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Principal® Nonqualified Plans – 409A, 457(b), 457(f) and Incentive Bonus

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Nonqualified overview

What the heck is a nonqualified plan?

- An employer-sponsored benefit for key employees
- Not subject to qualified plan restrictions, contribution limits, or discrimination and coverage testing
- An “unfunded” contractual agreement between the plan sponsor and the participant
- Not subject to the fiduciary and reporting requirements of ERISA

An array of deferred comp solutions

All to fit the needs of your business and key employees

Incentive bonus

Reward your key employees through company contributions in both the for-profit and non-profit space.

Defined benefit

Provide a supplemental retirement benefit to key employees.

457(b)

Allow key employees of tax-exempt organizations to save beyond retirement plan limits.

Defined contribution – employer contributions

Contribute using company funds to your key employees' deferred comp plans.

Defined contribution – employee contributions

Reward key employees and help them bridge the retirement income gap.

457(f)

Make discretionary contributions to participants at tax-exempt organizations.

What are the organization’s goals?

Recruit	Attract the best employees as part of a competitive benefits package.
Retain	Encourage key employees to remain loyal to the organization.
Reward	Provide performance-based contributions to achieve organizational goals.
Retire	Help key employees save enough for retirement above what 401(k) or 403(b) plans allow.

What are key employees' goals?

Retirement savings	Save beyond 401(k) or 403(b) plan limitations with employee deferrals or optional employer contributions.
Managing taxes	Help manage the impact of taxes using the plan's flexibility for when benefits are paid.
401(k) or 403(b) restoration	Use employee deferrals or employer contributions from deferred comp to restore benefits limited under a 401(k) or 403(b) plan.

Nonqualified overview

The statistical portion of today’s presentation…

Findings in today's market*

From plan sponsors with existing deferred comp plans

77% concerned about losing key employees

94% concerned about attracting key employees

Primary reason for employer contributions: **Retention**

Use of plan:

- **59%** recruiting
- **66%** retention

* 2022 Trends in Nonqualified Deferred Compensation, conducted by Principal.

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RECRUIT

Attract the best employees as part of a competitive benefits package.

62%

Of plan sponsors say the nonqualified plan is increasingly more valuable for recruiting & retention efforts[1].

RETAIN

Encourage key employees to remain loyal to your organization.

Over 50%

Of participants say the plan is one of the reasons they stay at their current employer[1].

REWARD

Provide performance-based contributions to achieve organizational goals.

80%

Of participants say the plan is important in helping them reach their financial goals[1].

RETIRE

Help your key employees save for retirement beyond what qualified plans allow.

88%

Of plan sponsors say one of the top reasons to offer the nonqualified plan is to allow participants to save for retirement beyond qualified limits[1].

[1] 2023 Principal® Trends in Nonqualified Deferred Compensation (NQDC) report is an online survey of 125 NQDC plan sponsors and 1,089 NQDC plan participants between June 5-23, and September 5-25, 2023.

Why plan sponsors offer deferred comp plans*

89%
Provide a competitive benefits package for key employees

88%
Help participants save for retirement above qualified plan limits

75%
Retention tool for key employees

80%
Help key employees manage current taxation

68%
Replace benefits reduced or lost by IRS restrictions on qualified plans

60%
Match benefits offered by competitors

* 2022 Trends in Nonqualified Deferred Compensation, conducted by Principal.

Why participants consider deferred comp important*

Main reasons for participating in a deferred comp plan

63% Save for retirement

21% Reduce current taxable income

11% Employer contributions participants would miss

5% Save for financial needs while still working

Participants consider a deferred comp plan **important when**

60% Deciding to take a **new job**

53% Deciding to **stay** with a current employer

80% **Preparing for retirement.** Plan is important in reaching their retirement goals.

* 2022 Trends in Nonqualified Deferred Compensation, conducted by Principal.

Nonqualified overview

"It's all about the plan design, stupid..."

