

Help your organization get the most out of your deferred comp plan

Strategies for employer contributions



Take a look at the goals for your organization — it's the first step in designing an effective nonqualified deferred compensation plan. You can align those goals with your employer contributions to get the most out of your plan. Plus, plans can be designed as employer contribution only or an employer matching contribution.

Retention is a top priority for employers

Recruiting, retaining and rewarding key employees is key to the ongoing success of most organizations. A growing economy with a tight job market can expose organizations to a higher risk of losing key employees. And, one of the top 'hot button issues' identified by U.S. CEOs includes the companies' failure to attract and retain top talent¹. But well-designed employer contributions to your deferred comp plan can help address these concerns.



Common employer goals

As your organization thinks about discretionary employer contributions, prioritize the organizational needs your deferred comp plan should address. Here are some examples:



Retention — Making it appealing for key employees to stay with the organization by structuring bonuses (sometimes referred to as “golden handcuffs”) with vesting schedules.



Recruitment — Attracting key performers to the organization through signing bonuses tied to a fixed tenure period or business objectives.



Rewards — Driving both organizational and personal performance by offering meaningful incentive-based contributions to the plan.



Retirement — Supporting retirement readiness by restoring company match benefits not allowed in 401(k) plans due to ADP/ACP testing and/or compensation limits.

Deferred comp plans and vesting

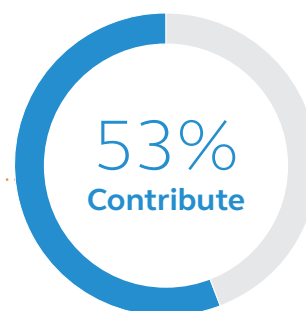
Because deferred comp plans aren't subject to ERISA coverage, anti-discrimination and vesting requirements, employers have more flexibility in addressing their organizational needs. Plus, plan sponsors have a lot of flexibility in terms of employer contribution formulas and vesting schedules.

Flexible vesting alternatives

Deferred comp plans use some of the same vesting schedules seen in 401(k) plan arrangements, like vesting based on years of service, age or a combination of both. Vesting may be applied as graded vesting or cliff vesting. But where deferred comp stands out is other vesting designs not available in 401(k) plans, like rolling vesting and longer-term vesting schedules used in golden handcuff arrangements.

Rolling vesting involves ongoing employer contributions with separate vesting schedules for each contribution. This allows participants to attain vesting milestones more frequently and helps with retention by keeping the participant motivated to achieve that next vesting milestone.

