Fulcrum Partners LLC

Nonqualified deferred compensation plans

Help your clients' key employees bridge the retirement gap

Save more than a 401(k) or 403(b) plan allows
Your clients' key employees are the backbone of their organizations – focused on meeting each organization’s business goals. But this focus hasn’t kept these valued employees from thinking about – or even planning for – their retirement. What can your clients do now to help ensure their key employees have enough income to enjoy their retirement years?

A nonqualified deferred compensation plan (NQDC) can help boost the retirement savings of key employees. A NQDC plan allows employees to save above and beyond the limits of a 401(k) or 403(b) plan. Plus, they may be able to take advantage of tax benefits not offered with other savings options.

Help employees stay on track

Many employers have heard the experts say that people need about 80 percent of their pre-retirement income to maintain their standard of living in retirement. Do your clients’ know if their key employees are on track to hit that mark?

The chart that follows shows the estimated percentage of income that will be replaced at retirement from Social Security and qualified plan benefits, such as a 401(k) plan. The chart makes it clear that the benefits of a deferred comp plan can help an organization’s key employees eliminate any gap in pre- and post-retirement income. Deferred compensation plans work with retiring employees’ other income sources to help ensure they’ll have what’s needed in retirement.
Reasons for an income gap

Unlike a deferred comp plan, a 401(k) plan, 403(b) plan and Individual Retirement Accounts (IRAs) have limits on how much the employee can save each year. Plus, 401(k) and 403(b) plans are subject to nondiscrimination testing that can limit the amount of employee and employer contributions to the plan.

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. ©2017 Principal Financial Services, Inc.
2019 savings limits for different retirement plans

Your client’s key employees need a way of saving more for retirement – a deferred comp plan can help them do just that!

401(k) or 403(b) retirement plans:
- $125,000 of wages earned in the preceding year classifies an employee as highly compensated.
- Various statutory or testing limits with 401(k) or 403(b) plans may limit deferrals (1.25%/2.0% nondiscrimination limit).
- $19,000 maximum deferral ($25,000 if age 50 or older).
- Total amount of organization and employee contributions limited to $56,000.
- $280,000 maximum eligible compensation limit.

Defined benefit plans:
- $225,000 maximum annual benefit.
- $280,000 maximum eligible compensation limit.

Individual Retirement Accounts:
- $6,000 maximum contribution ($7,000 if age 50 or older).
- Employees with modified adjusted gross income above certain amounts (depending on filing status) cannot deduct contributions to an IRA account if participating in a qualified retirement plan (IRC Sec. 408).

Research shows that employers and key employees value deferred comp

Employers’ top reasons for having it are to:

<table>
<thead>
<tr>
<th>Percentage</th>
<th>Reason</th>
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</thead>
<tbody>
<tr>
<td>41%</td>
<td>Retain key employees</td>
</tr>
<tr>
<td>40%</td>
<td>Restore lost 401(k) match</td>
</tr>
<tr>
<td>10%</td>
<td>Achieve organizational goals</td>
</tr>
<tr>
<td>9%</td>
<td>Other</td>
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</tbody>
</table>

Key employees say it’s important in their decisions to:

<table>
<thead>
<tr>
<th>Percentage</th>
<th>Reason</th>
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<tbody>
<tr>
<td>74%</td>
<td>Reach retirement goals</td>
</tr>
<tr>
<td>55%</td>
<td>Take a job with a new employer</td>
</tr>
<tr>
<td>49%</td>
<td>Stay with a current employer</td>
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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 $7B 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.

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