<BGA Name> presents:

Trends in Nonqualified Deferred Compensation

2018 research results, published March 2019
Insight from the view of employers and their key employees

11th annual nonqualified deferred compensation plan study conducted by Principal®

The latest research results provide timely statistics and trends on deferred comp plans from the view of both plan sponsors and participants.

This report can help you benchmark against your peers and gain valuable insights. Here’s what you’ll find:

Key findings in this year’s study ............................................................................................................................... 1
Why these plans are valuable ................................................................................................................................... 2
What the trends tell us ............................................................................................................................................... 3
Employers: Statistics and insights .......................................................................................................................... 4
Employees: Statistics and insights ........................................................................................................................... 6
Behind the scenes ........................................................................................................................................................8

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These research results — and much more — are all available online, at your fingertips. Watch videos, download infographics and share the insights with your employees, peers and financial advisors.
Key findings in this year’s study

What employers said

**Competitive benefits are key.**
As we’ve seen with previous years, there’s a battle for key talent in this tight job market. Employers are increasingly more concerned about attracting and retaining key employees, and are seeing the plan as a very valuable recruiting and retention tool. And, the number of employers that see deferred comp as a way to provide a competitive benefits package has gone up by 14 percentage points since 2015.

**Making plan changes are less important.**
Compared to past years, employers are less likely to make changes to their plans. But for those looking to make changes, offering different investment options and expanding the number of eligible employees are on top of the list.

**The role of the financial professional is still valued.**
New findings give insight on the role of the financial professional and where their value is needed most. Employers said they want to rely on them most for information on regulatory changes and initial plan set up.

**Attitudes toward the plan are positive.**
Compared to 2017, the trends show employers have more positive attitudes toward deferred comp plans. In fact, in 2018 there was a significant increase in employers saying the plan was very valuable in recruiting and retaining.

What key employees said

**Participants value the plan.**
Almost six in 10 view the plan as a reason for staying with their current employer, and even more consider it an important factor in deciding to take a new job. And the likelihood of a participant recommending the plan to someone eligible to participate increased to 84% — up from 75% in 2015.

**Retirement still a top priority.**
Retirement is still the #1 reason to participate in the plan, and a top reason for employees to increase their contributions. Other reasons for participating are reducing current taxable income and taking advantage of employer contributions.

**The income bridge strategy is a popular approach in retirement.**
More than half of employees plan to use deferred comp in their early years of retirement. This can help them delay using traditional retirement income sources like Social Security or 401(k) plans that have age restrictions.

**Employer match and affordability impact participation.**
Employer match continues to play a large role in key employees’ decisions to participate and how much they contribute. Of those with a match, nine in 10 contribute enough to get the maximum. And employees with a match are 13% more likely to say the plan is an important reason to stay with an employer, compared to those without a match.

**They’re more confident in their retirement savings.**
Based on their current retirement savings, over eight in 10 key employees report confidence in retirement readiness. And three of those 10 say they’re very confident.

“Our key employees see this as a huge benefit.”

- Employer

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1 This is not a paid advertisement. The plan participant participated in a nonqualified deferred compensation plan through his/her employer with plan administrative services provided by Principal. The plan participant is not affiliated with any company of the Principal Financial Group and the views and opinions expressed are his/her own.
Why these plans are valuable

Employers

1 **Deferred comp plans are more important than ever.** With an improving economy and a fight for top talent, attitudes toward deferred comp have become more positive. In 2018, employers were more likely to view the plan as a competitive benefit offering a very valuable recruiting and retention tool. And with the competitive job market, significantly more employers were concerned about attracting key employees.

2 **Employer contributions matter to key employees.** Over half (54%) of employers choose to make contributions to key employees’ plans. Retaining and motivating key employees, along with restoring the company’s qualified plan contributions are the leading reasons why employers choose to make contributions.

3 **Decision-making resources are valued.** Information about investment performance and plan options are what employers find most valuable in helping key employees make plan decisions. Compared to past years, employers say they are less likely to make plan design changes or offer different investment options.

4 **Plan design is a priority.** Like past years, employers are annually reviewing plan design elements to help ensure the benefit is still meeting organizational needs.

Employees

1 **Saving for retirement is still #1.** In 2018, 2/3 of employees say they participate in the deferred comp plan to save for retirement. And, 1/4 say the plan will provide 25% or more of their retirement income. The results also show that more than half of employees view the plan as a source of income to be spent down during early retirement years.