A mentor of mine

Plan design considerations

ELIGIBILITY

Who will be eligible to participate?

Examples:

- Employees earning over $155,000
- Assistant vice presidents and above

ELECTIVE DEFERRALS

What compensation can be deferred?

Examples:

- 0% – 80% of base salary
- 0% – 100% of bonus
- 0% – 100% of performance Based Comp
- 0% or 100% of 401(k) corrective refunds

SPONSOR CONTRIBUTIONS

Will the employer be making contributions?

Examples:

- 50% employer match up to 6% of employee deferral
- Discretionary employer contributions
- Based on performance metrics
- Not required

VESTING

How will employer contributions vest?

Examples:

- Employee deferrals are 100% vested
- Employer match mirrors 401(k) vesting schedule
- Discretionary employer contributions vest on a rolling 3-year basis (from year of contribution)

DISTRIBUTIONS

What type of distributions options to allow?

Examples:

Time of distribution:

- In-service distribution
- Separation from service distribution

Form of distribution:

- Lump sum
- Annual installments

INVESTMENT MENU

What investment options are available?

Examples:

- Mirror the 401(k) menu
- Custom list funds

457 plan design considerations

ELIGIBILITY

Who will be eligible to participate?

Examples:

- Employees earning over $155,000
- Assistant vice presidents and above
- Senior medical staff

ELECTIVE DEFERRALS

What compensation can be deferred?

Examples:

- Up to the 402(g) limit for 457(b) plans

SPONSOR CONTRIBUTIONS

Will the employer be making contributions?

Examples:

- Discretionary employer contributions
- Based on performance metrics
- Not required

VESTING

How will employer contributions vest?

Examples:

- Employee deferrals and employer contributions are 100% vested in a 457(b) plan
- 457(f) plans link vesting with taxation. Employer contributions generally vest on a rolling 3-year basis (from year of contribution)

DISTRIBUTIONS

What type of distributions options to allow?

Examples:

<u>Form of distribution</u>:

- Lump sum
- Annual installments (for 457(b) plans)

INVESTMENT MENU

What investment options are available?

Examples:

- Mirror the 401(k) menu
- Custom list funds

Nonqualified overview

What’s the catch?

How does an organization pay for it?

Company cash

No specific plan assets are set aside. Instead, benefits are paid through company's cash flow.

Taxable investments

The company invests in mutual funds and/or individual securities.

Corporate-owned life insurance (COLI)

The company purchases a policy to pay future obligations.

Combo (COLI & taxable investments)

Dual financing with taxable investments and COLI is a popular method to leverage short-term plan distributions, with the benefits of COLI for distributions with a longer horizon.

Benefits & Considerations

Is deferred comp right for you?

Benefits	*Considerations*
Make optional company contributions **Restore qualified plan contributions limited by IRS testing** **Easier to administer with no** **- discrimination testing** **- minimum participation** **- Form 5500 filing, if set up properly**	**Plan administrative service fees** **Potential charge to earnings on assets purchased to finance the plan**

Benefits & considerations

Is deferred comp right for your key employees?

Benefits	*Considerations*
Leverage pre-tax deferrals, tax-deferred growth, and compounded earnings	**No rollovers or loans like qualified retirement plans**
Meet savings goals without statutory limitations	**Compensation deferred isn’t protected in the event of company bankruptcy**
Design a personalized investment strategy	**The decision to defer compensation must be made ahead of time**
Payout flexibility without age restrictions	

Thank you

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Key features of both plans

457(b) and 457(f) comparison	457(b)	457(f)
Pre-tax contributions*	Yes	Yes
Earnings accumulate tax-deferred	Yes	Yes
Contribution types	Employee and employer	Employee** and employer
Contribution limits	Typically match 402(g) limits	No contribution limits
Age 50 catch-up	No, but special Section 457 catch-up in final 3 years before normal retirement age	No
Ability to make changes in deferrals	Monthly	Annually, but with considerations**
Ability to design an individual investment strategy	Yes	Yes
Vesting	Typically 100% vested at all times	0% vested until a specified date
Covered by 409A	No	Yes
Rollover provisions	No, however, plan-to-plan transfers are possible	No
10% IRS early-withdrawal penalty	No	No

