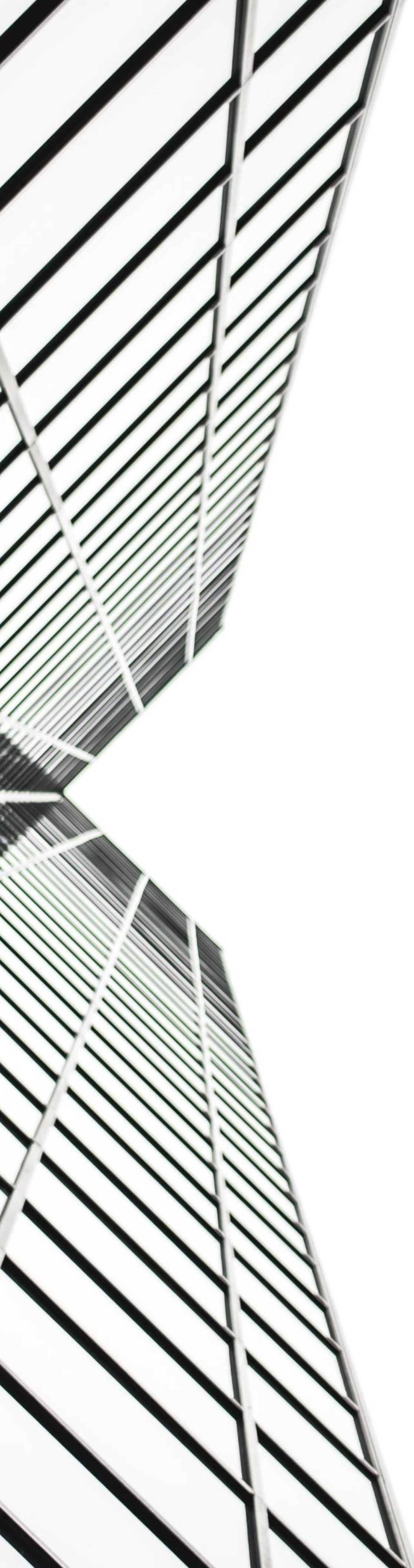

Fulcrum Partners LLC

Introduction to Nonqualified Deferred Compensation Plans

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NQDC: Bridging the GAP

YOUR NEED FOR A NONQUALIFIED DEFERRED COMPENSATION PLAN

Nonqualified Deferred Compensation

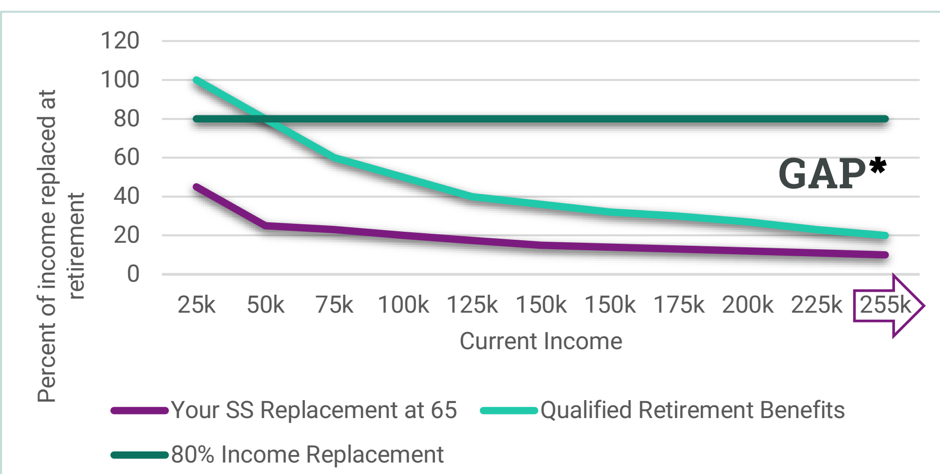
Nonqualified deferred compensation plans, **NQDC**, can serve an important function in helping to fill the significant gap between the combined amount of your social security retirement benefits plus your qualified retirement benefits *and* the amount of retirement savings you will need in order to **replace your current income**.

Qualified retirement plans, IRAs, and 403(b) plans have limits on contribution amounts. In contrast, NQDC has inherent flexibility and affords greater opportunities, including 401(k) "restoration" that can help you bridge the replacement income gap.

NQDC plans:

- Permit you to defer compensation in excess of qualified plan limits on a pre-tax basis.
- Have flexible distribution options that can allow more choices in tax planning, including permitting accessibility before you reach the age of 59½ years.
- Restore contributions limited by IRS restrictions on qualified retirement plans.
- Allow you to have an individualized investment strategy.
- Are not subject to contribution/ participation limits.
- Allow organizations to make discretionary contributions to enhance employee retention, including incentive-based contributions.
- Have simplified government disclosure and reporting rules or no disclosure reporting at all.

40% FORTY PERCENT OF HIGHLY-COMPENSATED EXECUTIVES ADMIT THEY ARE CONCERNED ABOUT THE GAP BETWEEN THEIR CURRENT INCOME AND THEIR PROJECTED RETIREMENT INCOME. *2013 Trends in Nonqualified Deferred Compensation; *Spotlight on Plan Participants, the Principal Financial Group.*



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.

Recruit. Retain. Reward … Retire.

HOW NONQUALIFIED DEFERRED COMPENSATION PLANS SERVE ORGANIZATIONS

NQDC plans can provide employers critical leverage for recruiting, retaining, and rewarding through to retirement, the key talent that enables the organization to achieve its goals, maintain stability, and satisfy board members and stakeholders.