2 **Key benefit to stay or join.** Almost six in 10 employees view the plan as a reason for staying with their current employer. And, 64% see it as an important factor when deciding to take a new job.

3 **The power of employer contributions.** More than 60% of employers provide employer contributions, with more than half of them providing only discretionary contributions. And less than 1/4 are only matching deferrals. Employer contributions are valued by key employees, with 63% of employees receiving an employer match saying the plan was an important reason to stay with their current employer, vs. 50% without a match.

4 **Flexibility to defer to meet goals.** The top factors key employees consider when determining an annual compensation amount to defer into the plan are progress toward saving goals, personal tax rates and current income needs.
What the trends tell us

**Competitive benefits remains #1**

Competitive benefits are still the #1 reason why employers offer the plan — and increased again in 2018. Meanwhile, the other top two reasons have also increased in importance.

**Employers are less likely to make changes to reduce costs**

There’s been a decrease in employers who are likely to make plan design and investment changes to their plans. Offering different investment options is the top item employers would consider changing, but has continued to decrease since 2016. But as we’ve seen from other trends in 2018, employers are still focused on offering competitive benefits.

**Plans are still important to key employees**

In 2018, the importance of the plan for reaching retirement goals has declined slightly, while a reason to stay with an employer has increased. The plan as a consideration to take a new job showed a steady level of importance.

**Key employees saving more**

More than two in 10 employees are looking to increase their deferrals, with the top reasons being saving for retirement goals and managing current income tax rate.
Employers: Statistics and insights

Top reasons why plan sponsors offer deferred comp plans

- **97%** Provide a competitive benefits package when recruiting key employees
- **91%** Retain key employees
- **94%** Help participants save for retirement beyond qualified plan limits
- **80%** Help key employees manage current taxation

Employers concerned about retirement and retention:

<table>
<thead>
<tr>
<th>Question</th>
<th>Somewhat concerned</th>
<th>Very concerned</th>
</tr>
</thead>
<tbody>
<tr>
<td>Will I attract key employees in the future?</td>
<td>49%</td>
<td>52%</td>
</tr>
<tr>
<td>Will I lose key employees to competitors?</td>
<td>39%</td>
<td>15%</td>
</tr>
</tbody>
</table>

Frequency that employers review the plan to identify needed changes

- **Participant eligibility**: 60% One time per year, 13% Multiple times per year
- **Contribution types**: 58% One time per year, 9% Multiple times per year
- **Employer contributions**: 52% One time per year, 12% Multiple times per year
- **Distribution options**: 50% One time per year, 10% Multiple times per year
- **Financing method**: 48% One time per year, 13% Multiple times per year
- **Investment options**: 47% One time per year, 29% Multiple times per year

Changes plan sponsors are most likely to make to their plan

<table>
<thead>
<tr>
<th>Change</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Offer different investment options</td>
<td>40%</td>
</tr>
<tr>
<td>Expand number of eligible employees</td>
<td>28%</td>
</tr>
<tr>
<td>Allow participants to defer more compensation into the plan</td>
<td>22%</td>
</tr>
<tr>
<td>Change plan design to reduce costs</td>
<td>17%</td>
</tr>
</tbody>
</table>

2 in 3 plan sponsors are concerned about losing key employees to competitors: 67%
Factors that build satisfaction with plan record-keeper

- 89% Easy to do business with
- 86% Resources to offer the best plan
- 85% Partners effectively on plan-administrative challenges
- 76% Participant education resources available
- 75% Legislative and regulatory support available
- 70% Thought leadership

Employer contributions into the plan

- 54% Contribute
- Primary reasons for employer contributions:
  - 46% Retain key employees
  - 28% Restore lost 401(k) match
  - 17% Motivate key employees

Most valuable resources plan sponsors want to give participants:

- 52% Investment performance information
- 43% Information about plan features
- 32% Tools and calculators to help determine how much to defer

How employers expect financial professionals to play the largest role

- 76%
  - Share information about regulatory changes
- 74%
  - Handle initial plan set up
- 63%
  - Assist with annual plan review/actions
Participants consider a deferred comp plan most important in

- 85% Reaching financial retirement goals
- 64% Deciding to take a new job
- 57% Deciding to stay with a current employer

Participants are planning to increase contributions, and here are the top reasons why:

- 83% - Desire to save for retirement goals
- 55% - Can afford to defer more
- 50% - Can’t save enough in a qualified retirement plan
- 44% - Help manage current income tax rate

Expected retirement income by deferred comp plan participants

- 1/3 of plan participants provide 10-24% or more
- 1/4 of plan participants provide 25% or more
- Approximately 1/8 of plan participants

Main reasons for participating in a deferred comp plan

- 66% Save for retirement
- 17% Reduce current taxable income
- 8% Employer contributions participants would miss

Very important factors for participants in determining deferral amounts

- Progress toward savings goals: 37%
- Personal tax rate: 27%
- Current income needs: 26%
- Estimated salary and/or bonus changes: 26%
- Overall investment portfolio: 23%
Likelihood of recommendation to participate

84% of participants would recommend the plan to other eligible employees.

