Principal®

Nonqualified deferred compensation plans

# Talking about deferred comp just got easier.



Sure, you know all the ways Principal® nonqualified deferred compensation plans can benefit employers and their key employees. But making the case to prospects and clients isn't always easy. Use these talking points to help guide your discussions—and make the most of your sales opportunities!

## New plan opportunities

Discuss these questions and considerations with employers who don't have a deferred comp plan in place.

**Q How well is your retirement strategy working for key employees?**

You devote a lot of time and resources to establishing retirement savings options for all employees. But it's important to provide options tailored to the unique needs of key employees. A key employee is someone whose loss would:

- Impact your ability to develop and execute your organization's strategy and deliver results.
- Result in significant recovery time for your organization.

**Q What challenges do you face involving your key employees?**

Employers often face a variety of key employee-related challenges, such as:

- **Finding and keeping top talent,** particularly in a strong economy.
- **Motivating key employees** to continue performing at a high level and meeting goals.
- **Helping them save enough for retirement** beyond limitations on retirement plan and Social Security contributions.

Deferred comp plans can help address these issues.

## What's a deferred comp plan?

A deferred comp plan is an employer-sponsored benefit for the key employees you choose. It's basically an agreement between you and your key employees.

Those who participate defer a portion of their annual compensation into the plan before taxes. And you promise to distribute that money, plus any earnings and additional employer contributions, to them at a future time.

It can help your key employees save beyond 401(k) plan limitations to help meet their retirement and other savings goals. In addition, they can use it to help manage the impact of taxes using the plan's flexibility for when benefits are paid.

## How can a deferred comp plan fill a potential retirement income gap for key employees?

The idea that highly compensated employees might face retirement-saving challenges may seem puzzling. But their ability to save enough is affected by:

- The cap on Social Security benefits, which limits the amount of earnings subject to taxation for a given year.
- Maximum annual deferral limits for 401(k) plans.
- Declining availability of traditional pension plans.

Deferred comp can help close this gap.

## What flexibility is there in the design of a deferred comp plan? How does that apply to your organization and participants?

A deferred comp plan provider—working together with your financial professional—can design a plan to help meet a variety of objectives, including:

- **Complement existing retirement plans.** Help your key employees save beyond what a 401(k) plan allows to help meet retirement and other savings goals.
- **Improve retention and loyalty.** You have the flexibility to implement a plan design that customizes employer contributions (subject to limits). You can use these contributions to provide incentives and rewards that help with employee retention.
- **Reward your key employees.** Drive both organizational and personal performance through incentive-based contributions.

## How do deferred comp plans benefit your organization and key employees?

Deferred comp plans can provide several benefits to your organization, including:

- **Increased morale.** Top employees value this benefit, and it may increase their loyalty and motivation.
- **Employee incentives.** You can leverage optional employer contributions to retain and reward select key employees.
- **A tax deduction.** The money that accumulates to finance the plan remains an asset on the balance sheet until benefits are paid and the company receives a tax deduction.[1]
- **Simplified reporting.** The plan doesn't require nondiscrimination plan testing, minimum participation, or Form 5500 filing if set up properly.

Participants also benefit in the following ways:

- **More ways to save.** They can take advantage of pre-tax deferrals, tax-deferred growth, and compounded earnings.
- **Variety of investment options.** Participants can design their investment strategy.
- **Control over deferrals.** Participants can decide how much to defer into the plan the year prior to earning the income. Then, they can choose how and when benefits are paid.

## What should you and your key employees take into consideration?

Here are some things to be aware of:

- **Pay service fees/charge.** There are fees for plan administrative services, and there could be a charge to earnings on assets purchased to finance the plan.
- **Limited protection.** This plan is unfunded and doesn't provide the same protection as a 401(k) plan.
- **Potential penalties.** If the company doesn't comply with IRS rules, participants could face taxes and penalties.

**Q What options are there for financing the plan?**

A deferred comp plan is an agreement between you and your key employees.

Participants defer a portion of their compensation into the plan before taxes, and you promise to pay them that money, plus any potential earnings, in the future. Since the plan is technically an unfunded contractual obligation, it's important to consider how you'll pay the benefit.

To do this, your organization has options. The one that's best for you depends on your organization's financial situation. With all of the options, there's an employer tax deduction when the benefits are paid.

