Fulcrum Partners LLC

NONQUALIFIED INCENTIVE BONUS PLAN

Recognize and Motivate
Key Employees

fulcrumpartnersllc.com
“What is a Nonqualified Incentive Bonus Plan?”

A bonus program that helps you retain and reward key employees.

A Nonqualified Incentive Bonus Plan is an employer-sponsored, long-term incentive plan for the key employees and employer chooses – including employees that can’t participate in traditional nonqualified deferred compensation plans.

Employers make pre-tax contributions into the plan for their key employees and promise to pay that money, plus any potential earnings, to the employees at a future date based on the vesting schedules the employers set.
Keep Key Employees Satisfied with Benefits They Need and Value

OVERVIEW:

Recognizing and rewarding the key employees who contribute to an organization’s success makes good business sense. The leadership and expertise of those employees is hard to match – and hard to find!

What can employers do to help ensure that top talent remains committed to the organization and not to their competition?

Organizations should consider enhancing the benefits package with a Nonqualified Incentive Bonus Plan. This type of plan is designed to:

♦ Encourage the best employees to join an organization as the organization grows.
♦ Keep key employees satisfied and motivated for the long term.
♦ Reward top talent for reaching goals.
No matter what the area of concerns are, solutions are available.

By listening to an organization’s challenges, needs, and aspirations, experienced executive benefits professionals can help a organization select the plan that best supports their objectives.

Experienced guidance can help organizations and the key employees that lead those organizations.

- **DISCOVER** – Identify the issues an organization wants to resolve and what it wants to achieve.
- **SOLVE** – Learn how the right plan can help solve problems and achieve target objectives.
- **DESIGN** – Use the plan’s flexibility to tailor a plan to the organization’s and participants' needs.
- **PARTNER** – Build a trust relationship, so that an organization and its key employees have confidence in the service and expertise provided, every step of the way, year after year.
- **STAY CURRENT** – Make plan changes possible as an organization’s needs and goals change.
DISCOVER

What are an organization’s goals?

It’s important to an organization to provide a valued and affordable benefits package for all employees plus a separate strategy focused on key employees. Review the goals an organization wants its benefits package to achieve – both short- and long-term goals, such as:

<table>
<thead>
<tr>
<th>Recruit</th>
<th>Attract the best employees as part of a competitive benefits package.</th>
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<tbody>
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<td>Retain</td>
<td>Encourage key employees to remain loyal to the organization.</td>
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<tr>
<td>Reward</td>
<td>Provide performance-based contributions in achieving organizational goals.</td>
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<tr>
<td>Motivate</td>
<td>Encourage high-performing employees to achieve results through incentives.</td>
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What are key employees’ goals?

To have a successful plan, an organization needs to address what its top employees want. A survey published in March 2018 (2017 Trends in Nonqualified Deferred Compensation, Principal®) shows that participants consider deferred comp among the most important benefits when deciding to take a new job and to stay with an employer.
Organizations can customize a creative and well-structured plan to help key employees realize or work toward a variety of goals, including:

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<thead>
<tr>
<th>Savings Goals</th>
<th>Control timing of payouts to meet savings goals.</th>
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<tr>
<td>Managing Taxes</td>
<td>Help manage the impact of taxes using the plan’s flexibility regarding when benefits are paid.</td>
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**SOLVE**

*Is a Nonqualified Incentive Bonus Plan right for an organization’s key employees?*

Once an organization has identified its most important goals, it must then understand the role that this plan can play in helping achieve those goals. The plan offers benefits and considerations for both the organization and the key employees.

**Benefits for employees:**
- Take advantage of pre-tax employer contributions, tax-deferred growth, and compounded earnings.
- Both "Top Hat" and "non-Top Hat" employees are eligible to participate in the plan.
- Design a personalized investment strategy.
- Enjoy flexibility by delaying plan benefits and the taxation of them if an employee chooses to do so.

**Considerations for key employees:**
- Contributions into the plan aren’t protected in the event of company bankruptcy.
- Only employer contributions are allowed.
- The decision to defer payout of benefits must be made the year prior to when the employer initially contributes to the plan.
**Benefits for employers:**

- Easier to administer with no discrimination testing, minimum participation or Form 5500 filing if set up properly.
- Use discretionary company contributions with vesting schedules to help achieve corporate goals.
- Money set aside to finance the plan remains an asset on the company's balance sheet, while providing liquidity for paying benefits.

**Considerations for employers**

- The corporate tax deduction is deferred until benefits are paid, rather than being a current deduction.
- Distributions to plan participants must be paid within 10 years of the original date of each employer grant.
- To qualify as a bonus plan not subject to ERISA, (The Employee Retirement Income Security Act of 1974) the plan cannot be designed to “systematically” provide benefits to participants after separation from service. This determination must be made by the plan sponsor.

As high as 71% of plan participants would recommend the plan to other eligible employees\(^1\)

\(^1\)2017 Trends in Nonqualified Deferred Compensation, Principal®
Design

How is the plan created?

