Deferred Compensation Plan for Tax-Exempt Organizations

Tax-exempt organizations compete with their for-profit counterparts for talented employees to fill roles such as managers, administrators and fundraisers. These organizations could be overlooking an incentive that may help them attract and retain key personnel — **Non-Qualified Deferred Compensation**. And, life insurance can be an important ingredient in an effective **Non-Qualified Deferred Compensation** plan.

Non-Qualified Deferred Compensation: What Is It?

Internal Revenue Code section 457 allows Tax-exempt Organizations to use two different types of non-qualified deferred compensation arrangements. One type is called an "eligible" plan and the other is called an "ineligible" plan. Both provide significant benefits.

An eligible 457(b) plan allows deferrals, but the 2019 deferrals are limited to the lesser of $19,000 (plus an additional $6,000 catch-up amount for participants age 50 and older) or 100 percent of includable compensation.

This type of plan is available for a select group of management or highly compensated employees of a tax-exempt organization. The participating employee is taxed when benefits are actually paid or otherwise made available, and plan benefits are not subject to forfeiture. The earliest that plan distributions can be made is at separation from service, death, an "unforeseeable emergency," or in the year the employee attains age 70½.

"Ineligible" plans, governed by IRC §457(f), are not required to comply with the deferral limits of §457(b). However, in order to achieve tax deferral, deferred compensation benefits payable under §457(f) ineligible plans must be subject to a substantial risk of forfeiture, i.e., losing all or a portion of the benefits otherwise payable under the plan. Ineligible plans may result in the taxation of all deferred income in the year of retirement, so these plans should be implemented with the advice of compensation plan specialists and counsel.

Which works better for you?

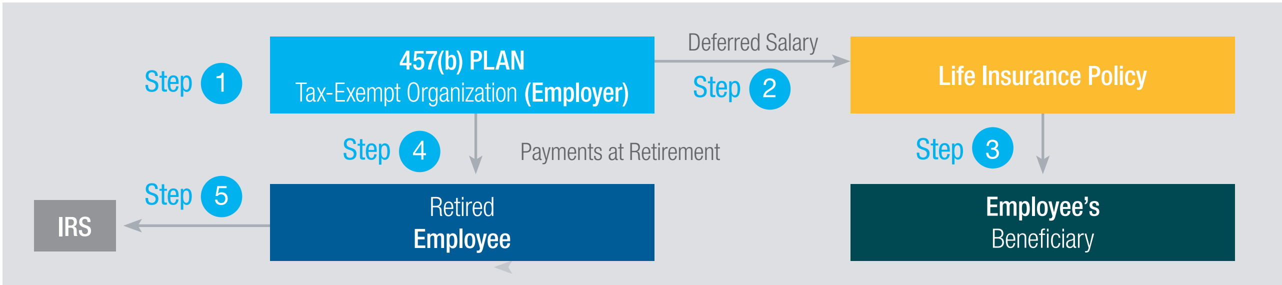
Both are excellent plans but differ as to amounts that can be put into each and when distributions must be made. The employer enjoys total flexibility in selecting the most appropriate plan.

The attorney drafting the agreement for the organization will need to be sure that the agreement conforms to the IRC §409a.

The employer and executive enter into an agreement where the employer promises to pay the executive a lump sum at the end of the specified period, or a specific annual income beginning at retirement and ending after a fixed period of time or when the executive dies. The policy is typically informally funded with an annuity or life insurance contract owned by the employer.

Additional information on next page.

HOW IT WORKS



Step 1	Employer buys life insurance policy to fund 457(b) Plan with deferred salary of employee
Step 2	Employer pays deferred salary for insurance policy premiums
Step 3	Pre-retirement survivor death benefit to employee's surviving spouse or heirs
Step 4	Employer funds retirement benefit via access to policy cash values
Step 5	Pre-retirement survivor benefits/post-retirement benefits are taxable

Tailoring the Plan

The plan can be tailored to the needs of the employer and the executive. For example, the employer may require that the executive reach a specific number of years of service, or performance benchmark, in order to be eligible.

Benefits

- Deferred income is currently not taxable to the executive
- Flexible and selective
- Employer has enhanced ability to attract and retain talented personnel
- Executive gets supplemental retirement income

Contact your Financial Professional to find out how to implement this recruitment and retention strategy in your organization.

[1] Benefits must conform to IRC §409A and applicable Treasury Regulations, as well as any applicable rules regarding employer-owned life insurance.

In order to avoid adverse income tax consequences to the business, an Employer-Owned Life Insurance Notice and Consent must be completed before issuance of the policy pursuant to IRC Section 101(j), and the employer must file annually thereafter IRS Form 8925 with the Service.

Life insurance is issued by Protective Life Insurance Company, Birmingham, AL.

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No Bank or Credit Union Guarantee	Not FDIC/NCUA Insured	May Lose Value

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