



Deferred Compensation Basic Understanding

The primary purpose for sponsoring nonqualified benefits continues to be restoring benefits lost to regulatory limits. A nonqualified deferred compensation plan provides an employee the option to forego current compensation for payments during retirement, or some later year while still “in service” to the company.

How these plans work

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 significant planned expenses—like a child’s college tuition. In the shorter term, executives may also defer salary and bonuses for only a few years to accomplish some other pre-retirement financial goal, ordinarily no less than three years.

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

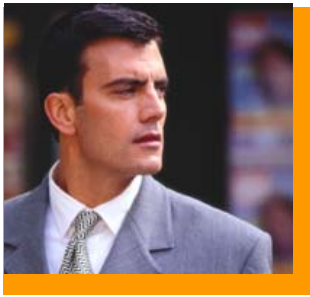
Executives must begin distribution(s) upon retirement

Distributions allowed in lump sum or installment payments

Executives elect new deferral elections before each tax year

Employer chooses strategy to pay future benefits





Understanding Deferred Compensation

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Nonqualified deferred compensation plans are particularly appealing to employees who want to defer receipt of some current income until a future point in time when they expect their marginal tax rate to be lower.

Nonqualified deferred compensation plans offer a great degree of flexibility in features. Balsler Companies’ approach is described generally as conservative, a stance that was validated by the American Jobs Creation Act of 2004 (AJCA) and 409A guidelines. Design or redesign factors include types of compensation eligible (salary, bonuses and other incentive compensation, match amounts), vesting schedules, the valuation of the accounts (fixed rate, retail funds, stock, “insurance” funds), the length of deferral (a specific year before retirement, at retirement), significant corporate events or lifestyle circumstances (beneficiaries, disability, death benefits, change of control, divorce), and more.

Our intellectual capital allows us to delivery custom benefit solutions, and we have cultivated an outstanding team of some of the finest consulting and plan management professionals in our industry. As they have done for some of our largest Fortune/FTGlobal 500 clients, our teams work with the client to ascertain the objectives of having a plan, and evaluate the various options in re-designing the benefit offered to the executives.

The AJCA and Section 409A have positively affected nonqualified plans. The American Jobs Creation Act of 2004 was first pursued by Congress in reaction to perceived corporate abuses in the aftermath of Enron and WorldCom. Then, through a process of the U.S. Treasury that encouraged comment and participation from employers, advisors and other thought leaders in the benefits/financial services industries, a series of guidelines were fashioned and published about the use and structure of these plans.

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