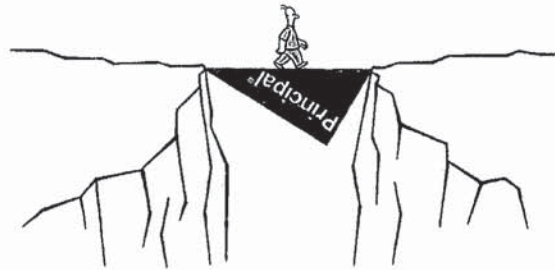
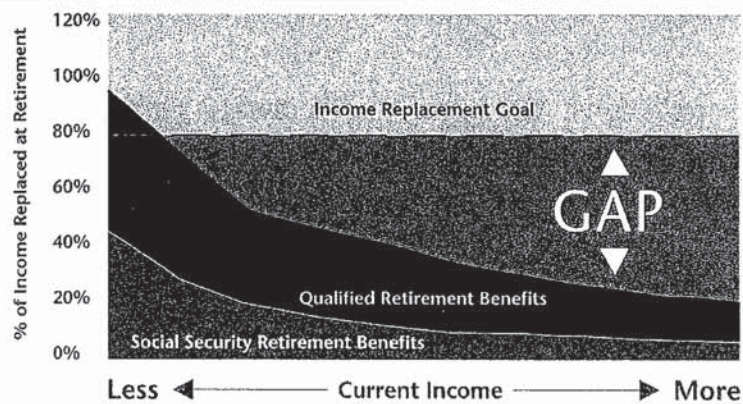


Non Qualified Deferred Compensation Plans



Neither The Principal nor the plan sponsor is a plan fiduciary for any nonqualified deferred compensation plan.

Why NQ Deferred Compensation? The Retirement Income Gap



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 professional.

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Use of NQ Solutions

- Correct “reverse discrimination” against HCEs in testing and employer contributions
- Employee deferrals and employer contributions
- Performance based contributions and vesting
- Defined contribution and defined benefit
- The 4th “R” - Not just Recruit, Retain & Reward, it’s also “Retire”...
- Not just the “C” suite anymore, expanded eligibility

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Plan Design and Administrative Service Trends

- Simplified vs. Complex – move toward simple!
- Look at life cycle of plans - Just because we can, doesn't mean we should
- Do participants understand (and value!) their NQ benefits?
- Plan Sponsor demands for effective communication and enrollment / re-enrollment processes
- Broader use of in-service accounts

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Employer Contributions

Fully discretionary contributions:

- Make up for missed contributions in qualified plans
 - Missed match due to ADP/ACP testing
 - Missed contributions due to compensation limits
- Incentive based contributions
- Executive "profit sharing"
- Phantom stock contributions
- Signing and staying bonuses



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Vesting

Vesting not governed by qualified plan rules!

What are the company's objectives?

- Graded vesting tied to 401(k) / profit sharing plan
- Graded or cliff vesting tied to corporate objectives
- "Rolling" vesting for each annual contribution
- Different vesting schedules for different levels
- Specific vesting for specific contributions

Remember to consider FICA/Medicare taxes...



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Benefit Payment Events

Section 409A permitted events

- Separation from Service (including retirement)
- Specific time and form ("In-Service")
- Change in Control
- Unforeseeable Emergency (very rare...)
- Disability
- Death



Considerations

- Plan sponsor may choose which events to permit in plan design
- "Intervening events" may override



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Benefit Payment Options

- **Lump sum and installments**
- **Life and Joint annuities**
 - Actuarial calculations
 - Longevity risk (participant vs. employer)
 - Creditor risk
- **Different elections for different events**
- **Different options before and after a "seniority date"**
- **Change in "time and form" rules**
 - Made 12 months before the distribution begins
 - Minimum 5 year deferral (except for death, disability, unforeseeable emergency)
 - Special rules for installments



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Practical Deferral Elections

Key Employee Base Income \$150,000 Bonus \$100,000

Key Employee elects to defer 10% of base pay and 50% of bonus

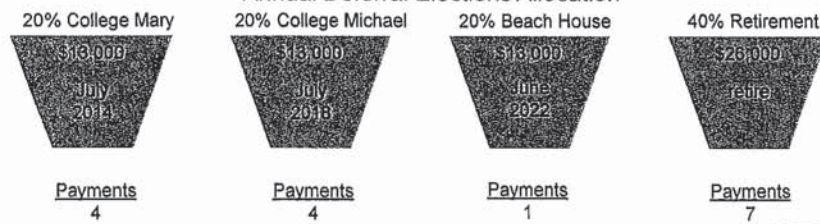
Objectives:

- 2 Kids need College \$\$
- Planning Second Home
- Secure Retirement

Deferral Amounts:

