



Trends in Nonqualified Deferred Compensation

2018 research results,
published March 2019

Insight from the view of employers and their key employees

11th annual nonqualified deferred compensation plan study conducted by Principal®

The latest research results provide timely statistics and trends on deferred comp plans from the view of both plan sponsors and participants.



This report can help you benchmark against your peers and gain valuable insights. Here’s what you’ll find:

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Key findings in this year's study

What employers said



Competitive benefits are key.

As we've seen with previous years, there's a battle for key talent in this tight job market.

Employers are increasingly

more concerned about attracting and retaining key employees, and are seeing the plan as a very valuable recruiting and retention tool. And, the number of employers that see deferred comp as a way to provide a competitive benefits package has gone up by 14 percentage points since 2015.

Making plan changes are less important.

Compared to past years, employers are less likely to make changes to their plans. But for those looking to make changes, offering different investment options and expanding the number of eligible employees are on top of the list.

The role of the financial professional is still valued.

New findings give insight on the role of the financial professional and where their value is needed most. Employers said they want to rely on them most for information on regulatory changes and initial plan set up.

Attitudes toward the plan are positive.

Compared to 2017, the trends show employers have more positive attitudes toward deferred comp plans. In fact, in 2018 there was a significant increase in employers saying the plan was very valuable in recruiting and retaining.

What key employees said



Participants value the plan.

Almost six in 10 view the plan as a reason for staying with their current employer, and even more consider it an important factor in deciding to take a new job. And

the likelihood of a participant recommending the plan to someone eligible to participate increased to 84% — up from 75% in 2015.

Retirement still a top priority. Retirement is still the #1 reason to participate in the plan, and a top reason for employees to increase their contributions. Other reasons for participating are reducing current taxable income and taking advantage of employer contributions.

The income bridge strategy is a popular approach in retirement. More than half of employees plan to use deferred comp in their early years of retirement. This can help them delay using traditional retirement income sources like Social Security or 401(k) plans that have age restrictions.

Employer match and affordability impact participation. Employer match continues to play a large role in key employees' decisions to participate and how much they contribute. Of those with a match, nine in 10 contribute enough to get the maximum. And employees with a match are 13% more likely to say the plan is an important reason to stay with an employer, compared to those without a match.

They're more confident in their retirement savings. Based on their current retirement savings, over eight in 10 key employees report confidence in retirement readiness. And three of those 10 say they're very confident.

“Our key employees see this as a huge benefit.”

- Employer¹

¹ This is not a paid advertisement. The plan participant participated in a nonqualified deferred compensation plan through his/her employer with plan administrative services provided by Principal®. The plan participant is not affiliated with any company of the Principal Financial Group and the views and opinions expressed are his/her own.

Why these plans are valuable



Employers

- 1 Deferred comp plans are more important than ever.** With an improving economy and a fight for top talent, attitudes toward deferred comp have become more positive. In 2018, employers were more likely to view the plan as a competitive benefit offering a very valuable recruiting and retention tool. And with the competitive job market, significantly more employers were concerned about attracting key employees.
 - 2 Employer contributions matter to key employees.** Over half (54%) of employers choose to make contributions to key employees' plans. Retaining and motivating key employees, along with restoring the company's qualified plan contributions are the leading reasons why employers choose to make contributions.
 - 3 Decision-making resources are valued.** Information about investment performance and plan options are what employers find most valuable in helping key employees make plan decisions. Compared to past years, employers say they are less likely to make plan design changes or offer different investment options.
 - 4 Plan design is a priority.** Like past years, employers are annually reviewing plan design elements to help ensure the benefit is still meeting organizational needs.
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Employees

