NONQUALIFIED DEFERRED COMPENSATION (NQDC) PLANS

Trends in Nonqualified Deferred Compensation
Insight through the lens of employers and their key employees

Fulcrum Partners shares valued insights from the 10th annual nonqualified deferred compensation plan study conducted by Principal®.

This report looks at statistics and trends in deferred comp plans through the lens of both plan sponsors and participants.

Plan sponsors will find these insights valuable in benchmarking benefits.

- Key findings in this year’s study
- Top reasons the plan is valued
- What the trends tell us
- Employers: Statistics and insights
- Employees: Statistics and insights
- How this data was obtained

No part of this document may be reprinted without the express written permission of Fulcrum Partners LLC.
Key findings in the Principal 2017 NQDC Study

WHAT EMPLOYERS SAID:

Competitive benefits are key. The race to recruit and retain key employees is intensifying, making competitive benefits more vital than ever. In fact, competitive benefits is the new top reason organizations are offering a NQDC plan and, according to the Principal 2017 Study, it’s been on the rise since 2014.

Other top reasons showing steady results, include allowing participants to save more than qualified limits and using the plan as a retention tool. The rising value placed on benefits supports the reality that top talent is scarce and the market is competitive. A deferred comp plan provides a unique benefit that helps employers attract, reward and keep their key employees.

Simplicity, efficiency and flexibility are critical. And the deferred comp plan is meeting that need. When companies anticipate
what changes they’ll be making, expanding both available investment options and eligible participants rose to the top.

**The role of the financial professional is important.** New findings give insight on the role of financial professionals and where their value is needed most. Employers said they want to rely on them most for information on regulatory changes, initial plan set up, and participant education and advice.

**WHAT KEY EMPLOYEES SAID:**

"We’re in a battle for key talent."

—Employer

**It’s all about retirement.** The trend continues to show that a NQDC plan is important in helping participants reach their retirement goals. In fact, progress toward their retirement savings goal continues to be the primary reason to participate, and plays the largest role in deciding how much to contribute.

**The income bridge strategy is a popular approach in retirement.** New this year, the Principal study found that half of all participants plan to use this source of income in their early years of retirement. It’s a strategy that allows other retirement income, like Social Security, 401(k) and personal savings, to
grow or be held until age-based limits are met.

**Employer match and affordability impact participation.** Employer match continues to play a large role in key employees’ decisions to participate. More than half say an improved employer contribution or match would make the plan more appealing. For those that don’t participate, the most common reason was because they didn’t feel they could afford to defer income, not because they don’t see the value of the plan.

**They’re more confident in their retirement savings.** Based on their current retirement savings, over eight in 10 key employees report confidence in retirement readiness. And almost three of those 10 state they’re “very confident.”

“It’s the best option for me to save for retirement at this time. Especially with the employer contributions.”

Survey participant

Securities offered through Valmark Securities, Inc. Member [FINRA](https://www.finra.org), [SIPC](https://www.sipc.org), 130 Springside Drive, Akron, OH 44333-2431, Tel: 1-800-765-5201. Investment Advisory Services offered through Valmark Advisers, Inc., which is a SEC Registered Investment Advisor. Fulcrum Partners LLC is a separate entity from Valmark Securities, Inc. and Valmark Advisers, Inc.

No part of this document may be reprinted without the express written permission of Fulcrum Partners LLC.
Top reasons these plans are valued

Employers:

1. **Competing in the battle for key talent.**
   The top two features that companies rank as most important are the ability to compete in the battle for key talent and to give those employees a way to save in excess of qualified plan limits.

2. **Employer contributions are important, though optional.**
   Over half (53%) of employers choose to make contributions to key employees’ plans. Retaining key employees and restoring the company’s qualified plan contributions are the leading reasons why employers choose to make contributions.

3. **Decision-making resources are valued.**
   Information about investment performance and plan options are what employers find most valuable in helping key employees make plan decisions. Over the next year, employers say their most likely plan change will be to offer different investment options, followed by expanding the number of eligible employees.

4. **Plan design matters.**
   Most employers annually review design elements to help ensure the benefit is still meeting organizational needs.

Employees:

1. **It’s still about saving for retirement.**
   The ability of deferred comp plans to help key employees save for retirement continues to be the most important role of the plan and a main reason for participating.

2. **Retirement income source.**
   Half of participants view the plan as a source of income to be spent down during the early years of retirement. More than 20% of participants say that the plan will provide 25% or more of their retirement income. One in ten participants view the plan as their number one retirement income source.

3. **Flexibility in deciding how much to defer.**
   The top factors key employees consider when determining an annual compensation amount to defer into the plan are progress toward saving goals, personal tax rates, and current income needs.

