Compare key employee benefit plans for tax-exempt organizations

Plan design	----------------Non-governmental---------------- Principal® Deferred Compensation – 457(b) (eligible 457(b) plan)*	Principal® Deferred Compensation – 457(f) (ineligible 457(f) plan)	Principal® Deferred Compensation – Select Reward (Tax Exempt)	Principal® Loan Split Dollar	Principal® Bonus (Tax Exempt) (double bonus design)
Design	A nonqualified benefit similar to a 401(k), but with assets subject to the employer's creditors, where executive defers salary or employer makes contributions on behalf of executive.	The plan is designed to enable the employer to make discretionary incentive contributions only. In addition, benefits vest upon a payout event, such as reaching retirement age or a specific date, death, disability, or involuntary termination. Contributions may be structured to vest and be paid at various specific dates (laddered). Benefits not vested upon separation from service are forfeited.	A specific type of 457(f) plan funded with only employer dollars. Employer promises executive a lump-sum bonus for meeting a service requirement. No graded vesting is allowed and executive is not permitted to alter the time or form of payment. May be 'informally' financed with life insurance paid-up at completion of service period or mutual funds.	A plan that uses a loan to allow key employees and the employer to share the costs and benefits of the plan. The arrangement results in the key employee owning a cash value life insurance policy, paid with loans from the employer to the key employee, and immediate death benefit protection.	Employer provides bonus to executive to fund premium for a richly-funded, personally owned life insurance policy; in most cases, employer bonus also includes tax cost of the bonus.
Plan benefits	Executive has increased retirement income. Executive may reduce taxes during working years due to salary deferral. Executive feels rewarded and employer improves retention.	Executive has increased retirement income, which may also be designed to allow for payment upon specific dates. Executive feels rewarded and employer improves retention.	Executive acquires a right to substantial retirement income funded by employer dollars. Employer retains executive. If life insurance policy is transferred to executive, taxable event occurs, but tax-advantaged income and flexible income distributions are possible, and death benefit is income tax-free.	Executive acquires a cash value life insurance policy with minimal current compensation impact until plan termination. Growth in policy can be tax-deferred or income tax-free, and death benefit is income tax-free. Executive feels rewarded and employer improves retention.	Simplicity of design, no administrative fees, and avoids scope of 457 and 409A. Employer-paid, with death benefit fully available to executive. Employee access to cash values can be restricted during a required service period. Tax deferred growth and distribution flexibility. Executive is positioned for tax-free retirement income.

Plan design (continued)	----------------Non-governmental---------------- Principal® Deferred Compensation – 457(b) (eligible 457(b) plan)*	Principal® Deferred Compensation – 457(f) (ineligible 457(f) plan)	Principal® Deferred Compensation – Select Reward (Tax Exempt)	Principal® Loan Split Dollar	Principal® Bonus (Tax Exempt) (double bonus design)
Portability	Vested account values may be transferred only to another 457(b) plan at new employer per I.R.C. 457(e)(10). May not be rolled over to an IRA or qualified plan.	Plan is with current employer and isn't portable.	No portability if executive leaves prior to meeting service requirement. A paid-up life insurance policy transferred to executive at the end of the service period would be portable.	Completely portable, but when employment terminates, executive is responsible for future premium payments, and loan generally becomes due.	Completely portable, but once executive leaves, executive is responsible for future premium payments. Executive may be required by a separate agreement to repay premiums paid by employer.
Payout flexibility	Plan may allow for lump-sum or installment payout. Executive may change payout of benefits one time prior to retirement.	Generally, distribution method is agreed upon at enrollment in the plan. Payouts are at a specific age, specific dates, or both.	Payout upon completion of service period must be in the form of a lump sum and must be paid in a timely manner. Our plan requires payment in 30 days following vesting.	Retirement benefits in the form of distributions from the policy are very flexible as to time frame and amount, based on loan repayment amount and what policy values will support.	Retirement benefits in the form of distributions from the life policy are very flexible as to time frame and amount, based on what the policy values will support.
Loans	Not available.	Not available.	Not available.	Executive owns asset, but access to plan values may be limited until the plan is terminated and loan is repaid. Subsequent to plan termination and loan repayment, executive has full access to plan loans.	Executive owns asset, so access to plan values are within executive's discretion, unless there's a restriction on the policy.
Impact of plan termination	Benefits paid out and subject to tax, unless distribution is eligible to be rolled over to another 457(b) plan.	Depends upon the plan and how the plan is terminated. May create taxable income to the executive.	Depending upon circumstances, executive may be eligible for a taxable, pro-rata, lump-sum payment.	Employee owns policy and can continue paying premiums, but employer loan generally must be repaid.	Employer stops paying bonus to executive. Executive may have to repay premiums. Executive, as owner of the policy, is responsible for keeping the policy in force.
Cost recovery	Tax-exempt entities usually informally finance with employer-owned investments where there's no cost recovery.	Tax-exempt entities usually informally finance with employer-owned investments where there's no cost recovery.	Employer may choose to retain policy and use death benefit for cost recovery purposes, or may purchase a second low-premium death benefit policy for cost recovery purposes.	Repayment of loan by executive provides cost recovery to employer.	No cost recovery, unless executive agrees in writing, or if employer funds with a second, affordable policy.