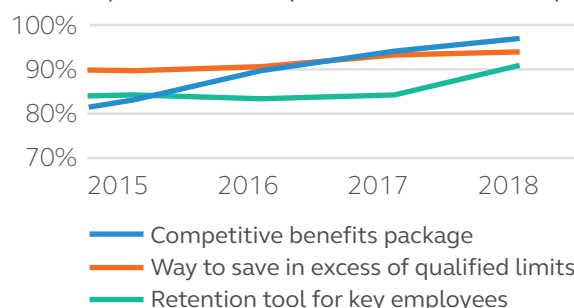
- 1 Saving for retirement is still #1.** In 2018, 2/3 of employees say they participate in the deferred comp plan to save for retirement. And, 1/4 say the plan will provide 25% or more of their retirement income. The results also show that more than half of employees view the plan as a source of income to be spent down during early retirement years.
- 2 Key benefit to stay or join.** Almost six in 10 employees view the plan as a reason for staying with their current employer. And, 64% see it as an important factor when deciding to take a new job.
- 3 The power of employer contributions.** More than 60% of employers provide employer contributions, with more than half of them providing only discretionary contributions. And less than 1/4 are only matching deferrals. Employer contributions are valued by key employees, with 63% of employees receiving an employer match saying the plan was an important reason to stay with their current employer, vs. 50% without a match.
- 4 Flexibility to defer to meet goals.** The top factors key employees consider when determining an annual compensation amount to defer into the plan are progress toward saving goals, personal tax rates and current income needs.

What the trends tell us

Competitive benefits remains #1

Competitive benefits are still the #1 reason why employers offer the plan — and increased again in 2018. Meanwhile, the other top two reasons have also increased in importance.

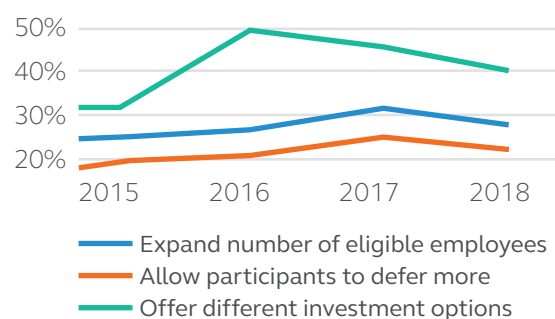
Total importance for top reasons to offer the plan



Employers are less likely to make changes to reduce costs

There's been a decrease in employers who are likely to make plan design and investment changes to their plans. Offering different investment options is the top item employers would consider changing, but has continued to decrease since 2016. But as we've seen from other trends in 2018, employers are still focused on offering competitive benefits.

Total likelihood of making these types of changes to the plan



Plans are still important to key employees

In 2018, the importance of the plan for reaching retirement goals has declined slightly, while a reason to stay with an employer has increased. The plan as a consideration to take a new job showed a steady level of importance.

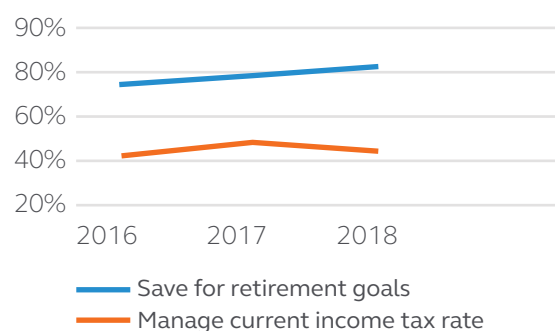
Total importance of the plan for key employees



Key employees saving more

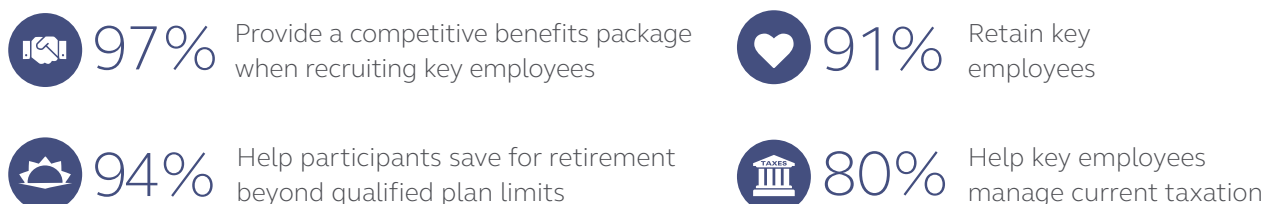
More than two in 10 employees are looking to increase their deferrals, with the top reasons being saving for retirement goals and managing current income tax rate.

Reaching retirement goals cited as major reason for deferral increases



Employers: Statistics and insights

Top reasons why plan sponsors offer deferred comp plans



Employers concerned about retirement and retention:

■ Somewhat concerned
■ Very concerned

Will I attract key employees in the future?