4. **Contributions from employers drive behavior.**
   In 2017, 40% of participants say their employers make discretionary contributions on their behalf. And more than eight in 10 participants with an employer-match contribute enough to get the maximum match.
What the trends tell us

Competitive benefits are more important than ever

According to the Principal survey, there’s been a steady and significant increase in organizations citing competitive benefits as an important factor in deciding to offer the plan. In fact, for the first time, it became the #1 reason. Meanwhile, the other top two reasons have shown a steady level of importance.

Employers are extending the benefits of the plan

Plan sponsors are showing continued increase in changes that increase the value of the plan for more employees. There’s a steadily growing interest in expanding eligibility and allowing participants to defer more. This is another sign that employers are focused on competitive benefits and using the plan to attract and keep top talent.
Key employees see more value in pre-tax deferrals

There’s been a significant increase in employees citing tax rate management as a major reason to increase future deferral amounts. Saving money for retirement remains the most popular reason for deferral increases.

Retirement is still the number one reason for participating

Despite the tax environment, changes in economy, or any external factors, meeting retirement goals still tops the list of reasons key employees participate in the plan.

Manage Income Tax Rate Cited as Major Reason for Deferral Increases

Total Importance of the Plan in Reaching Financial Retirement Goals
Employers: Statistics and insights

Top Reasons Why Organizations Offer Deferred Comp Plans:

- Provide a competitive benefits package when recruiting key employees: 94%
- Help participants save for retirement beyond qualified limits: 93%
- Retain key employees: 84%
- Help key employees manage current taxation: 81%

Importance of the Plan for Retirement and Retention

- Concern over whether key employees will have enough retirement income: 82%
  - Somewhat Concerned: 50%
  - Very Concerned: 32%
- Concern over losing key employees to competitors: 64%
  - 52%
  - 12%

Securities offered through Valmark Securities, Inc. Member FINRA, SIPC. 130 Springside Drive, Akron, OH 44333-2431, Tel: 1-800-765-5201. Investment Advisory Services offered through Valmark Advisers, Inc., which is a SEC Registered Investment Advisor. Fulcrum Partners LLC is a separate entity from Valmark Securities, Inc. and Valmark Advisers, Inc.

No part of this document may be reprinted without the express written permission of Fulcrum Partners LLC.
Frequency that Employers Review the Plan to Identify Needed Changes:

<table>
<thead>
<tr>
<th>Category</th>
<th>One time per year</th>
<th>Multiple times per year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment options</td>
<td>47%</td>
<td>30%</td>
</tr>
<tr>
<td>Participant eligibility</td>
<td>59%</td>
<td>14%</td>
</tr>
<tr>
<td>Employer contributions</td>
<td>49%</td>
<td>16%</td>
</tr>
<tr>
<td>Financing options</td>
<td>50%</td>
<td>14%</td>
</tr>
<tr>
<td>Contribution types/limits</td>
<td>53%</td>
<td>10%</td>
</tr>
<tr>
<td>Distribution options</td>
<td>48%</td>
<td>12%</td>
</tr>
</tbody>
</table>

Changes Organizations are Most Likely to Make to their Plan:

- 46% Offer different investment options
- 31% Expand number of eligible employees
- 25% Change plan design to reduce costs
- 25% Allow participants to defer more compensation into the plan
Factors that Build Satisfaction with Plan Recordkeeper

<table>
<thead>
<tr>
<th>Feature</th>
<th>Satisfaction</th>
</tr>
</thead>
<tbody>
<tr>
<td>Easy to do business with</td>
<td>88%</td>
</tr>
<tr>
<td>Partners effectively on plan-administrative challenges</td>
<td>82%</td>
</tr>
<tr>
<td>Resources to offer the best plan</td>
<td>81%</td>
</tr>
<tr>
<td>Understands company needs</td>
<td>76%</td>
</tr>
<tr>
<td>Thought leadership</td>
<td>64%</td>
</tr>
</tbody>
</table>

“(The plan is) a mechanism by which we could both retain and attract the competitive talent that we are looking for.”

Employer 1

Securities offered through Valmark Securities, Inc. Member FINRA, SIPC. 130 Springside Drive, Akron, OH 44333-2431, Tel: 1-800-765-5201. Investment Advisory Services offered through Valmark Advisers, Inc., which is a SEC Registered Investment Advisor. Fulcrum Partners LLC is a separate entity from Valmark Securities, Inc. and Valmark Advisers, Inc.
Employer Contributions into the Plan:

Primary reasons for employer contributions:
- 41% Retain key employees
- 40% Restore lost 401(k) match
- 10% Achieve organizational goals
- 9% Other

How Employers Expect Financial Professionals to Play the Largest Role:

- 75% Share information about regulatory changes
- 74% Handle initial plan set up
- 67% Provide participant education and advice
Most Valuable Resources Plan Sponsors Want to Give Participants

<table>
<thead>
<tr>
<th>Percentage</th>
<th>Resource Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>49%</td>
<td>Investment performance information</td>
</tr>
<tr>
<td>32%</td>
<td>Information about plan features</td>
</tr>
<tr>
<td>29%</td>
<td>Tools and calculators to help determine how much to defer</td>
</tr>
</tbody>
</table>

“I need the nonqualified plan to be able to save any significant amount automatically and tax free.”