* The 457(f) plan balances are subject to FICA and income taxes at vesting. The 457(b) plan contributions are subject to FICA/FUTA at vesting and subject to income taxes at time of distribution. Deferrals may not be treated as pre-tax in all states. Participants should discuss the impact of taxes with their tax advisor.
** Optional, but with considerations for the employee and additional expenses for the employer.

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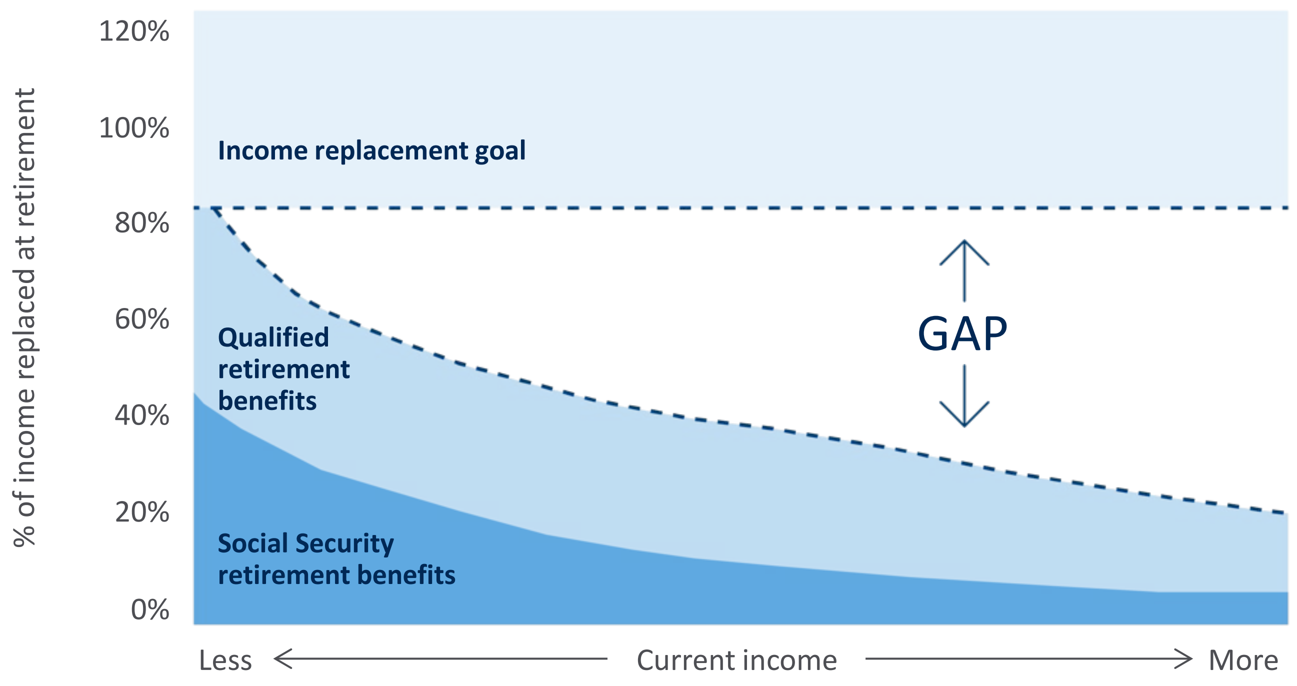
Save more

For retirement

The more your employees make,
the harder it gets



This information is from the Principal Financial Group® Replacement Ratio Calculator with source information from the Annual Statistical Supplements to the Social Security Bulletin (www.ssa.gov). It is intended to demonstrate the potential impact of Social Security and 401(k) plan benefits at various income levels. For more information on your individual circumstances, please speak with your financial or tax professional.