- **Company cash.** This is essentially leaving the plan "unfinanced," since there are no specific plan assets set aside. Instead, benefits are paid through the company's cash flow. It's the simplest option and offers the added benefit of providing cash to help grow the company. But because there's no asset set aside to pay benefits, there's liquidity risk for participants, and the company is liable to pay the benefit regardless of earnings.
- **Corporate-owned taxable investments.** The company typically invests in mutual funds with an allocation similar to the reference investments offered to plan participants. The benefits include a variety of investment options and a direct link of earnings on assets to plan liabilities. However, there may be higher cash flow needed to pay tax on potential earnings, and additional transaction accounting and recordkeeping is required.
- **Corporate-owned life insurance (COLI).** The company purchases a life insurance policy to pay future obligations. The upside of this option includes earnings that accumulate tax-deferred, tax-free distributions[2], and tax-free life insurance death proceeds.[3] But policy charges and the underwriting process should be taken into consideration.

## Existing plan opportunities

Clients with existing deferred comp plans offer good opportunities. They've already shown a commitment to these solutions, but they may be experiencing pain points with their current providers.

**Q If your organization already has a plan, what would you look for in a new service provider?**

An experienced, knowledgeable provider that specializes in deferred comp can help enhance the value of these benefits. Here are some things to consider when evaluating your provider:

- **Plan design.** How satisfied are you with your plan's features?
- **Financing options.** Is your plan properly financed for the long term? Can you choose from multiple financing options or dual financing?
- **Administrative services.** How well is your current plan serving you and your key employees?
- **Key employee benefits expertise.** Does your provider have experience with employers of all sizes and types, and knowledge of the business and retirement plan markets?
- **Investment options.** Does your provider offer a wide range of investment options, allowing participants to choose from multiple money managers and fund families?
- **Total package of services.** Can your current provider offer expertise in plan design, financing, support, and administrative services—all in one place without third parties? Can they integrate all your retirement programs into one streamlined strategy?

**Q What's needed to review an existing plan?**

To develop a proposal, a provider will generally need the following information about your current plan:

- **To complete an initial plan review—**plan documents, trust (if applicable), adoption agreement, total plan assets and liabilities, asset information, sample employer and employee statements
- **To prepare a financial model—**plan design specifications and organization financial assumptions, asset/liabilities information, and a complete census of participants
- **To develop an investment strategy—**existing investment lineups for organization-owned asset and liability

# Why Principal

For over 25 years, we've committed specialized resources to our nonqualified business. These talking points will help you distinguish Principal from other deferred comp plan providers.

## Q Why are our deferred comp plans integrated as part of Principal® Total Retirement Solutions?

Our deferred comp plan services are one of the five cornerstones of Principal Total Retirement Solutions. We integrate these with qualified retirement plan services to deliver one streamlined, cohesive program.

- **Your single source.** Our holistic approach means you can count on one provider and one platform for a variety of retirement services—including plan design, recordkeeping, participant experience, investment choices, and plan compliance.
- **Solutions for a variety of needs.** We can accommodate virtually any retirement plan arrangement for various employee ranks and an array of plan designs.

## Q What benefits can your organization gain from a deferred comp plan integrated into Principal Total Retirement Solutions?

Employers like you are increasingly pursuing a total retirement solutions approach. Why? Using the same provider for multiple retirement plans can save time and money. In fact, research shows that, depending on the type of plan, sponsors with multiple recordkeepers reduced their time spent by 17-50% by switching to a single recordkeeper.[4]

Principal Total Retirement Solutions streamlines plan administration for you by:

- Providing a single point of contact.
- Eliminating duplicate submissions to multiple providers.

For participants, it shows the big picture and provides a simpler experience through:

- Combined statements.
- One website for account information.
- Integrated education.

In addition to fewer administrative headaches, you may also enjoy higher employee salary deferral rates and account balances.

## Q What are the advantages of choosing a deferred comp solution from Principal?

Principal has been providing nonqualified plans for more than 25 years, and we have more than 75 years of retirement plan experience. We're the No. 1 provider of nonqualified deferred compensation plans[5] and a leading provider of defined contribution plans[6].

What sets us apart from others is our:

- Knowledge of the business and retirement plan markets.
- Experience with employers of all sizes and types.
- Innovative design and flexibility to tailor the plan to specific needs.
- Personal consultation that focuses first on the right plan design, and then the financing to support it.
- Specialized team of legal, accounting, and financing resources.
- Experienced service specialists available to help throughout the life of the plan.
- Financial strength of a FORTUNE 500® company that provides a wide range of insurance and financial products and services to individual, business, and institutional clients.

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[1] For taxable corporations.

[2] Subject to contract limitations/charges.

[3] Subject to rules regarding selection of insureds and consent requirements.

[4] 2021 NMG Consulting Multi-plan Recordkeeping Survey, commissioned by Principal.

[5] Based on total number of nonqualified deferred compensation plans (excluding 457 plans), *PLANSPONSOR* 2021 NQDC Recordkeeping Survey, July 2021.

[6] Based on number of recordkeeping plans, *PLANSPONSOR* Recordkeeping Survey, July 2021.