Employers are in control of making the plan their own, because the plan is always based on the specific goals of the organization and unique needs of its key employees. Together, the employer and the financial professional walk through the decisions that need to be made to design a plan that makes sense for the organization:

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<tr>
<th>Who participates</th>
<th>Select the groups of key employees (&quot;Top Hat&quot; and &quot;non-Top Hat&quot; employees) to participate in this plan.</th>
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<tbody>
<tr>
<td>What can be contributed</td>
<td>Employers can provide one contribution per participant each year with the flexibility to vary benefits by individual employees.</td>
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<tr>
<td>What happens with the contributions</td>
<td>Employers can select a reference investment line-up to make available to participants from a broad range of options. In addition, organizations can decide how and when key employees may receive the benefits based on organizational needs. However, benefits must be paid to them within 10 years of the date of the original employer grant.</td>
</tr>
<tr>
<td>How are benefits paid</td>
<td>Employers decide how payouts can be received or deferred from the plan. Benefits are always distributed as a lump sum.</td>
</tr>
</tbody>
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How it works

This chart shows how money is contributed to the Nonqualified Incentive Bonus Plan and paid out at a later date. It also points out that when the benefit is distributed to the key employee, the employer receives an income-tax deduction and the key employee pays income tax on it.

How does an organization pay for it?

Keeping the promise to pay benefits to participants in the future is important. Any of these three (or a combination of) financing options can help employers do that. Plus, employers receive a detailed financial model prepared exclusively for them to help them make their decisions.

**COMPANY CASH**— No specific plan assets are set aside. Instead, benefits are paid through the company’s cash flow.

**TAXABLE INVESTMENTS**— The company invests in mutual funds and/or individual securities.

**CORPORATE OWNED LIFE INSURANCE // COLI**— With this option, the company purchases life insurance to pay future obligations.
Partnering

Working with organizations and key employees

Organizations want to offer key employees the benefits they value and those that will have a positive influence on them and the organization. The team of financial professionals will work closely with the employer to develop a strategy for implementing and servicing the nonqualified plan.

Year after year, this support continues, as organizations work closely with their financial professional to fine-tune the plan and ensure that the organization’s goals are met and that the plan is administered as efficiently as possible.

Keeping employers in-the-know

To help employers stay on top of the plan, a range of information is available, along with easy access to plan asset and liability reporting, investment resources and other tools to assist with administering the plan. Plus, depending on the plan type and design, the following may be available:

- Access to plan participants’ account information.
- Daily valuation of assets/liabilities.
- Asset/liability information and rebalancing services.
- Financing reviews to assess plan performance.

According to 2017 Trends in Nonqualified Deferred Compensation, Principal®, published March 2018:

55% of plan participants say they consider the deferred comp plan most important when they are contemplating taking a job with a new employer and 45% of plan participants say they consider it most important when deciding to stay with a current employer.
> Turn key employees into plan participants

Understanding how an exclusive plan works is what nurtures appreciation for the benefit among key employees. A trusted plan provider can assist you and the organization by:

**STEP 1: INTRODUCING THE PLAN**
Providing custom education to introduce plan basics.

**STEP 2: MANAGING THE PLAN**
Providing online access and specialist support for participants.

**STEP 3: DELIVERING ONGOING EDUCATION AND PLANNING**
Participants need support to stay on track. Participants will have convenient access to information about their accounts, investment strategy and scheduled distributions.

**Stay Current**

**How does the plan keep up with an organization’s needs and goals?**

The Nonqualified Incentive Bonus Plan is the organization’s plan. Its long-term success depends on how well it keeps pace with the organization’s needs and goals – today and tomorrow. Once the plan is in place, your chosen financial professional and plan provider will:

- **Pay close attention to the plan over time**, such as a participant’s account balance from the beginning of the plan until payout.
- **Offer feedback on factors that can influence the plan**, such as plan design changes and regulatory updates.
- **Provide analytical tools and resources for new and existing plans**, all while watching out for the employer’s bottom line.
- **Provide periodic financial reviews** to help ensure the plan’s financing continues to meet the organization’s goals.
- **Provide access to** online dashboards of information.
Contact Fulcrum Partners to learn more about how a Nonqualified Incentive Bonus Plan can be tailored to the needs of you and your clients.

Fulcrum Partners advises you to always consult your own tax, legal, and accounting advisers.

ABOUT FULCRUM PARTNERS LLC:

Fulcrum Partners LLC (https://fulcrumpartnersllc.com) is one of the nation’s largest executive benefits consultancies. A wholly independent, member-owned firm, Fulcrum Partners is dedicated to helping organizations enhance their Total Rewards Strategy. Founded in 2007, today the company has 13 nationwide offices and more than $6B in assets under management.

Learn more about the Fulcrum Partners executive benefits advisory team at Fulcrum_Partners_Managing_Directors_nationwide_directory.

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