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## Trends in Nonqualified Deferred Compensation

### Take their word for it — this benefit is a big deal in the business world

**Summary** | Key employees are the backbone of every organization. Their leadership and expertise keep your company running smoothly and help guide its success. Many employers use a **nonqualified deferred compensation plan** to help ensure top talent stays for the long term.

Whether comparing the experiences of your deferred comp plan to others or learning more about this benefit, the 2015 study provides timely information. It's an inside look at employers' and key employees' experiences and viewpoints with a deferred comp plan from Principal®.

#### What exactly is deferred comp?

A nonqualified deferred compensation plan is a benefit provided to select key employees — a savings vehicle that helps recruit, retain and reward top talent. It's an agreement between an employer and key employees.

Those who participate delay (defer) a portion of their annual compensation into the plan before taxes. It's a promise to distribute that money, plus any earnings, to them at a future time. Plus, a deferred comp plan allows employers to offer more retirement savings options for key employees beyond a 401(k) or 403(b) plan.

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# What you really need to know

Employers value the deferred comp benefits they provide to selected key employees. They find these plans especially important in keeping top talent and helping those employees plan for retirement.

Employers also use these benefits to help set themselves apart from the competition.

And key employees who participate in the deferred comp plans agree. While saving for retirement is the primary reason they choose to participate in the plan, they note the importance of these plans in attracting them to a company's open position.



## Top reasons **employers** value the plans

- 1 | Help save more for retirement.** While concerns for recruiting and retaining top talent increased in 2015, the main reason employers offer a deferred comp plan is to help key employees save more for retirement than they're able to in a qualified plan, such as a 401(k) or 403(b).
  - Over 7 in 10 employers report some level of concern about key employees having sufficient income during retirement.
- 2 | Employer contributions optional, but important.** Retaining key employees and restoring the company's qualified plan match are the leading reasons why employers choose to make contributions.
  - More than 6 in 10 employers choose to make contributions to key employees' plans.
- 3 | Decision-making resources valued.** Information about plan options is what employers find most valuable to help key employees make decisions about their nonqualified plan benefits. Over the next year, employers say their most likely plan change will be to offer different investment options.



## Top reasons **key employees** value the plans

- 1 | Continued importance.** The ability of deferred comp plans to help key employees reach retirement goals is still a factor in deciding whether to accept a new job or stay with a current employer.
  - More than nine in 10 employees say they plan to maintain or increase their deferral contributions in the next year.
- 2 | Participants show retirement confidence.** Most key employees who participate have some level of confidence in their readiness for retirement, and more than one in three are "very confident".
  - Participation in deferred comp plans may play a role in this, as 27% anticipate the plan will provide 10% to 24% of their retirement income, and another 22% anticipate 25% or more of retirement income from the plan.
- 3 | Factors determine amount to defer.** The top factors key employees consider when determining how much of their annual compensation to defer into a deferred comp plan are progress toward saving goals, investment options in the plan and their estimated salary and/or bonus changes.

# Why employers are big on this plan

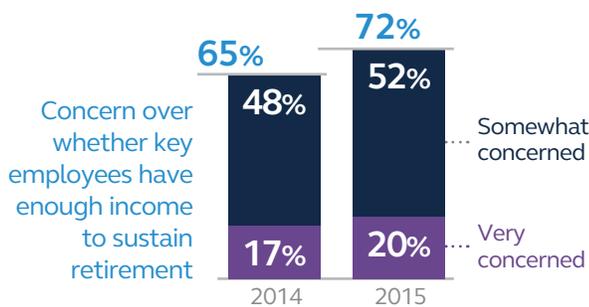
**Profile** | Employers who sponsor deferred comp plans:

Average number of employees	1,746
Average number of employees eligible to participate in the plan	42
Average number of years offering the plan	9
Plan to continue to offer their plans in the next 12 months	98%
Offer 10-20 investment options in the plan	63%
Provide a company contribution	61%
Likely to offer different investment options	31%

