Non-Qualified Deferred Compensation Plans

The increasing costs and complexities of qualified retirement plans have caused many small business owners to seek alternatives for company sponsored retirement programs. One of today's most exciting executive benefits is **Non-Qualified Deferred Compensation**.

Many businesses want to cover highly compensated employees, but qualified plans involve the complexity of ERISA rules and the fear of over-funding and discrimination testing. Deferred Compensation arrangements provide business owners with the kind of flexibility that is often unavailable in qualified plans.

Providing additional benefits to selected employees supports the objectives of both executives and businesses. Using employer-owned life insurance, these plans permit highly compensated or key management employees to have an informally funded arrangement over and above qualified plan limits. From the perspective of business owners, these plans are an effective tool to recruit, retain and reward the key people in their business organization.

With employer-owned permanent insurance, your business can implement a **Non-Qualified Deferred Compensation Plan** while realizing tax advantages and a higher degree of control.

Types of Non-qualified Deferred Compensation Plans

These plans may be elective or non-elective. It is helpful to understand their features and differences:

- *Salary Reduction Plan (also known as "Pure" or "True" Deferral) – With elective deferral plans, the plan design is typically a defined contribution, where the employee agrees to defer receipt of some portion of his/her current compensation—a specified percentage or an amount designed to meet a "target" retirement benefit.*

See reverse side for important information

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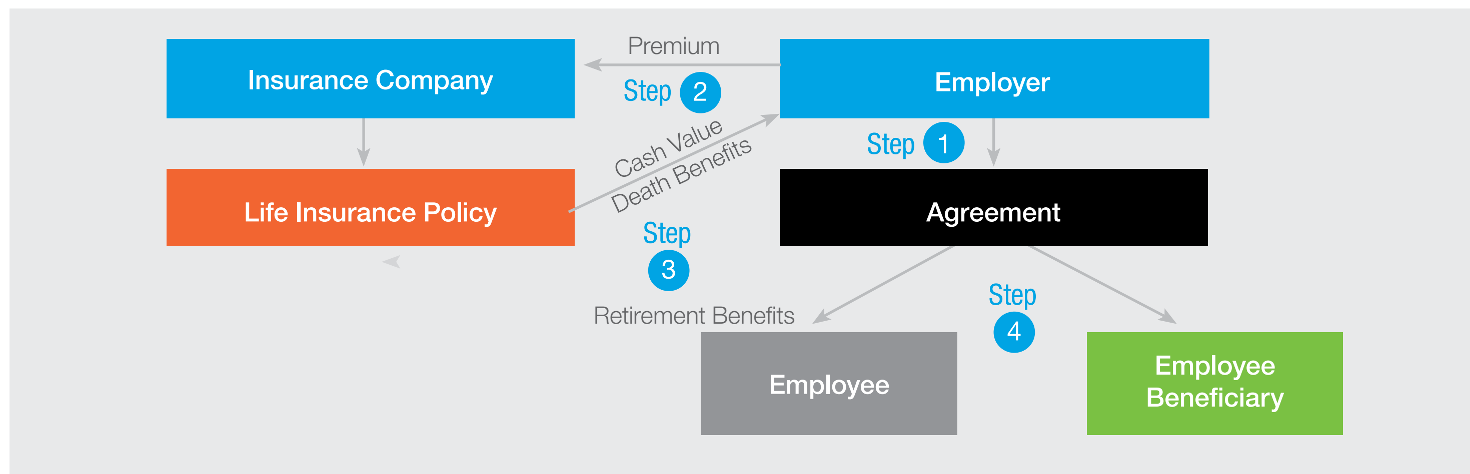
- *Supplemental Executive Retirement Plan (SERP) – These are unfunded salary continuation plans, sponsored and paid for by the employer, to provide supplemental retirement income for a select group of management or highly compensated employees, above and beyond current compensation. When used with a vesting schedule, this plan can provide "golden handcuffs" to retain key employees.*
- *401(k) "Mirror" Plan – This plan allows key executives to voluntarily defer their compensation on a tax-deferred basis with employer matching contributions.*

How it Works.



Step 1	A written agreement is established between employer and executive. A vesting schedule may tie benefits to years of service.
Step 2	Life insurance is used as a tool to finance an employer's promise under a Non-Qualified Deferred Compensation plan. To offset future liability, the employer purchases a life insurance policy on the executive. The employer is the applicant, owner, premium payer, and beneficiary of a life insurance policy on each covered employee under the plan. Policy cash values grow on a tax deferred basis.[1]
Step 3	Tax-advantaged benefits are paid by the insurance company to the employer upon the retirement or death of the executive. The Employer can access policy cash values to informally fund all or some of the deferred benefits on a tax-advantaged basis through withdrawals to basis and then policy loans.
Step 4	Employer premium payments as plan contributions are before tax to the employee. Retirement plan benefits are deductible to the employer and income taxable to either the executive or the executive's beneficiary upon retirement or death.

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.

[1] Benefits must conform to the requirements of IRC Section 409A and applicable Treasury Regulations, and may be subject to the Alternative Minimum Tax. 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 §101(j), and the employer must file annually thereafter IRS Form 8925 with the Service.

For more information, contact
your Financial Representative.

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No Bank Guarantee	Not FDIC Insured	May Lose Value