Plan design (continued)	----------------Non-governmental---------------- Principal® Deferred Compensation – 457(b) (eligible 457(b) plan)*	Principal® Deferred Compensation – 457(f) (ineligible 457(f) plan)	Principal® Deferred Compensation – Select Reward (Tax Exempt)	Principal® Loan Split Dollar	Principal® Bonus (Tax Exempt) (double bonus design)
Ability to tie executive to organization (vesting)	Employee and employer contributions are always 100% vested. Employer contributions can encourage executive to stay with the organization.	Employer contributions provide a strong tie to the employer. Payout and vesting may be structured at a retirement date or specific dates (laddering).	Very effective as golden handcuff. Payout occurs only upon completion of service period or for termination by employer without good cause. In order to meet 409A short-term deferral criteria, no graded vesting can be offered.	Very effective as golden handcuff because employee owns policy. Requirement that loan be repaid provides executive a reason to stay until cash values can support both loan repayment and the availability of supplemental retirement benefit.	A written bonus agreement, potentially with a restrictive endorsement, can be used to give the executive an incentive to stay. Access to cash values can be restricted until executive meets a service requirement. If executive leaves early, a separate agreement could also require repayment of premiums.
Funding					
Funding source	Employer dollars or executive dollars if a salary reduction plan design is used to finance the plan. Maximum is lesser of 100% of pay or $23,000 (for 2024). Executive and employer contributions are combined for annual limit.	Employer dollars are used to finance the plan.	Funded exclusively with employer dollars. Premiums typically end at payout.	Employer dollars are loaned to the executive, subject to loan repayment in the future. Employer may decide at a later date to forgive the loan.	In most cases, all employer dollars. Employer's payment of premiums ends at retirement.
Owner of plan assets	Tax-exempt organization	Tax-exempt organization	Tax-exempt organization	Executive	Executive
Eligible for “catch-up” contributions	For three years prior to normal retirement, special rules apply to non-governmental plans. Different catch-up provisions apply to governmental plans.	Not eligible	Not applicable	Not applicable, but employer or executive could add contributions to the life policy that are outside the scope of the loan arrangement.	Not eligible, but lots of flexibility to change or modify premium contributions.