49%

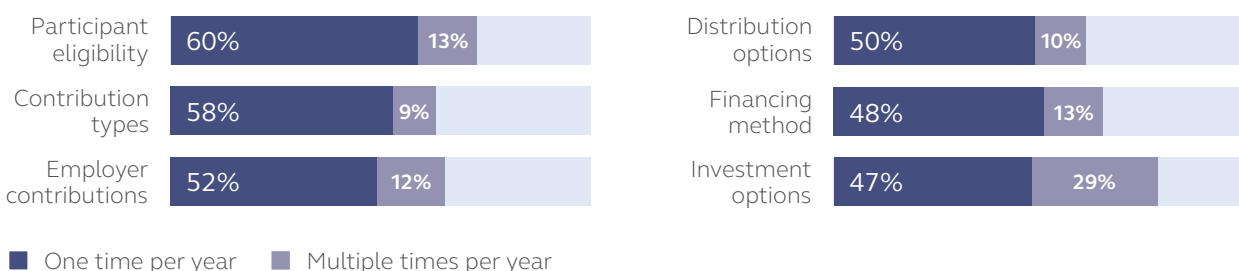
39%

Will I lose key employees to competitors?

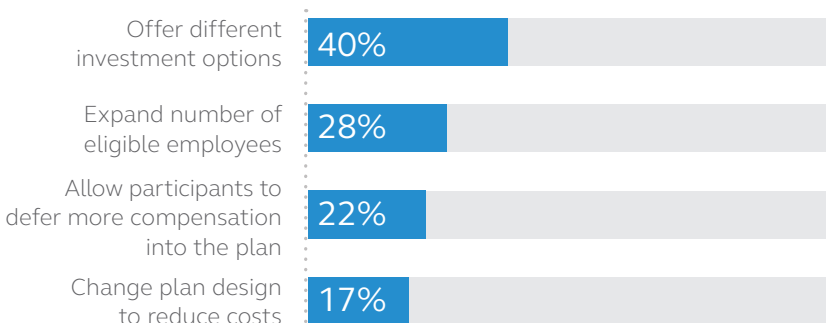
52%

15%

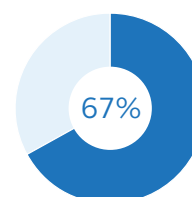
Frequency that employers review the plan to identify needed changes



Changes plan sponsors are most likely to make to their plan



2 in 3 plan sponsors are **concerned about losing** key employees to competitors



Factors that build satisfaction with plan record-keeper



Employer contributions into the plan



54%
Contribute

Primary reasons for employer contributions

- 46% Retain key employees
- 28% Restore lost 401(k) match
- 17% Motivate key employees

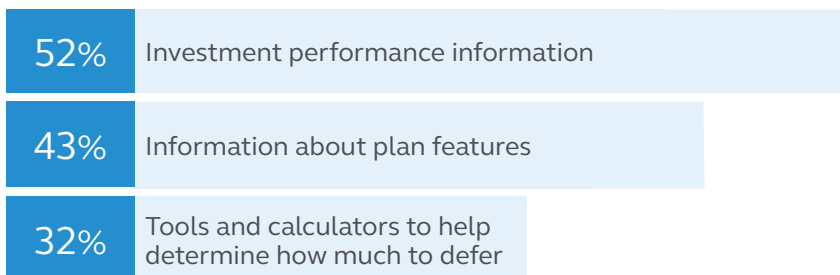
How employers expect financial professionals to play the largest role

76%
Share
information about regulatory changes

74%
Handle
initial plan set up

63%
Assist
with annual plan review/actions

Most valuable resources plan sponsors want to give participants:



Employees: Statistics and insights

Participants consider a deferred comp plan most important in



85%

Reaching financial retirement goals



64%

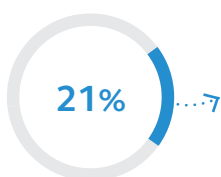
Deciding to take a new job



57%

Deciding to stay with a current employer

Participants are planning to **increase contributions**, and here are the top reasons why:



