offers a supplemental savings approach.

2

Give key employees **more control** over the timing of benefit payments (and income taxes).

For high earners or those with fluctuating income, their income tax rate is an important component in their financial planning. With more control over when they get paid, they could manage timing of income taxes, save for big moments, and be more strategic to meet retirement and other savings goals.

3

Support efforts to **recruit, reward, retain**, and help key employees **retire**.

To attract, keep, and reward key employees, sometimes you need something more than your competitive benefits package. Having a flexible component can help ensure your top talent remains committed to you—and not the competition.

4

Simulate **employee ownership** and facilitate **business succession**.

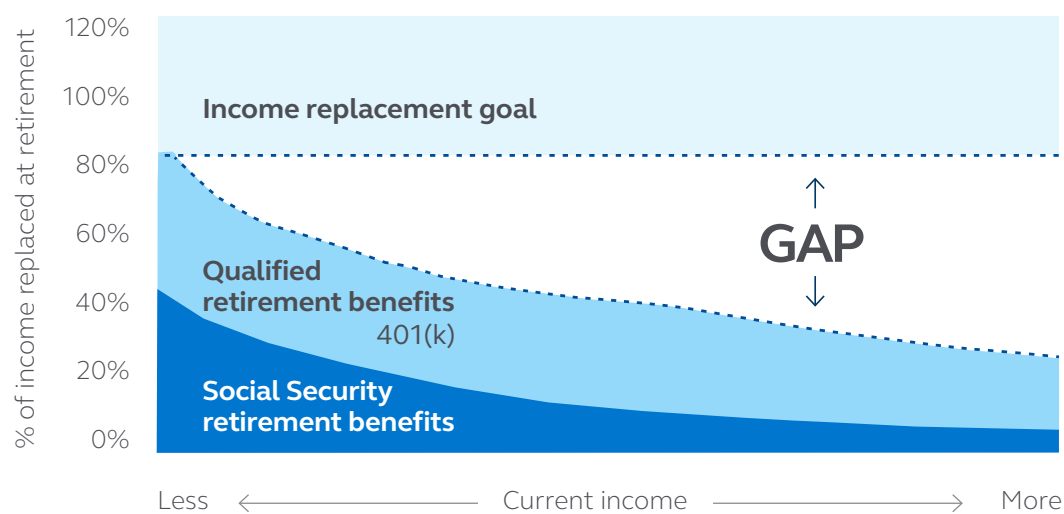
It's easy to envy the vested interest achieved with formal employee ownership scenarios. But that isn't always the best option. Simulating employee ownership or an insider transition plan can create an ownership-like experience without dilution or premature decisions.

Let's take a look at how a deferred comp plan could be designed to address these four primary business needs.

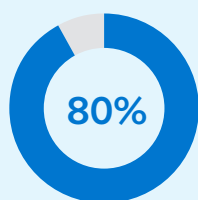
1 Bridge employee's retirement gap.

Deferred comp plans offer a secondary pre-tax savings account that can be used to bridge the retirement savings gap that often impacts highly-compensated employees. Not only can participants set aside more income for retirement, but this plan gives you another way to reward them, too. If your contributions are held back by qualified plan limits or risk of failing non-discrimination and coverage testing, you can contribute additional savings to a deferred comp plan.

Customize your plan by setting deferral limits (if any), employer contribution amounts, and vesting schedules to fit your need. You can also do this for select groups of participants. You ultimately choose who to reward and how much, without worrying about the testing and compliance concerns that come with qualified plans.



This information is from the Principal Financial Group® Replacement Ratio Calculator with source information from the Annual Statistical Supplements to the Social Security Bulletin (www.ssa.gov). It is intended to demonstrate the potential impact of Social Security and 401(k) plan benefits at various income levels. For more information on your individual circumstances, please speak with your financial or tax professional. © 2022 Principal Financial Services, Inc.



80% of plan participants say their **deferred comp plan is important** in reaching their retirement goals.¹

¹The 2022 Principal® Trends in Nonqualified Deferred Compensation report is an online survey of 159 NQDC plan sponsors and 758 plan participants conducted between March 21-April 11, June 6-27, and Sept. 6-23, 2022.

2 Manage the timing of income and taxes.

Deferred comp plans can be designed to give employees more strategic control over when their benefits are paid to meet their objectives and timing needs. And since taxes are due when benefits are received from a for-profit employer, they also have some control over timing of income taxes.

This flexibility gives them a plan that better fits their financial goals. You can set parameters around options like multiple savings accounts, getting paid while still working or in retirement, lump sum or installment payments, delaying payouts, and investment risk—all at the individual account level.