Taxation	----------------Non-governmental---------------- Principal® Deferred Compensation – 457(b) (eligible 457(b) plan)*	Principal® Deferred Compensation – 457(f) (ineligible 457(f) plan)	Principal® Deferred Compensation – Select Reward (Tax Exempt)	Principal® Loan Split Dollar	Principal® Bonus (Tax Exempt) (double bonus design)
Pre-and post-retirement employer taxation	Generally a tax-neutral event, due to tax-exempt status of not-for-profit organizations, but a 21% excise tax may apply to compensation exceeding $1 million, and to certain excess parachute payments.	Generally a tax-neutral event, due to tax-exempt status of not-for-profit organizations, but a 21% excise tax may apply to compensation exceeding $1 million, and to certain excess parachute payments.	Generally a tax-neutral event, due to tax-exempt status of not-for-profit organizations, but a 21% excise tax may apply to compensation exceeding $1 million, and to certain excess parachute payments.	Generally, a tax-neutral event due to tax-exempt status of not-for-profit organization, but if the loan is later forgiven, a 21% excise tax may apply to compensation exceeding $1 million, and to certain excess parachute payments.	Generally a tax-neutral event, due to tax-exempt status of not-for-profit organizations, but a 21% excise tax may apply to compensation exceeding $1 million, and to certain excess parachute payments.
Pre-retirement executive taxation	Generally, the only pre-retirement tax impact to the executive is decreased taxes due to salary deferrals. Employment taxes will need to be paid.	No taxable income to executive prior to payout.	No taxable income to executive prior to payout. Executive deferrals are not available.	Minimal, because executive taxation is based on interest rate due on the loan (or imputed to the executive). Minimum interest rate is based on the Applicable Federal Rate.	If a double bonus plan, (employer pays premium and tax cost of the bonus) then no out-of-pocket income tax consequences to executive.
Post-retirement executive taxation	Distributions are taxed as income is received; note that required minimum distribution rules apply. Minimum distributions are required after age 72 (73 for individuals reaching age 72 after December 31, 2022).	All amounts due are taxable as ordinary income when they become vested, even if the EE is still employed; consequently, these plans are usually designed to vest at retirement.	Lump sum bonus is taxable as compensation to executive when paid. If life policy is transferred to executive, the fair market value of it is taxable, and establishes executive's cost basis for future distribution purposes. Partial surrenders up to cost basis are tax-free and policy loans can be tax-free as long as policy remains in force.	If loan is repaid, executive has minimal income-tax impact. If loan is later forgiven, executive taxed on amount of forgiven loan, including any interest that was accrued.	None, since bonus payments end at or before retirement; executive may continue tax deferred growth of cash value, make tax-free partial withdrawals up to basis, and then use tax-free loans.
Estate tax impact	Account value or value of distributions due to executive are includable in estate and are also income in respect of a decedent to the beneficiary.	Value of vested payments due to executive are includable in estate and may be income in respect of a decedent to the recipient if not previously taxed to the executive prior to death.	Prior to meeting service period, not included in estate. Once benefit is paid, the remaining value, including the life insurance death benefit if the policy is transferred to the executive, would be part of the executive's estate.	Policy value and death benefit are includable in executive's estate if executive owns policy at death. Executive can minimize or eliminate estate tax by naming spouse or a charity as beneficiary.	Death benefits will be includable in executive's estate if executive owns policy at death. Executive may minimize or eliminate estate tax by naming spouse or a charity as beneficiary.

Miscellaneous	---------------Non-governmental--------------- Principal® Deferred Compensation – 457(b) (eligible 457(b) plan)*	Principal® Deferred Compensation – 457(f) (ineligible 457(f) plan)	Principal® Deferred Compensation – Select Reward (Tax Exempt)	Principal® Loan Split Dollar	Principal® Bonus (Tax Exempt) (double bonus design)
Administrative cost	A fee is usually charged.	A fee is usually charged.	No fees are charged.	No fees are charged.	No fees are charged.
Access to plan information	24/7 online access to plan information.	24/7 online access to plan information.	24/7 online access to policy values.	24/7 online access to policy values.	24/7 online access to policy values.
Creditor protection					
A) From employer's creditors	No	No	No	Yes	Yes
B) From executive's creditors	Depends on state law.	Prior to completion of service period, no access since benefits aren't vested.	Prior to completion of service period, no access since benefits aren't vested. If life insurance policy is transferred to executive, then depends on state law.	Depends on state law.	Depends on state law.