Employer contributions into the plan

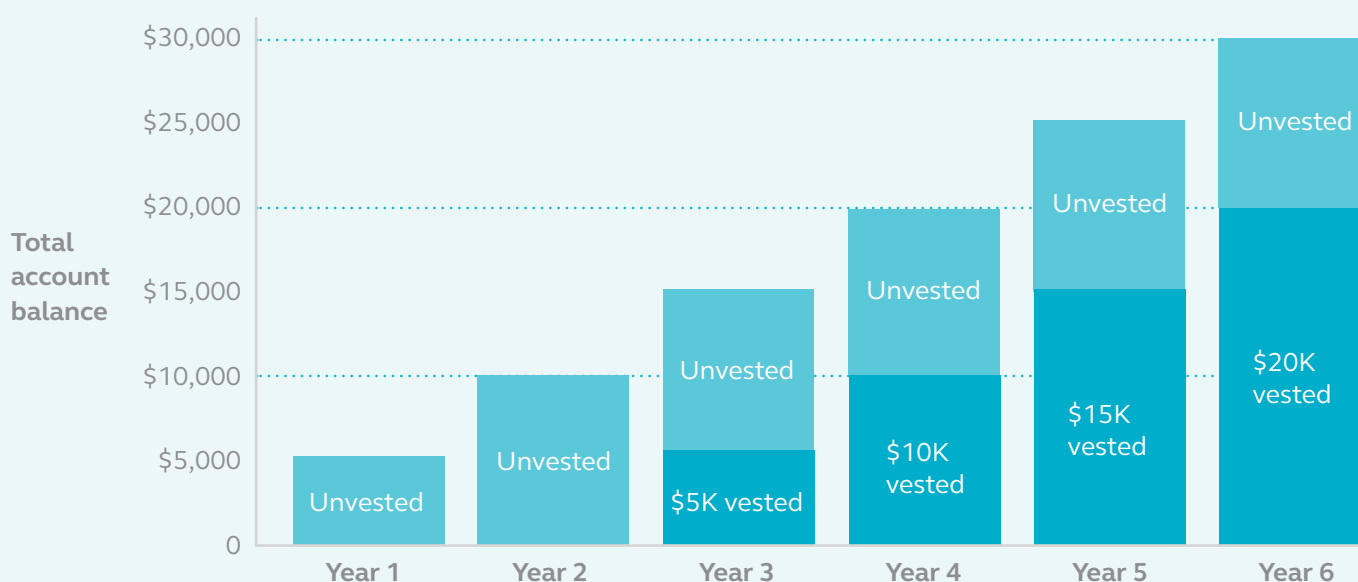


Primary reasons for employer contributions

- 41% Retain key employees
- 40% Restore lost 401 (k) match
- 10% Achieve organizational goals
- 9% Other

Source: 2017 Trends in Nonqualified Deferred Compensation, conducted by Principal.

Rolling vesting schedule example



Assumptions: Employer makes a \$5,000 contribution each year, which is subject to a 3-year cliff vesting schedule. For illustrative purposes only to help demonstrate how a rolling vesting schedule works.

Combine coverage options and vesting methods

Employers can have different vesting schedules for different groups of plan participants. There can also be different vesting schedules for different groups of employees or types of employer contributions, and then have a rolling vesting schedule for incentive-based contributions.

The flexibility of combining employer contribution options and vesting methods allows you to offer enhanced benefits for key employees, and have more control over incentive compensation.

Here are some examples of popular schedules that our plan sponsors are implementing today:

1 | Incentivize/retain high potential key employees:

- Class year cliff vesting based on four years of plan participation.
- Credit of \$10,000 made in year one and vests in year five. The next credit made in year two vests in year six.

2 | Retirement of senior key employees:

- Account graded vesting of 100% in 10 years based on years of service with the company.
- Credits to account may occur as employee/company meets goals.

3 | Restore benefits not allowed in 401(k) plans by key employees due to compensation limits:

- Account vests on a relatively short schedule that may be similar to a 401(k) plan.
- May be vesting 100% in three years based on company years of service.

Deferred comp plans and existing benefit programs

Employer contributions in deferred comp plans are often an effective alternative to equity-based benefit options, such as stock options or restricted stock. Organizations have better control over costs by having the option — not the obligation — of making contributions if certain results or conditions are met. And, this can result in a neutral balance sheet for the employer.

Check out the table below to see some of the challenges that can come along with existing benefit programs.

Equity benefits	Phantom equity
Common methods include stock options or restricted stock.	Employer determines the value of phantom stock and pays participant benefits in cash with no voting or control rights in most plan designs.
Challenges: <ul style="list-style-type: none">• Dilution of ownership interests• A rigorous valuation process• Stock shares that must be sold by participants to translate into value	Challenges: <ul style="list-style-type: none">• Difficult for employer to explain price fluctuation due to changing market forecast or investments in business expansion• Potential balance sheet impact• FICA implications for participants

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 plans² and a leading provider of defined contribution plans³.

A member of the FORTUNE 500®, our employees are passionate about helping clients of all income and portfolio sizes achieve their goals. You can count on us to offer innovative ideas, investment expertise and real-life solutions to help make financial progress possible.

¹ The Conference Board of CEO Challenge 2017 survey.

² Based on total number of Section 409A plans and non-governmental 457 plans, PLANSPONSOR 2017 NQDC Recordkeeping Survey, June 2017.

³ Based on number of recordkeeping plans, PLANSPONSOR Recordkeeping Survey, June 2016.



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