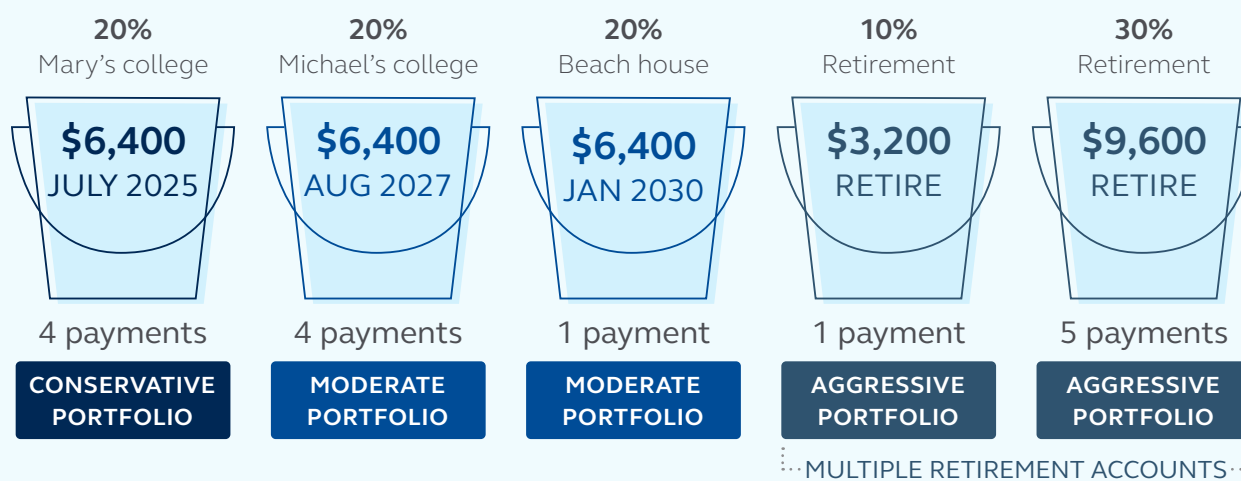
As shown in the example scenario below, this kind of flexibility in plan design could allow participants to:

Coordinate with other retirement income sources.

Lower overall tax rates.

Fund life's big events.

Income and deferral elections	Objectives	Tax strategy
<ul style="list-style-type: none"> 10% of \$120,000 base pay (\$12,000) 50% of \$40,000 bonus (\$20,000) Total: \$32,000 	<ul style="list-style-type: none"> Provide college money for two kids. Purchase second home. Build retirement savings. 	<ul style="list-style-type: none"> Lower income when marginal tax rates might be higher. Take distribution when effective tax rate might be lower.



This is a hypothetical example to illustrate how multiple savings accounts work within a nonqualified deferred compensation plan. It's intended to be educational in nature and not intended to be taken as a recommendation.

3 Recruit, retain, reward, and retire key employees.

Flexible options in deferred comp plans allow you to give back to your key employees, whose leadership and expertise are hard to match—and hard to find. This boost in your benefits package can even be flexible enough to cater to different stages of employee management, as well as the different ways your top talent is motivated.

RECRUIT

Attract top talent via signing bonuses tied to tenure or performance.

REWARD

Influence tenure with structured bonuses that use vesting schedules.

RETAIN

Drive both organizational and personal performance with incentive-based contributions to the plan.

RETIRE

Restore company match benefits you're unable to make in qualified plans due to testing or compensation limits.

“ If key employees are offered a unique benefit ... it ties them to the company that much more. ”

Retired business executive, nonqualified plan participant

4 Create an ownership-like experience.

Deferred comp plans can be a valuable tool in creating an ownership-like experience without the formality that can get in the way of the value you want to capture. Plans can be designed to create a performance-driven shares scenario, a business succession plan, or something else that suits your business needs.

Performance-driven shares

Employers have the option of using employer contributions or phantom shares to incent employee performance. Similar to shares of stock, employers can customize contribution and vesting schedules measured by phantom stock values. With this compensation management strategy, the employee is given phantom shares that increase and decrease based on the valuation of the company, as shown in the example. But you aren't subject to the dilution that comes from actual equity grants. Or, employers can simply set up contributions based on company profitability.

Transition planning

Give possible future owners of the company a way to purchase the business, without limiting your options. You can contribute to a potential future owner's account and establish the vesting and distribution to occur based on the sale of the company as shown in the example. If you're unsure how the sale will happen, that's okay. You can build in various circumstances.

Example

Company	Formula
Contributes to plan or provides phantom stock shares to participating key employees	Number of phantom shares or contributions determined by annual gross profit
Value	Vesting
Declared by board annually	20% per year based on meeting goals

Example

Sale of business	Trigger and timing	Vesting
Sale to insiders	Change in control	Account vests and distributes to executives and is used to execute purchase
Sale to outsiders	Set duration after the sale	Account vests and distributes to executives as reward for years of service
None	Retirement	Optional triggering event can be retirement



So many options with widespread benefits

No matter what role a deferred comp plan plays in your overall strategy, it offers some benefits that both you and your employees can enjoy.

For your key employees

- Take advantage of pre-tax deferrals, tax-deferred growth, and compounded earnings.
- Defer up to 100%² of compensation to meet savings goals.
- Design a personalized investment strategy.
- Enjoy flexibility and take payouts from the plan without the same age restrictions as 401(k) plans.

For you

- Make optional company contributions.
- Restore 401(k) plan contributions limited by IRS testing.
- Easily administer with no discrimination testing, minimum participation, or Form 5500 filing, if set up properly by the employer.

An industry leader in your corner

Our history speaks for itself. We've been providing deferred comp plans for more than 30 years, and have over 75 years of retirement plan experience. We're the No. 1 provider of nonqualified deferred comp plans³ and a top 3 defined contribution recordkeeper by number of participants.⁴

² Employees can defer up to 100% of compensation, but plan sponsors typically permit deferrals of less than 100% due to other payroll deductions, such as FICA taxes and health insurance.

³ Based on number of NQDC plans (excluding 457 plans), PLANSPONSOR 2022 Defined Contribution Recordkeeping Survey, July 2022.

⁴ PLANSPONSOR Recordkeeping Survey, July 2022.



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