Recruit, Retain, Reward

Recruiting, retaining and rewarding key employees are not just goals of the largest companies in America—they are important to all companies. That's why, in today's environment, no plan sponsor can have a truly meaningful conversation about its total rewards package and retirement plan's design without discussing non-qualified deferred compensation plans (NQDCPs).

What is an NQDCP?

As people live longer and lead more active lives, retirement plans and Social Security payments may not provide enough income for the highly compensated to sustain their lifestyle in retirement. That's why NQDCPs have become the primary retirement savings benefit for highly compensated employees and are therefore an important benefit consideration for any plan sponsor.

- An NQDCP is an agreement between an employer and one or more employees to defer receipt of future compensation to a later date or dates. The employee's plan account reflects an unfunded, unsecured promise from the employer and is subject to risk of the employer's bankruptcy/insolvency.
- The plans were developed to offer top employees a pre-tax deferral opportunity commensurate with their income.
- Highly compensated executives, who may not need the income right away, contribute to these plans to defer the income and the tax liability associated with it. This allows for the full amount of compensation to operate inside the NQDCP on their behalf over time.
- The plans also offer flexible payment options, making the account balances available at a specified time when employees know they will need it.

Why offer an NQDCP?

Benefits to Participants	Benefits to Companies
The ability to defer more pre-tax compensation in addition to a retirement plan to help meet income replacement goals, with the added benefit of tax-deferred investment returns.	The ability to recruit, retain and motivate key employees with a benefit program designed to help them plan for retirement and other financial goals.
Helping reduce the impact of high income tax rates by lowering current taxable income.	Tailoring the NQDCP to help meet corporate objectives by setting eligibility requirements, designing vesting schedules to strengthen retention and offering company matches.
Choosing from flexible payout options to meet short- and long-term goals, whether for retirement income needs, college tuition expenses, a mortgage payoff or a second home purchase.	Helping manage bottom-line impact by informally funding the NQDCP's liabilities, which can help support the promise to pay future benefits and minimize income statement volatility.

Providing highly compensated executives with effective retirement income solutions can be challenging for employers who do not offer NQDCPs. Conventional qualified retirement planning programs—such as 401(k) plans—have statutory limits on the amount participants can contribute on a pre-tax basis, and restrict employers' matching contributions.

Additionally, many industries face severe challenges driving sufficient retirement plan participation due to their employee demographics. This further limits the ability of highly compensated employees to participate in the retirement plan, and thus, their ability to defer sufficient income to maintain their standard of living once they retire.

NQDCPs offer you an attractive solution to this very real problem for your key employees. For more information on NQDCPs, please contact your plan adviser.

Please Note: A well-constructed NQDCP can provide substantial benefits at multiple levels when objectives of the sponsoring company and participants are served, but as with most products, a complete analysis of benefits and cost is prudent. NQDC assets, whether contributed by employees, the company, or both are considered assets of the company until distribution is made. This tends to benefit the sponsoring company's balance sheet. While there is the ability to hold plan assets in a trust (Rabbi Trust) to disallow the company to use these assets during the active life of the contract and company, in the event of company bankruptcy these assets might become accessible to creditors. As a result, some participants might be reluctant to contribute if they are not convinced of the long-term solvency of the sponsoring company.

In situations, where corporate solvency is not a concern the NQDC can be set up to act as an "excess" plan, allowing contributions that may be disallowed due to qualified plan testing issues or limitations. The excess amounts are directed to the NQDC plan. The NQDC plan can also be used as a employee reward program. By definition a non-qualified plan can be discriminatory in terms of whom, and to what extent, it is designed to benefit.

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