-Survey participant

Securities offered through Valmark Securities, Inc. Member FINRA, SIPC, 130 Springside Drive, Akron, OH 44333-2431, Tel: 1-800-765-5201. Investment Advisory Services offered through Valmark Advisers, Inc., which is a SEC Registered Investment Advisor. Fulcrum Partners LLC is a separate entity from Valmark Securities, Inc. and Valmark Advisers, Inc.
Employees: Statistics and Insights

Participants Consider a Deferred Comp Plan Most Important in:

<table>
<thead>
<tr>
<th>Activity</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reaching retirement goals</td>
<td>74%</td>
</tr>
<tr>
<td>Deciding to take a new job</td>
<td>55%</td>
</tr>
<tr>
<td>Deciding to stay with a current employer</td>
<td>45%</td>
</tr>
</tbody>
</table>

Participants are Planning to Increase Contributions:

- 79% Desire to save for retirement goals
- 56% Can afford to defer more
- 48% Can’t save enough in a qualified retirement plan
- 46% Help manage current income tax rate
Expected Retirement Income by Deferred Comp Plan Participants:

- 31% of participants anticipate the plan will provide 10-24%
- 21% of participants anticipate the plan will provide 25% or more
- 10% of participants view the plan as their number one income source

Main Reasons for Participating in a Deferred Comp Plan:

- 64% Save for retirement
- 16% Reduce current taxable income
- 10% Employer contributions participants would miss

Very Important Factors for Participants in Determining Deferral Amounts:

- 39% Progress toward savings goals
- 27% Current income needs
- 27% Personal tax rate
- 23% Estimated salary and/or bonus changes
- 21% Overall investment portfolio
Likelihood of Recommendation to Participate:

71% of participants would recommend the plan to other eligible employees.

Retirement Income Spending Strategy:

50% of participants will use income from this plan first in retirement, before other savings.

Employer Contributions to Participant Accounts:

40% Participants with employers making discretionary contributions

24% Participants with employers matching their deferrals

Reasons Eligible Employees Don't Participate:

26% Can't afford to defer
12% Don't understand the plan well enough
34% Other
17% Have enough tax-deferred savings
11% Have concerns about my plan
How this data was obtained:

About the survey

Between July 24 and August 14, 2017, Principal conducted an online survey with employers having existing nonqualified defined contribution plans and key employees who were eligible to participate in a nonqualified plan with Principal. A total of 315 completed surveys were received from employers and 2,926 from key employees.

EMPLOYER PROFILE

Characteristics of organizations that responded to the survey:

<table>
<thead>
<tr>
<th>Characteristics</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Median number of employees</td>
<td>400</td>
</tr>
<tr>
<td>Median number of employees eligible to par-</td>
<td>15</td>
</tr>
<tr>
<td>ticipate in the plan</td>
<td></td>
</tr>
<tr>
<td>Median number of years offering the plan</td>
<td>10</td>
</tr>
<tr>
<td>Provide a company contribution</td>
<td>53%</td>
</tr>
</tbody>
</table>
More about how this data was obtained:

**EMPLOYEE PROFILE**

Characteristics of participants who responded to the survey:

<table>
<thead>
<tr>
<th>Size of employer</th>
<th>501 - 1,000 employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salary range</td>
<td>$150K - &lt;$300K</td>
</tr>
</tbody>
</table>

Characteristics of all participants in a Principal nonqualified deferred comp plan:

<table>
<thead>
<tr>
<th>Annual employee income</th>
<th>30% &lt;$150k</th>
<th>48% $150k - &lt;$300k</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017 actual plan balances</td>
<td>34% &lt;$25k</td>
<td>19% $100k - &lt;$250K</td>
</tr>
<tr>
<td></td>
<td>32% $25k - $100K</td>
<td></td>
</tr>
<tr>
<td>2017 actual plan contributions</td>
<td>33% &lt;$10k</td>
<td>17% $25k - &lt;$50k</td>
</tr>
<tr>
<td></td>
<td>36% $10k - &lt;$25k</td>
<td></td>
</tr>
</tbody>
</table>

Notes:

(1) This is not a paid advertisement. The plan participant participated in a nonqualified deferred compensation plan through his/her employer with plan administrative services provided by Principal®. The plan participant is not affiliated with any company of the Principal Financial Group and the views and opinions expressed are his/her own.

(2) As of June 1, 2017

(3) As of December 31, 2017
Contact Fulcrum Partners to learn more about how a nonqualified deferred compensation plan can be tailored to the needs of 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.

Fulcrum Partners is an independent member of BDO Alliance USA.

This report is based on information provided by: Principal Life Insurance Company and is shared with their permission. Principal Life is a member of the Principal Financial Group®, Des Moines, IA. Principal.com