



Deferred compensation

Planning Solutions

Summary

Deferring taxable income can be an effective tax management and supplemental retirement income strategy. A nonqualified deferred compensation arrangement can provide a select group of key employees with an opportunity to defer income and build supplemental retirement income, along with optional preretirement and/or post-retirement death benefits. Also known as an executive salary deferral plan, this arrangement can serve as an executive retention strategy,

because benefits may be payable in full only if the executive remains employed until retirement or dies.

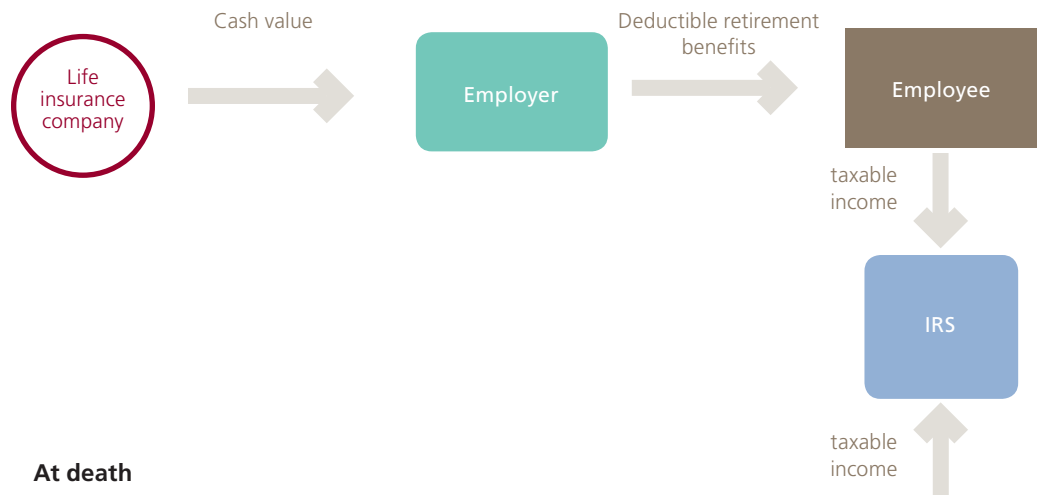
To ensure that adequate funds are available to pay the promised benefits, employers typically purchase cash value life insurance policies to informally fund and finance the plan. The employer retains control over the policies and uses cash values or death benefits to provide the executive with deferred compensation benefits.

How it works

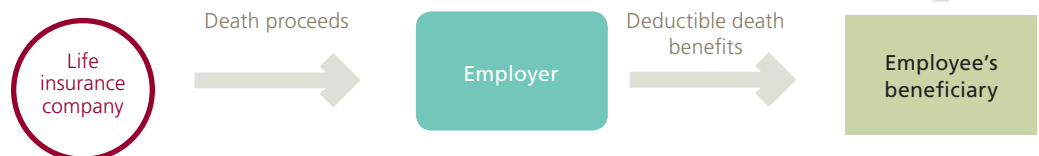
During employment



At retirement



At death



For additional information, contact your financial advisor.

Considerations for employer:

- Employer can choose which key executive employees may participate.
- The employer establishes and administers the plan, but the plan is funded with employee salary deferrals plus optional employer contributions.

Considerations for employees:

- No current income tax is due on the income that is deferred.
- Deferrals can be tailored to meet individual needs.
- Surviving beneficiaries may receive substantial benefits.
- Deferred compensation may help to offset the effect of inflation on retirement benefits.
- Benefits are not taxed until they are received.
- Deferring compensation may help to offset the restrictions and limits of qualified retirement plans, such as 401(k) plans.

Tax considerations:

- Employer contributions and executive deferrals are not tax-deductible until paid to the executive.
- Employer and executive contributions are not taxable to the employee until paid.

- Benefits are taxable to the employee and/or beneficiary when they are paid.
- Internal Revenue Code Section 409A sets forth requirements for the design and administration of nonqualified deferred compensation arrangements. You should consult your tax and legal advisors about the application of this law to your particular circumstances.

How to implement:

- Employer creates a nonqualified deferred compensation plan for selected executive(s) and files a one-page ERISA notice with the Department of Labor.
- Annually, the employee elects how much income to defer for the next calendar year.
- Employee selects his or her benefit priorities (retirement, death, disability, or severance benefits).
- Employee enters into a deferral agreement with the employer.
- Employer informally funds the plan with life insurance.

Not a deposit
Not FDIC-insured
Not insured by any federal government agency
Not guaranteed by any bank or savings association
May go down in value

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