



## Nonqualified Deferred Compensation

# Contributing to key employee performance

A nonqualified deferred compensation plan can be a powerful tool to help your organization meet its business goals. Discretionary employer contributions into these plans shouldn't be viewed as costs or expenses, but rather as an *investment* in one of your most important assets – your *key employees*.

### Can you afford NOT to have a benefit focused on your key employees?

Retaining and motivating key employees – executives, senior managers and sales staff – is essential to the ongoing success of most organizations. Changing economic conditions and demographic shifts of baby boomers toward retirement expose organizations to a higher risk of losing these key employees. Loss of experience and leadership can affect the overall morale of an organization. But, the financial impact is often more immediate.

According to a survey by OI Partners, companies reported an average replacement cost of two and a half times an executive's salary and two times a manager's compensation. The replacement costs include recruitment, training, lost business, severance pay and other benefits.<sup>1</sup>

Aligning the performance of your key employees to your business objectives is important as well. Well-designed employer contributions to your nonqualified plan can help accomplish this.

### Target your employer contributions

As your organization considers discretionary employer contributions, prioritize the organizational needs your nonqualified deferred compensation plan should address. Examples:

- **Retention:** Structure bonuses – sometimes referred to as “golden handcuffs” – with vesting schedules to make it appealing for key employees to stay with the organization.
- **Rewards:** Drive both organizational and personal performance by offering incentive-based contributions to the plan.
- **Recruitment:** Attract key performers to the organization via signing bonuses tied to a fixed period of tenure or business objectives.
- **Retirement:** Restore company match benefits disallowed in qualified plans due to ADP/ACP testing and/or compensation limits.

<sup>1</sup> “Survey Shows Concern Growing About Losing Workers and Cost to Replace Them”, June 2010, [www.oipartners.net](http://www.oipartners.net).

## Vesting flexibility

Because nonqualified deferred compensation plans are not governed by ERISA or other qualified plan rules, employers have greater flexibility in addressing organizational needs. Using various vesting designs, an organization can establish greater control over this incentive compensation. Common designs include varying vesting schedules by participant, by position level within the organization or by contribution type. Examples of other vesting options include offering graded vesting tied to a 401(k)/profit sharing plan, graded or cliff vesting tied to corporate objectives and/or rolling vesting for each contribution.

## Alternative to equity-based benefits with greater employer control

Nonqualified deferred compensation plans often are an effective alternative to equity-based benefit options, such as stock options or restricted stock. As an employer, you can gain greater control over your compensation costs by having the option, not the obligation, of making contributions if certain results or conditions are met. In addition, other corporate issues, such as unfavorable accounting treatment of equity-based benefits and undesirable dilution of ownership interests can be addressed.

**We'll give you an edge** – Let the Principal Financial Group® work with you on a plan that addresses both the needs of your business and your key employees. With retaining, rewarding and recruiting key employees as important as ever, your nonqualified deferred compensation plan may provide just the edge you need.



WE'LL GIVE YOU AN EDGE®

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