Regulatory	---------------Non-governmental--------------- Principal® Deferred Compensation – 457(b) (eligible 457(b) plan)*	Principal® Deferred Compensation – 457(f) (ineligible 457(f) plan)	Principal® Deferred Compensation – Select Reward (Tax Exempt)	Principal® Loan Split Dollar	Principal® Bonus (Tax Exempt) (double bonus design)
ERISA coverage	Not subject to ERISA if a governmental organization. Streamlined ERISA requirements are available for plans of nongovernmental organizations that limit participation to top hat employees and file a DOL top hat letter.	Not subject to ERISA if a governmental or church organization. Streamlined ERISA requirements are available for plans of nongovernmental organizations that limit participation to top hat employees and file an electronic Top Hat Plan statement.	Not subject to ERISA if a governmental or church organization. Streamlined ERISA requirements are available for plans of nongovernmental organizations that limit participation to top hat employees and file an electronic Top Hat Plan statement. Non-top hat employees can be covered under limited circumstances, but will trigger additional ERISA requirements.	Not subject to ERISA if a governmental or church organization. Streamlined ERISA requirements are available for plans of nongovernmental organizations that limit participation to top hat employees and file an electronic Top Hat Plan statement. Non-top hat employees can be covered, but may trigger additional ERISA requirements.	May be exempt from ERISA if bonus or cash compensation plan without vesting/payback provisions, or not directly providing a death benefit.

Regulatory (continued)	---------------Non-governmental--------------- Principal® Deferred Compensation – 457(b) (eligible 457(b) plan)*	Principal® Deferred Compensation – 457(f) (ineligible 457(f) plan)	Principal® Deferred Compensation – Select Reward (Tax Exempt)	Principal® Loan Split Dollar	Principal® Bonus (Tax Exempt) (double bonus design)
Generally subject to IRC Section 409A and IRS Notice 2005-1	No	No, if vesting occurs on a payout event.	Yes, but plan is designed to qualify for the shortterm deferral exception to the definition of deferred compensation found in the 409A final regulations.	No	No
Subject to IRC Section 457	Yes	Yes	Yes	No	No
Subject to IRC Section 101(j)	If filing a 990-T Exempt Organization Business Income Tax return, life insurance owned by the organization may be subject to IRC 101(j).	If filing a 990-T Exempt Organization Business Income Tax return, life insurance owned by the organization may be subject to IRC 101(j).	If filing a 990-T Exempt Organization Business Income Tax return, life insurance owned by the organization may be subject to IRC 101(j).	If filing a 990-T Exempt Organization Business Income Tax Return, life insurance owned by the organization may be subject to IRC 101(j).	No
Plan-level government reporting	Within 120 days of plan's effective date, a Top Hat Plan Statement must be filed electronically through the DOL website (easily found through an online search for Top Hat Statement/U.S. Department of Labor). Otherwise, Form 5500 reporting may be necessary.	Within 120 days of plan's effective date, a Top Hat Plan Statement through the DOL website (easily found through an online search for Top Hat Statement/U.S. Department of Labor). Otherwise, Form 5500 reporting may be necessary.	Within 120 days of plan's effective date, a plan covering only top hat employees must electronically file a Top Hat Plan Statement through the DOL website (easily found through an online search for Top Hat Statement/U.S. Department of Labor). Otherwise, Form 5500 reporting may be necessary.	Within 120 days of plan's effective date, a plan covering only top hat employees must electronically file a Top Hat Plan Statement through the DOL website (easily found through an online search for Top Hat Statement/U.S. Department of Labor). Otherwise, Form 5500 reporting may be necessary.	No

Let's connect

Call the Business and Advanced Solutions hotline today at 833-803-8345 or visit **advisors.principal.com**.

* In this document, the term "eligible 457(b) plan" refers only to non-governmental 457(b) plans. Special rules apply to 457(b) governmental plans and are not incorporated into this document.