## Support remains strong.

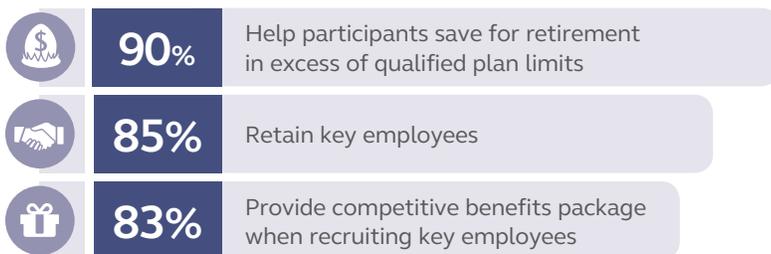
Employers show strong support for maintaining their deferred comp plans.

.....> Nearly all agree they will continue offering deferred comp benefits in the next 12-month period.



**Important for retirement.** Employers are aware of their key employees' retirement-planning needs.

- > Over seven in 10 had some level of concern about their organization's top talent having enough income during retirement.
- > This chart shows an increase in the level of concern in 2015, compared to the 2014 study.



**Primary resource.** Employers view deferred comp plans as a primary resource to help selected key employees plan for retirement. Here are the top reasons (viewed as "very important" or "important") why employers provide a nonqualified plan.

## Potential enhancements to plan.

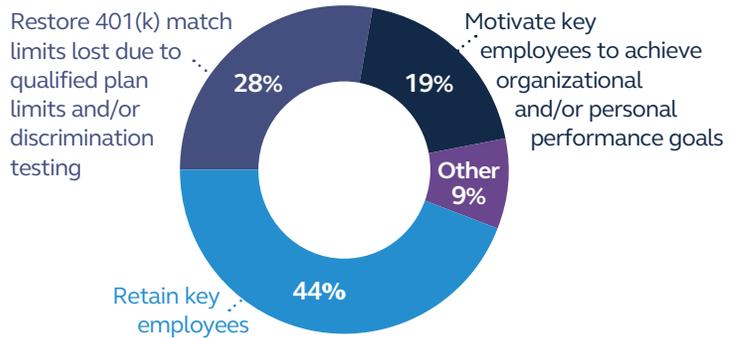
Employers consider ongoing enhancements to their deferred comp plans. The most likely changes are:



**Choose to contribute to plan.** In addition to providing deferred comp plans, employers make use of optional contributions into the plan.

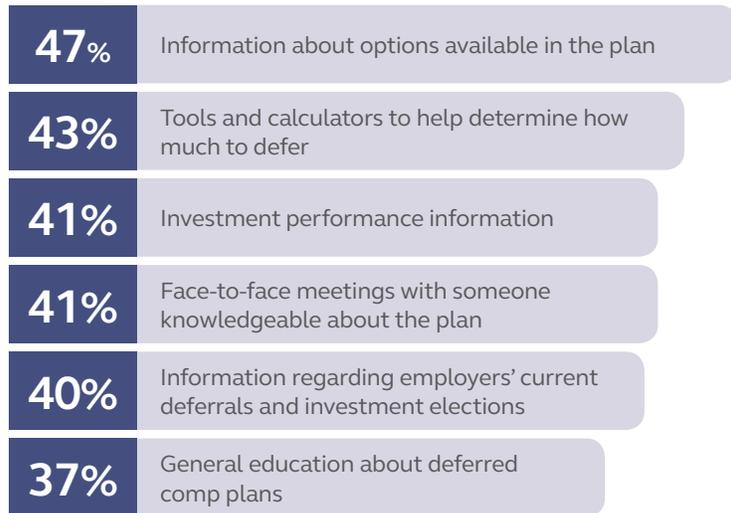
> Slightly over six in 10 employers reported this in 2015.

> When asked to identify the reasons for making optional contributions to the plan, employers listed helping key employees and restoring company qualified plan matches disallowed due to testing issues.



