

# Plan designs that drive business success

Strategies behind the plan's  
primary uses



# A versatile tool that helps enhance your benefits package, and so much more

A nonqualified deferred compensation plan gives you options and flexibility to drive progress toward many types of organizational goals and strategies that impact your success.

First, take a look at the primary business needs that many plan sponsors want to solve. Then keep reading to see how the flexibility in plan design can be used to implement a deferred comp solution tailored to your specific business drivers and strategies.

## Primary business needs



### Help key employees save more

Qualified plans are a great start in saving for retirement, but they have limits and coverage testing requirements that cause problems for highly compensated employees. They don't allow them to defer the same percentage of income as other employees, limit incentive choices and flexibility, contribute to 401(k) participation testing, and possibly even result in contribution refunds. A deferred comp solution offers a supplemental savings approach.



### Give key employees more control over the timing of benefit payments (and taxes)

For high earners or those with fluctuating income, their tax rate is an important component in their financial planning. With more control over when they get paid, they could manage taxation timing, save for big moments and be more strategic to meet retirement and other savings goals.



### Support efforts to recruit, reward, retain and help key employees retire

To attract, keep and reward key employees, sometimes you need something more than your competitive benefits package. Having a flexible component can help ensure your top talent remains committed to you — and not the competition.



### Imitate employee ownership and transition platforms

It's easy to envy the vested interest achieved with formal employee ownership scenarios. But that isn't always the best option. Imitating shares for purchase or an insider transition plan can create an ownership experience without dilution or premature decisions.

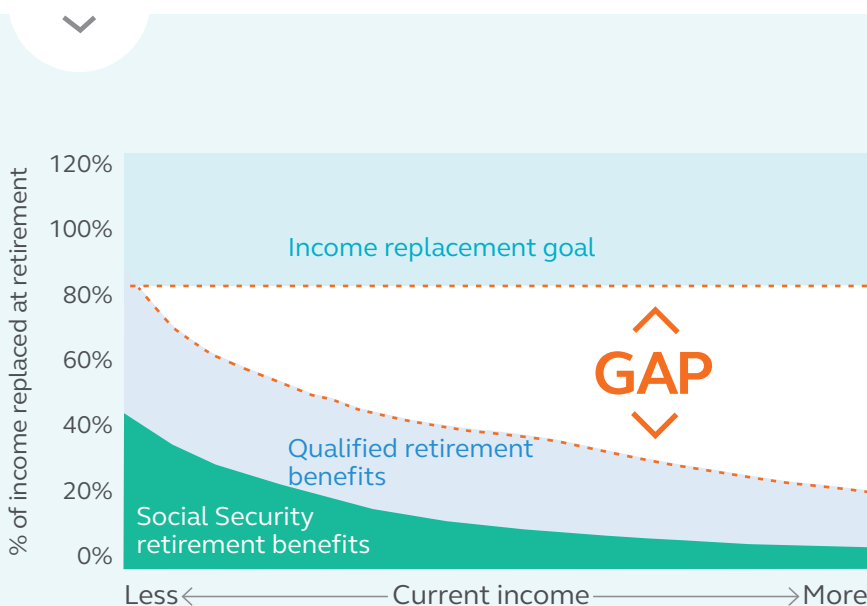
Let's take a look at how a deferred comp plan could be designed to address these four primary business needs.



## Bridge employee's retirement gap

Deferred comp plans offer a secondary pre-tax savings account that can be used to bridge the retirement savings gap that often burdens highly-compensated employees. Not only can participants set aside more income for retirement, but this plan gives you another way to reward them, too. If your contributions are held back by qualified plan limits or risk of failing non-discrimination and coverage testing, you can contribute additional savings to a deferred comp plan.

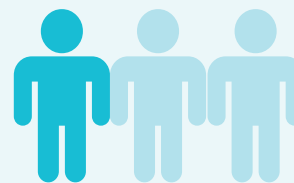
Customize your plan by setting deferral limits (if any), employer contribution amounts and vesting schedules to fit your need. You can also do this for various participant tiers. You ultimately choose who to reward and how much, without worrying about the testing and compliance concerns that come with qualified plans.



This information is from the Principal Financial Group® Replacement Ratio Calculator with source information from the Annual Statistical Supplements to the Social Security Bulletin ([www.ssa.gov](http://www.ssa.gov)). It is intended to demonstrate the potential impact of Social Security and 401(k) plan benefits at various income levels. For more information on your individual circumstances, please speak with your financial or tax professional.  
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**Expected retirement income by deferred comp plan participants**

**1/3** of plan participants



Provide **10-24%** or more<sup>1</sup>

<sup>1</sup> 2018 Principal Trends in Nonqualified Deferred Compensation report.



# Manage the timing of income and taxes

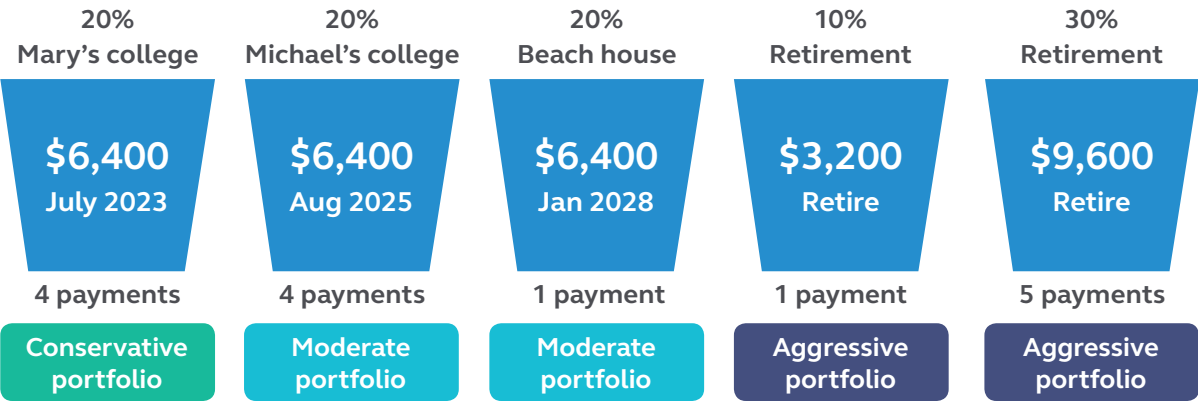
Deferred comp plans can be designed to give employees more strategic control over when their benefits are paid to meet their objectives and timing needs. And since taxes are due when benefits are received, they also have some control over taxation timing.