- Base = \$15,000
- Bonus = \$50,000
- Total = \$65,000

Annual Deferral Elections Allocation



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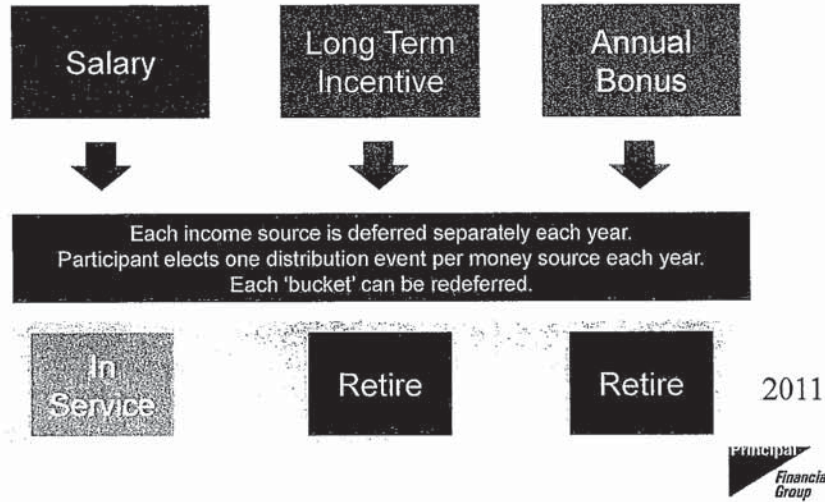
NQ Security Mechanisms

- **Rabbi Trust** - "Irrevocable Grantor Trust", assets subject to creditors
- Use of **in-service** accounts
- **Change in control provisions** – participant elected distributions and/or immediate plan termination
- **Discretionary plan termination provisions** (Section 409A, 12 month wait)
- **Distribution upon separation from service** (Publicly traded companies – six month wait for "specified employees")

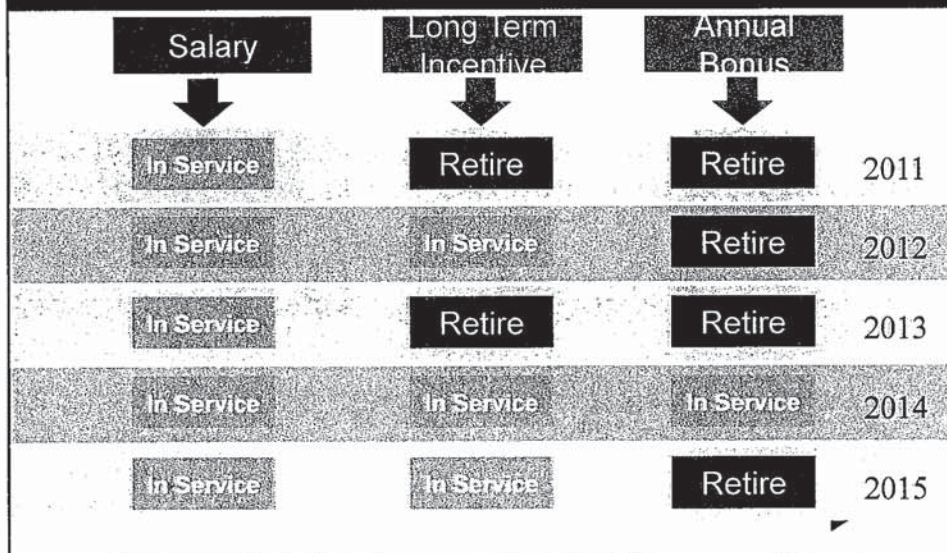


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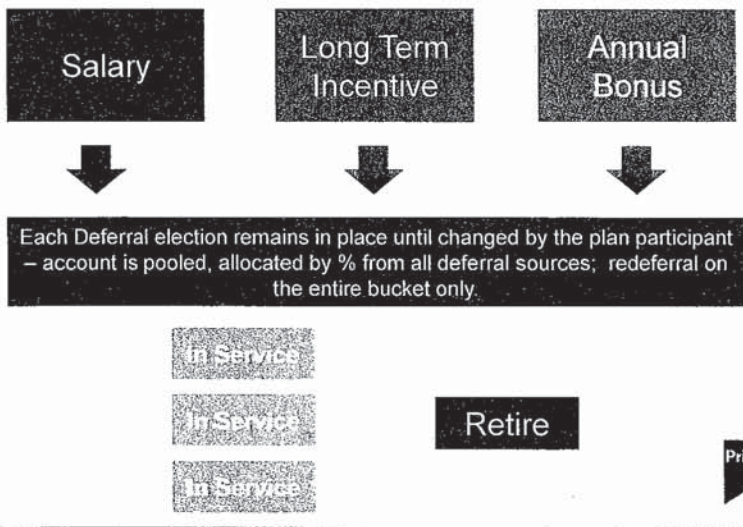
Class Year and Source Year – NQ on a 401k system



Class Year and Source Year – NQ on a 401k system Five Years Later



Distribution Driven – NQ on a 409A system



Distribution Driven – NQ on a 409A system Five Years Later