Retirement income spending strategy

51% of participants will use income from this plan first in retirement, before other savings.

Without this plan, I would have to work longer.
- Survey participant

Employer contributions to participant accounts

33% of employers only make discretionary contributions
18% of employers only match their deferrals
10% of employers both match their deferrals and make discretionary contributions

Participants who say the plan is an important reason for staying with current employer:

63% have an employer match
50% have no match

2 Significant increase over 2017 results.
Behind the scenes

Employer profile

Characteristics of plan sponsors who responded to the survey:

<table>
<thead>
<tr>
<th>Characteristics</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Median number of employees</td>
<td>400</td>
</tr>
<tr>
<td>Median number of employees eligible to participate in the plan</td>
<td>15</td>
</tr>
<tr>
<td>Median number of years offering the plan</td>
<td>9</td>
</tr>
<tr>
<td>Provide a company contribution</td>
<td>54%</td>
</tr>
</tbody>
</table>

Characteristics of all plan sponsors of a Principal deferred comp plan:

<table>
<thead>
<tr>
<th>Characteristics</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not-for-profit organization</td>
<td>30%</td>
</tr>
<tr>
<td>For profit organization</td>
<td>70%</td>
</tr>
<tr>
<td>In business for 25 years or more</td>
<td>73%</td>
</tr>
<tr>
<td>Median number of employees</td>
<td>400</td>
</tr>
</tbody>
</table>

Employee profile

Characteristics of participants who responded to the survey:

<table>
<thead>
<tr>
<th>Characteristics</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Size of employer</td>
<td>501 - 1,000 employees</td>
</tr>
<tr>
<td>Salary range</td>
<td>$150K - &lt;$300K</td>
</tr>
</tbody>
</table>

Characteristics of all participants in a Principal deferred comp plan:

<table>
<thead>
<tr>
<th>Characteristics</th>
<th>27%</th>
<th>46%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual employee income</td>
<td>&lt;$150k</td>
<td>$150k - &lt;$300k</td>
</tr>
<tr>
<td>2018 actual plan balances&lt;sup&gt;4&lt;/sup&gt;</td>
<td>41%</td>
<td>29%</td>
</tr>
<tr>
<td></td>
<td>&lt;$25k</td>
<td>$25k - $100K</td>
</tr>
<tr>
<td>2018 actual plan contributions&lt;sup&gt;3&lt;/sup&gt;</td>
<td>39%</td>
<td>31%</td>
</tr>
<tr>
<td></td>
<td>&lt;$10k</td>
<td>$10k - &lt;$25k</td>
</tr>
</tbody>
</table>

About the survey

Between June 25 and July 23, 2018, Principal conducted an online survey with employers having existing nonqualified defined contribution plans and key employees who were currently deferring into a nonqualified plan with Principal. A total of 271 completed surveys were received from employers and 1,324 from key employees.

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<sup>3</sup> Based on participants who were active with a balance of greater than $0.
<sup>4</sup> As of June 1, 2018
<sup>5</sup> As of December 31, 2018
Our leadership strengthens your benefits

You can trust our expertise and leadership. In addition to being the No. 1 provider of nonqualified deferred comp plans5 and a leading provider of defined contribution plans6, we’ve been providing deferred comp solutions for more than 25 years and have over 75 years of retirement plan experience.

A member of the FORTUNE 500®, Principal has $626.8 billion in assets under management and serves 24 million customers worldwide7. Our employees are passionate about helping people and companies build, protect and advance their financial well-being. You can count on us to offer innovative ideas and real-life solutions that help make financial progress possible for clients of all income and portfolio sizes.

5 Based on total number of Section 409A plans, PLANSPONSOR 2018 NQDC Recordkeeping Survey, June 2018.
6 Based on recordkeeping plans, PLANSPONSOR Recordkeeping Survey, July 2018.
7 As of December 30, 2018.