- Inspire/influence the behavior of key performers by customizing contribution and vesting schedules to use as performance rewards for executives.
- A company's NQDC plans can be customized to serve many types of organization goals. Discretionary employer contributions can help fulfil the unique needs of an organization.

Definition: **Golden handcuffs** — financial incentives designed to motivate key talent to remain with a company.

RECRUIT Attract key talent with signing bonuses tied to business objectives or a defined period of employment.

RETAIN Structure bonuses with vesting schedules that incentivize executives to stay with the company.

REWARD Offer incentive-based contri-butions to the plan, driving organizational accomplishment and individual performance.

RETIRE Restore company match benefits disallowed in qualified plans because of compensation limits or Actual Deferral Percentage/Actual Contribution Percentage testing.

Plan for your company's future, using NQDC to create phantom shares and provide an ownership experience or to create opportunities for key executives to be potential future owners.

OWNERSHIP EXPERIENCE: Employers can customize contribution and vesting schedules measured by phantom stock values, making it possible for the executive to share both in increases and decreases in the valuation of the company, creating an ownership experience without any actual dilution of equity rights.

INSIDER TRANSITION: A closely held corporation might fund an NQDC plan account for current executives who are considered to be possible future owners, setting an account to vest and distribute on a "change in control" of the company. This type of structure incentives and rewards key executives, while retaining options for the current owner.

Understanding Key Components of NQDC

HOW NONQUALIFIED DEFERRED COMPENSATION PLANS SERVE ORGANIZATIONS

A well-designed NQDC plan can be a powerful tool, positioning your organization to compete for and retain top talent. Strategically developed to address your company's unique needs, your plan can help you motivate employees, simultaneously advancing their objectives *and those of the company*.

TYPES OF DEFERRAL

- Salary
- Bonus
- Long-term incentive
- Commissions
- Restricted stock
- Performance shares
- Director fees

AMOUNT OF DEFERRAL

- A typical plan might permit participants to defer up to 80% of base salary and up to 100% of other pay elements, maximizing savings on a pre-tax basis while leaving sufficient cash to cover deductions such as payroll taxes.

TIMING OF DEFERRALS

- Generally, the election to defer must be submitted before the end of the participant's taxable year and preceding the beginning of the service period for compensation.

EARNINGS ON PARTICIPATION

- NQDC plans may mirror investment funds in a company's 401(k) plan, a customized executive fund selection, managed portfolios, a declared interest rate, or any other measurement fund selected by the plan sponsor.

COMPANY CONTRIBUTIONS

- NQDC plans may be designed to provide a discretionary company contribution, adding significant flexibility for making contributions of varying amounts to participants.

TIMING OF BONUSES

- Election to defer a bonus or other "performance-based compensation" under 409A may be submitted up to 6 months before the end of the measurement period.

DISTRIBUTION AT RETIREMENT

- At retirement NQDC plan participants can typically elect lump sum distributions or annual installments of up to 15 years.Some plans allow separate elections for each plan year.

TYPES OF COMPANY CONTRIBUTIONS

- A matching contribution
- A profit share formula or a cash balance formula
- "Restoring" amounts lost in a qualified plan because of participation in a NQDC plan.
- A target benefit contribution for a specific income replacement at retirement
- A contribution tied to performance, used as a recruitment or retention tool.

SECURITY

- Anticipate a change in the predisposition of management/ board to make payments when due, and a change in control of the company.The use of a rabbi trust may be helpful. Some plan designs include a "change in control" benefit feature with a single or double trigger for distributions.

SPECIFIED DATE DISTRIBUTION

- Fulfill short-term needs during the employment period, such as college costs or a vacation home.
- Distribution may also be elected for a hardship or upon the death or disability of the participant (payment is typically made in a lump sum).

FUNDING

- Selecting an appropriate informal funding technique is a discrete task, separate from plan design.
- The funding vehicle may impact the method chosen for crediting earnings to accounts. Consider: security, asset/liability match, flexibility, after-tax return, and cash flow.

ADMINISTRATION

- Successful plans must be regularly and effectively communicated to participants.
- To eliminate confusion arising from a NQDC plan's inherent flexibility, most organizations use a third-party administrator.

Taxes … at the Optimal Time

YOUR NEED FOR A NONQUALIFIED DEFERRED COMPENSATION PLAN

A **nonqualified deferred compensation plan,** NQDC, can provide you flexibility and control in planning *when* you receive compensation payouts. Income taxes on the payments received are not paid until the year you receive your money.*

- By choosing to defer distributions while you are working (and your tax rate is potentially higher), you can schedule for distribution during your retirement, when your effective tax rate may be lower.
- You can coordinate your NQDC distributions with your social security distributions or other pre-tax retirement plans such as your 401(k) plan. You may be interested in funding your retirement with NQDC distributions first, and then receiving qualified plan distributions later.

As an eligible executive with variable income components, you may use your NQDC plan to choose when you take distributions, including the option to take installments. Additionally, you have the flexibility to delay distributions beyond the originally scheduled timing.

** You should always consult your own tax, legal, and accounting advisors*

An Executive Can Use NQDC to Help Reach Life Goals

College tuition. Payable to you when your child reaches college age or upon another event determined by you.

The purchase of that vacation home you and your spouse have always wanted.

A single -payment made to you at the time you select, in addition to, or in place of, a qualified retirement plan, such as your 401(k).

Payments to you that you receive in scheduled increments throughout your retirement.

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

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