Financial security *for the long run*®

SECURIAN®

NONQUALIFIED DEFERRED COMPENSATION

An alternative for key employees who have reached their 401(k) contribution limits

Your challenge

Your employees are likely concerned about saving enough for retirement. Although you may offer a qualified plan to help solve this need, **your key employees[1] may desire to put more dollars away than federal plan limits allow.** In addition, they may wish to lower their current income taxes in exchange for a future retirement benefit.

BECAUSE YOUR BUSINESS IS **YOUR LIFE**

A potential solution

A nonqualified deferred compensation (NQDC) strategy using life insurance could be the retirement income solution your key employees need. It provides:

- A promise to pay future retirement benefits.
- A way for key employees to reduce their current taxable income by deferring some of their current salary.

[1] Key employees must be either highly compensated employees or management.

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Why is life insurance an ideal tool for this strategy?

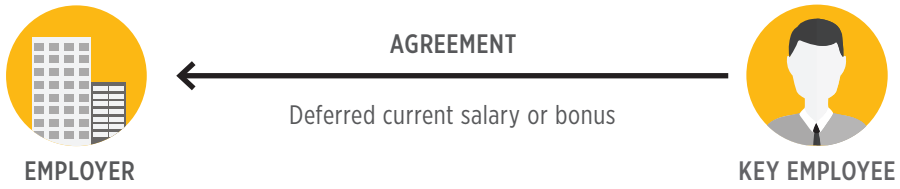
With the executive's consent,[2] cash value life insurance can be an excellent resource for accumulating funds needed to pay future obligations:

- **Your company is the owner and beneficiary of the life insurance policy.** The key employee is typically the insured but has absolutely no rights or ownership in the life insurance policy.
- The premiums you pay into cash value life insurance policies can **grow tax-free.**
- **Your company need not rely on company assets or cash flow to pay retirement benefits.** Through withdrawals and loans, your company may choose to pay the promised benefits out of the policy's cash value on a tax-preferred basis.
- If held until the insured dies, the policy's **death benefit is paid to your company tax-free.**

How does nonqualified deferred compensation work?

1. You and your key executive implement an agreement, drafted by a licensed attorney, specifying:

- The time at which the key employee can elect to defer compensation.
- The circumstances under which deferred compensation will be paid to the key executive (i.e., separation of service, death, disability, financial emergency, change of control of employer or specified date).



2. You are free to use any source to informally fund your obligation to pay future retirement benefits to the key executive. These sources include company assets, cash flow or company-owned life insurance.

[2] A life insurance policy informally funding the NQDC plan is subject to the notice and consent rules for employer-owned life insurance (EOLI). Failure to comply with those rules will subject any death benefit paid to the employer to income tax.

Why use nonqualified deferred compensation?

COMPANY BENEFITS

- Possible retention of key employees by providing retirement benefits funded primarily by them
- You control which employees can participate
- Future retirement benefit is determined by both you and the key employee in the agreement
- You can vary the benefits depending on the employee
- Life insurance can provide a tax-free death benefit to the company that can be used for survivorship benefits and cost recovery, if the employee dies while the policy is in effect

KEY EMPLOYEE BENEFITS

- Reduces current taxable income
- Contributions to the NQDC plan are not subject to qualified plan limits
- Defers income taxes from the company bonus or salary

Why not use nonqualified deferred compensation?

COMPANY CONSIDERATIONS

- No current income tax deduction
- More administration than other executive compensation strategies; a company may need to engage a third party administrator
- Owner may need to increase premium payments to keep the policy from lapsing
- Cash value withdrawals reduce the policy's death benefit and surrender value; if the policy lapses, amounts withdrawn or loaned (in excess of premiums) could be taxable

KEY EMPLOYEE CONSIDERATIONS

- Future retirement benefit is considered taxable income when received
- Company may not be around at time of bonus payout
- All bonuses are subject to company creditors
- May not have a need to defer income taxation

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Securian's products and services can help
ENSURE THE ONGOING SUCCESS AND GROWTH OF YOUR BUSINESS.

To learn how you can implement a nonqualified deferred compensation strategy to help grow your business with your top talent's loyalty, contact your financial professional today.

Please keep in mind that the primary reason to purchase a life insurance product is the death benefit. Life insurance products contain fees, such as mortality and expense charges, and may contain restrictions, such as surrender periods.

This information should not be considered as specific tax/legal advice. You should consult your tax/legal advisor regarding your own specific tax/ legal situation.

If a policy is overfunded and becomes a modified endowment contract, the contract's earnings will be taxed as ordinary income at withdrawal, and may be subject to a 10% penalty if withdrawn before age 59½.

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