



Benefit Focus

Deferred Compensation

| Beyond 401(k)

Capitalizing on the familiarity Americans have with their 401(k) plans, employers have implemented similar benefits that “mirror” its simple style and provide the means to surpass its limitations.

The supplemental Deferred Compensation Plan is a nonqualified benefit plan that is established by employers for their executive employees to help them supplement their retirement income by deferring salary and other current compensation until a later tax year.

Instead of being paid today, executives will receive these amounts after they retire, usually in annual installment payments to support their retirement lifestyle. When employees participate, they agree to delay receipt of base salary and/or bonus pay. The employer, in turn, promises to pay the employees this income (plus accrued earnings) at some pre-determined future date.

By participating in the plan, employees can funnel portions of pre-tax income into a tax-deferred savings vehicle. As a result, the employees can reduce their current tax bills and simultaneously generate savings funds to meet future financial requirements. Although mainly used by participants to bolster their retirement savings, these plans also allow executives to set aside money for future, expected significant expenses—like a child’s college tuition.

Same Before-tax Benefit Program concept as 401(k)

One Dollar	Outside Investment	Inside 401(k) Plan
Compensation	\$1.00	\$1.00
Current Income Tax (@35%)	- .35	- 0.00
Net Funds Invested	\$.65	\$1.00

Similar to the 401(k) plan, the accumulation of before-tax (pretax) deferred dollars is the engine for the supplement Deferred Compensation Plan.



The second layer of | Deferred Compensation

“Best-in-Class” Benefit Advisors

Although mainly used by participants to bolster their retirement savings, these plans also allow executives to set aside money for future, expected significant expenses—like a child’s college tuition. The options for designing a plan provide an opportunity for the company to design the type of benefit that supports its goals:

- Employer selects/limits those who are eligible to participate
- Executives can defer up to 100% of salary and bonus
- Employer may offer company contribution
- Employer chooses how the accounts are valued
- Executives manage investment of accounts online
- Executives may receive distribution while in-service to Employer
- Executives must begin distribution(s) upon retirement
- Distributions allowed in lump sum or installment payments
- Executives elect new deferral elections before each tax year
- Employer chooses strategy to pay future benefits

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