This flexibility gives them a plan that better fits their financial goals. You can set parameters around options like multiple savings accounts, getting paid while still working or in retirement, lump sum or installment payments, delaying payouts, and investment risk — all at the individual account level.

As shown in the example scenario below, this kind of flexibility in plan design could allow participants to:

- > Coordinate with other retirement income sources
- > Lower overall tax rates
- > Fund life’s big events

Income and deferral elections	Objectives	Tax strategy
<ul style="list-style-type: none"><li>• 10% of \$120,000 base pay (\$12,000)</li><li>• 50% of \$40,000 bonus (\$20,000)</li><li>• Total: \$32,000</li></ul>	<ul style="list-style-type: none"><li>• Provide college money for two kids</li><li>• Purchase second home</li><li>• Build retirement</li></ul>	<ul style="list-style-type: none"><li>• Lower income when marginal tax rates might be higher</li><li>• Take distribution when effective tax rate might be lower</li></ul>



This is a hypothetical example to illustrate how multiple savings accounts work within a nonqualified deferred compensation plan. It is intended to be educational in nature and not intended to be taken as a recommendation.



## Recruit, retain, reward and retire key employees

Flexible options in deferred comp plans allow you to give back to your key employees, whose leadership and expertise are hard to match — and hard to find. This boost in your benefits package can even be flexible enough to cater to different stages of employee management, as well as the different ways your top talent is motivated.



### **Recruit**

Attract top talent via signing bonuses tied to tenure or performance.



### **Retain**

Influence tenure with structured bonuses that use vesting schedules.



### **Reward**

Drive both organizational and personal performance with incentive-based contributions to the plan.



### **Retire**

Restore company match benefits you're unable to make in qualified plans due to testing or compensation limits.

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If key employees are offered a unique benefit...it ties them to the company that much more.

– Dan Kowalczyk, retired business executive, nonqualified plan participant

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# Create an ownership experience

Deferred comp plans can be a valuable tool in mimicking an ownership experience without the formality that can get in the way of the value you want to capture. Plans can be designed to create a performance-driven shares scenario, a transition plan for successors or something else that suits your business needs.

### Performance-driven shares

Employers have the option of using employer contributions or phantom shares to incent employee performance. Similar to shares of stock, employers can customize contribution and vesting schedules measured by phantom stock values. With this compensation management strategy, the employee is given phantom shares that increase and decrease based on the valuation of the company, as shown in the example. But you aren't subject to the dilution that comes from actual equity grants. Or, employers can simply set up contributions based on company profitability.

### Transition planning

Give possible future owners of the company a way to purchase the business, without limiting your options. You can contribute to a potential future owner's account and establish the vesting and distribution to occur based on the sale of the company as shown in the example. If you're unsure how the sale will happen, that's ok. You can build in various circumstances.

Company	Formula
Contributes to plan or provides phantom stock shares to participating key employees	Number of phantom shares or contributions determined by annual gross profit
Value	Vesting
Declared by board annually	20% per year based on meeting goals

Sale of business	Vesting event	Vesting
Sale to insiders	Change in control	Account vests and distributes to executives and is used to execute purchase
Sale to outsiders	Set duration after the sale	Account vests and distributes to executives as reward for years of service
None	Retirement	Optional triggering event can be retirement



## So many options with widespread benefits

No matter what role a deferred comp plan plays in your overall strategy, it offers some universal benefits that both you and your employees can enjoy.

### **Benefits for your key employees:**

- Take advantage of pre-tax deferrals, tax-deferred growth and compounded earnings
- Defer up to 100%<sup>2</sup> of compensation to meet savings goals
- Design a personalized investment strategy
- Enjoy flexibility and take payouts from the plan without the same age restrictions as 401(k) plans

### **Benefits for you:**

- Make optional company contributions
- Restore 401(k) plan contributions limited by IRS testing
- Easily administer with no discrimination testing, minimum participation or Form 5500 filing, if set up properly by the employer

## **An industry leader in your corner**

Our history speaks for itself. We've been providing deferred comp plans for more than 25 years, and have over 75 years of retirement plan experience. We're the No. 1 provider of deferred comp plans<sup>3</sup> and a leading provider of defined contribution plans<sup>4</sup>.

<sup>2</sup> Employees can defer up to 100% of compensation, but plan sponsors typically permit deferrals of less than 100% due to other payroll deductions, such as FICA taxes and health insurance.

<sup>3</sup> Based on total number of Section 409A plans, PLANSPONSOR 2018 NQDC Recordkeeping Survey, June 2018.

<sup>4</sup> Based on number of recordkeeping plans, PLANSPONSOR Recordkeeping Survey, July 2018.



[principal.com](http://principal.com)



Information from Principal presented by:

**Casey Rouse, President**  
445 Lake Street E, Suite 200, Wayzata, MN  
55391  
952-297-1780 / [casey@rousesolutions.com](mailto:casey@rousesolutions.com)

Principal National Life Insurance Company and Principal Life Insurance Company, Des Moines, Iowa 50392-0001

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