**Valuable resources for key employees.**

Employers rate the following resources as “very valuable” in helping their key employees make decisions about a deferred comp plan.



Employers view deferred comp benefits as part of the larger organizational strategy to help recruit, retain and reward top talent.

# Why key employees want to participate in this plan

**Profile** | Key employees who participate:

<b>Annual employee income</b>	<b>36%</b> Less than \$150,000		<b>45%</b> \$150,000 to \$299,999	
<b>2015 current NQDC plan balance</b>	<b>27%</b> Less than \$25,000	<b>32%</b> \$25,000 to \$100,000	<b>19%</b> \$100,000 to \$250,000	<b>22%</b> \$250,000 or more
<b>2015 expected annual NQDC plan contribution</b>	<b>38%</b> Less than \$10,000	<b>30%</b> \$10,000 to \$25,000	<b>18%</b> \$25,000 to \$50,000	<b>14%</b> \$50,000 or more
<b>Average planned retirement age</b>	<b>64 years old</b>			

Deferred comp plans are seen as a valuable benefit in planning for the future, particularly among middle managers and senior leaders. With 60% of participants having a balance of less than \$100,000 in their plan, these benefits are viewed as an important supplement to their retirement planning goals.

**Important in reaching retirement goals.** Over seven in 10 key employees say deferred comp plans are important in reaching their retirement goals. These plans also help them make decisions about accepting job offers or staying at their current company.

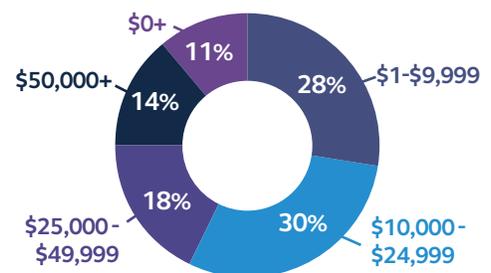
Deferred comp plans are important in key employees' decisions to:



**Increasing commitment to contributions.** This chart shows the expected 2015 plan contributions from all sources for key employees participating in a deferred comp plan.

Nearly one quarter (24%) of key employees who participate in these plans say their employers match contributions to their plans, and 86% defer enough to receive the maximum employee match. Also, 32% of participants say their employers make discretionary contributions into their deferred comp plans.

Key employees' increasing desire to achieve their goals is also reflected by their future contribution plans: Over six in 10 (67%) expect to keep contributions level, while 27% plan to increase deferrals.



This chart lists the major reasons why key employees want to increase their deferred comp plan contributions in the next year.



**Deciding what amount to defer.** The chart below lists the “very important” factors that key employees use to determine the amount of compensation to defer into this plan.



Participants expect their deferred comp plan to account for one-fifth of their retirement income, on average.

**Confidence in being prepared for retirement.**

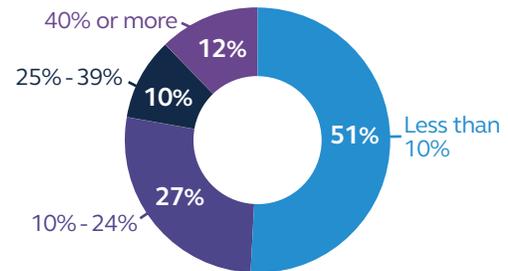
Key employees were asked, based upon their current amount of retirement savings from all sources, their level of confidence in being ready for retirement by the time they reach retirement age.

- › Over eight in 10 (86%) report some level of confidence, with 37% saying they are very confident.

When asked what percentage of their retirement income was expected to be provided by a deferred comp plan:

- › 27% reported between 10% - 24%.
- › 22% reported 25% or more.

A complete breakdown of key employees' responses is listed in the chart below.



In addition, when key employees were asked about having a written financial plan that includes their goals and sources of retirement income, slightly less than half (48%) have one.

