



The Executive Nonqualified Defined Benefit Plan

Employer Summary

Help your key employees create a solid retirement path with a nonqualified executive benefit program. Qualified employee benefit program limitations make it difficult for highly compensated employees to adequately save for retirement. The Executive Nonqualified Defined Benefit Plan can help bridge this “retirement gap.” While offering a valuable benefit, you’ll also be able to more effectively recruit, retain and reward key employees.

Benefits for the plan participant

- Opportunity to accrue benefits above the IRS qualified retirement plan limits and/or provide supplemental benefits to help meet retirement goals.
- No requirement to make contributions and does not bear the investment risk of the benefit.
- Internet access to benefit information.
- Ability to tailor benefit distribution options to meet personal needs.

Benefits for the company

- Company recognized by key employees as providing a valuable benefit program that allows saving for retirement in excess of qualified plan limitations.
- Company can design discretionary incentive contributions to recruit, retain and reward selected key employees.
- Benefits limited by IRS restrictions in qualified retirement plans can be restored.
- Assets accumulated to informally finance the plan remain an asset on the company’s balance sheet.

Plan financing

The Nonqualified Defined Benefit Plan is an unfunded contractual obligation to pay benefits to a plan participant in the future. The company can choose to informally finance the future obligation or leave the obligation unfinanced. The best financing method is dependent on the company’s financial characteristics and the degree of risk acceptable to plan participants and the company. Financing techniques include **unfinanced**, **taxable investments** and **variable corporate-owned life insurance (COLI)**.

Considerations for the plan participant

- No loan provisions or rollover provision into an IRA.
- Limited ERISA protection. Assets financing the plan are owned by the company and are subject to claims by the company creditors.
- Company's non-compliance with deferred compensation rules under Section 409A of the Internal Revenue Code may result in individual tax and penalties.

Considerations for the company

- The company takes an investment risk by making the promise to pay a defined benefit.
- Plan administrative service fees.
- Potential charge to earnings on assets purchased to finance the plan.
- Deferred income tax deduction vs. a current income tax deduction. The company accrues a Deferred Tax Asset to reflect the temporary difference.¹
- Human resource time to communicate the plan benefits to eligible plan participants.

¹For taxable corporations

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