83% – Desire to save for retirement goals

55% – Can afford to defer more

50% – Can't save enough in a qualified retirement plan

44% – Help manage current income tax rate

Expected retirement income by deferred comp plan participants

1/3 of plan participants



Provide **10-24%** or more

1/4 of plan participants



Provide **25%** or more

Approximately **1/8** of plan participants



#1 income source

Main reasons for participating in a deferred comp plan



66% Save for retirement

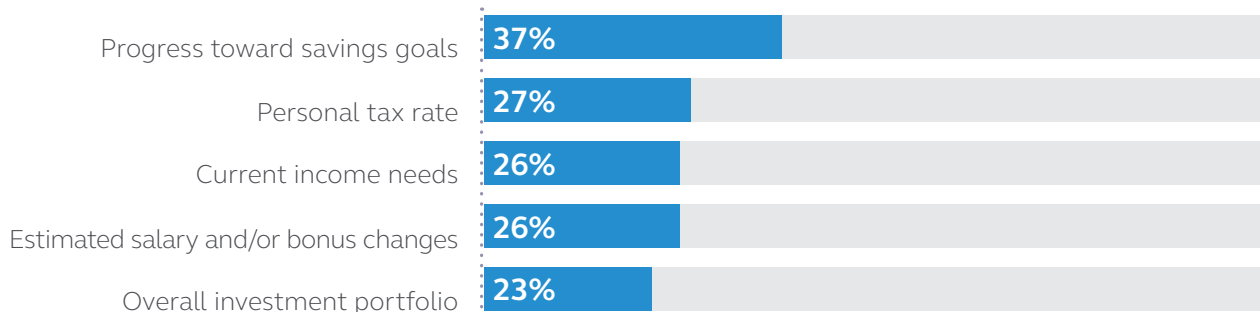


17% Reduce current taxable income



8% Employer contributions participants would miss

Very important factors for participants in determining deferral amounts



Likelihood of recommendation to participate



84% of participants would recommend the plan to other eligible employees²

Retirement income spending strategy



51% of participants will use income from this plan first in retirement, before other savings

Without this plan,
I would have to
work longer.

- Survey participant¹

Employer contributions to participant accounts

33%
of employers
only **make**
discretionary
contributions



18%
of employers
only **match**
their deferrals



10% of employers both
match their deferrals and **make**
discretionary contributions

Participants who
say the plan is an
important reason
for **staying with**
current employer:

63% have an
employer **match**

vs. ———

50% have
no match

² Significant increase over 2017 results.

Behind the scenes

Employer profile

Characteristics of plan sponsors who responded to the survey:

Median number of employees	400
Median number of employees eligible to participate in the plan	15
Median number of years offering the plan	9
Provide a company contribution	54%

Characteristics of all plan sponsors of a Principal deferred comp plan:

Not-for-profit organization	30%
For profit organization	70%
In business for 25 years or more	73%
Median number of employees	400

Employee profile

Characteristics of participants who responded to the survey:

Size of employer	501 - 1,000 employees
Salary range	\$150K - <\$300K

Characteristics of all participants in a Principal deferred comp plan:³

Annual employee income	27% <\$150k	46% \$150k - <\$300k	
2018 actual plan balances ⁴	41% <\$25k	29% \$25k - \$100K	16% \$100k - <\$250K
2018 actual plan contributions ⁵	39% <\$10k	31% \$10k - <\$25k	14% \$25k - <\$50k

About the survey

Between June 25 and July 23, 2018, Principal conducted an online survey with employers having existing nonqualified defined contribution plans and key employees who were currently deferring into a nonqualified plan with Principal. A total of 271 completed surveys were received from employers and 1,324 from key employees.

³ Based on participants who were active with a balance of greater than \$0.

⁴ As of June 1, 2018

⁵ As of December 31, 2018

Our leadership strengthens your benefits

You can trust our expertise and leadership. In addition to being the No. 1 provider of nonqualified deferred comp plans⁵ and a leading provider of defined contribution plans⁶, we've been providing deferred comp solutions for more than 25 years and have over 75 years of retirement plan experience.

A member of the FORTUNE 500®, Principal has \$626.8 billion in assets under management and serves 24 million customers worldwide⁷. Our employees are passionate about helping people and companies build, protect and advance their financial well-being. You can count on us to offer innovative ideas and real-life solutions that help make financial progress possible for clients of all income and portfolio sizes.



⁵ Based on total number of Section 409A plans, PLANSPONSOR 2018 NQDC Recordkeeping Survey, June 2018.

⁶ Based on recordkeeping plans, PLANSPONSOR Recordkeeping Survey, July 2018.

⁷ As of December 30, 2018.



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