# It all boils down to this

Making sense of the trends and shifts in the nonqualified deferred compensation market can be a challenge. Here's our recap on what the 2015 findings mean for each of these audiences.



## What employers say

Employers continue to realize the importance of deferred comp plans, and their experiences with them are generally positive.

Employers view deferred comp benefits as part of the larger organizational strategy to help recruit, retain and reward top talent. In fact, the number of employers who agree a deferred comp plan is very valuable for recruiting significantly increased in 2015. This likely reflects employers' increased focus on the competition for leaders, managers and employees with critical skills. They recognize the need for a holistic strategy that targets specific benefits for these key employees.

Employers also value the ability to tailor these benefits to their unique needs, while having the flexibility to enhance the plan each year if needed. Likely changes to their deferred comp plan focus on three areas of expansion for these benefits:

- Increase access to the number of employees eligible to participate.
- Allow key employees to defer more compensation.
- Expand the types of available investment options.

Nonqualified plans are still seen for their importance in helping key employees save for retirement. This is true for employers of all sizes, particularly small- and mid-sized, that have added competitive benefits like these in recent years.

In terms of educating key employees about the nonqualified plan they offer, employers believe most resources are equally valuable. But, this belief is slightly at odds with key employees' opinions about some resources being more valuable than others.



## What key employees say

Key employees believe in the importance of nonqualified plans, especially in helping to be better prepared for retirement. They use progress toward their savings goals as the most important factor in determining how much to contribute to the plan. And they expect to use distributions from the plan to help fund retirement. Participants expect their deferred comp plan to account for one-fifth of their retirement income, on average.

There may be questions about whether key employees are taking these benefits for granted as recovery from the 2008 recession fades into the distance. The number viewing deferred comp plans as "very important" to retirement goals, taking a job with a new employer and staying with a current employer dropped in 2015 compared to the prior year. Expectations about the percentage of retirement income coming from this benefit dropped slightly, as well. And less than half of key employees do not have a written retirement plan that includes goals and sources of income.

Perhaps these signs are due to improved investment-market returns in 2015. Whatever the cause, key employees agree that greater emphasis should be placed on resources that remind them of the value deferred comp plans can have on their financial well-being. What's essential to increase their engagement in these benefits are:

- Ease of access to key information.
- Improved investment choices.
- Structured education strategies.

## Behind the scenes — the survey

Between August 31 and September 15, 2015, Principal conducted an online survey with employers having existing nonqualified defined contribution plans with Principal and key employees who were eligible to participate in a nonqualified plan with Principal. A total of 253 completed surveys were received from employers and 1,291 from key employees.

Key employees were screened based upon whom:

- Were currently participating in a deferred comp plan and, for those who participated in a defined contribution-type of plan design, had a plan balance of at least \$10,000.
- Were at least 35 years old.
- Had an individual income of \$110,000 or more.
- Had an executive job title.
- Were not working for a government agency, school district, community hospital or public university.

## Our leadership strengthens your benefits

You can trust Principal to help you select the nonqualified plan that's right for your organization and key employees. We're the **No. 1 provider** of nonqualified deferred compensation plans<sup>1</sup> and a leading provider of defined contribution plans.<sup>2</sup> We've been providing deferred comp plans for more than 20 years, in addition to the 75 years of retirement plan experience.

A member of the FORTUNE 500®, Principal has \$527.4 billion in assets under management<sup>3</sup> and serves 20.6 million customers worldwide<sup>3</sup>. Our employees are passionate about helping clients of all income and portfolio sizes achieve their goals. You can count on us to offer innovative ideas, investment expertise and real-life solutions to help make financial progress possible.



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<sup>1</sup> Based on total number of NQDC plans, PLANSPONSOR 2015 NQDC Buyer's Guide.

<sup>2</sup> Based on number of recordkeeping plans, PLANSPONSOR Recordkeeping Survey, June 2016.

<sup>3</sup> As of 12/31/2015.