OVERVIEW | Principal® Deferred Compensation - Defined Benefit plan

Keep your key employees loyal and motivated

An additional reward for them brings loyalty and stability to you.

Finding the right top employees to help you run your business is important—but keeping them for the long term is a priority. Their leadership and expertise are valuable to you, so how can you keep them loyal by offering something of value to them?

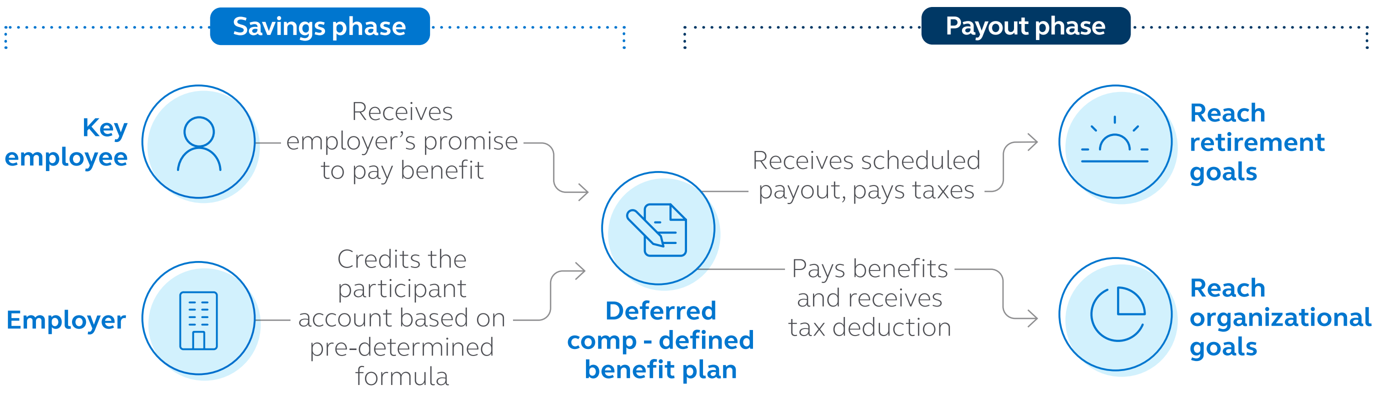
A nonqualified defined benefit plan, a type of deferred compensation plan, is an employer-sponsored reward—a smart solution for you and your key employees. It provides an additional incentive that helps your key employees prepare for retirement, while giving you a leg up in recruiting and retaining them for the long term.

Here's how it works

This deferred comp plan is a type of retirement vehicle you provide to the key employees you select with a specific pre-determined benefit in mind. And you promise to pay that money to them at a future date.

How you informally finance your plan can help you do just that—whether with corporate-owned life insurance or taxable investments, or company cash flow.

The chart below shows how money is credited to the deferred comp plan and paid out at a later date. It also points out that when the benefit is distributed to the key employee, the employer receives an income-tax deduction and the key employee pays income tax on it.



What you need to know

There are many advantages to this plan, just as there are some things to consider.

For your organization

Increase morale. Top employees value this benefit, and it helps them remain loyal and motivated.

Leverage incentives. Design benefit structure to recruit, retain, or reward select key employees.

Receive 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]

Invest in the employee. The company takes an investment risk by promising to pay a defined benefit to the key employee.

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.

For your key employees

Decide when. Enjoy the flexibility to choose when benefits are paid.

Receive employer bonus. The employer pays the entire benefit—the key employee isn't required to make any contribution, so there's no investment risk to the employee.

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.

Help your key employees save additional dollars for the future with a deferred comp plan from Principal®. It's a great way to tie them to your business, while helping to meet organizational goals.

Learn more Contact your financial professional today. Visit principal.com.

[1] For taxable corporations.

[2] Contributions to the plan are subject to FICA when benefits vest. Plan participant deferrals may not be deductible in all states. Distributions are taxable to participants upon receipt.

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