

OVERVIEW OF NONQUALIFIED EXECUTIVE BENEFIT PLANS

DESCRIPTION

EMPLOYER BENEFITS

EMPLOYEE BENEFITS

DEFERRED COMPENSATION

- Employee defers income (typically) until retirement “in lieu of” current compensation

- Determines eligibility, earnings crediting rate and retirement distribution
- Deducts benefits when paid
- Avoids most qualified plan discrimination rules and funding limits
- Requires Department of Labor Notification

- Enhances retirement income
- Defers receipt of current compensation
- Incurs no current cost for the benefit
- Pays income tax on benefit when received

SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN (SERP)

- Employer provides a deferred compensation benefit “in addition to” current compensation
- Employer bears full cost of the benefits

- Determines eligibility, contribution formula, earnings crediting rate and vesting of benefits
- Generally deducts benefits when paid
- Avoids most qualified plan discrimination rules and funding limits
- Requires Department of Labor Notification

- Provides additional retirement income
- Incurs no current cost for the benefit
- Pays income tax on benefit when received

DEFINED CONTRIBUTION/ LONG TERM INCENTIVE PLAN

- Similar to a profit sharing plan – rewards key employees for their individual contribution to corporate profitability
- Provides the greatest pay for performance planning flexibility

- Pre-tax cost is equal to reward contributions
- Vesting on reward contributions reduces costs on short-term participation and compliments company compensation and retention strategies
- Plan costs are offset indirectly through increased profitability

- Employer provided personal wealth accumulation

SPLIT DOLLAR PLAN

- Employer provides life insurance protection to employee and gives the employee the right to designate a portion of the death proceeds to the beneficiary

- Employer owns the policy, retains policy cash values and determines eligibility
- No IRS approval, but other reporting requirements
- Accounting liability if post-retirement benefit plan

- Received death benefit protection for a term cost
- Income tax free death benefit to beneficiary

EXECUTIVE BONUS PLAN

- Employer will “bonus” the employee some or all of the premium for a life insurance policy owned by the employee
- Can provide this “in lieu of” group term coverage

- Rewards key employees
- Tax deductible benefit
- No IRS approval
- No accounting liability

- Supplemental retirement income
- Portable Benefit

EMPLOYER CONTROL

EMPLOYEE BENEFIT SECURITY