

Availability of Nonqualified Plans **Varies by**

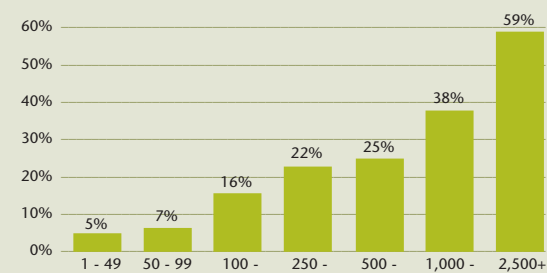
Nonqualified deferred compensation plans are widely used at large organizations, while smaller businesses are less likely to make them available. In fact, more than 81 percent of companies with 10,000- plus employees offer this type of plan compared to just under 11 percent for companies with less than 499 employees. *(Source: Boston Research Group, 2004)*

New rules for nonqualified deferred compensation plans, outlined in the American Jobs Creation Act of 2004 (AJCA), require design changes. The good news is that this legislation does not limit:

- Elective deferral amounts or the tax deferred growth of earnings
- Investment options
- Use of domestic Rabbi Trusts

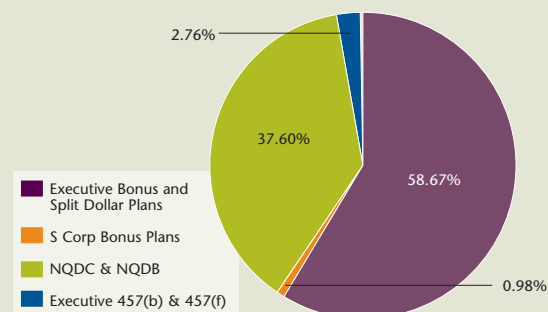
The larger an organization's defined contribution plan, the more likely the organization is to have a nonqualified plan for highly compensated employees.

INDUSTRY PERCENT OF DC PLANS with a Nonqualified Plan, by Plan Size



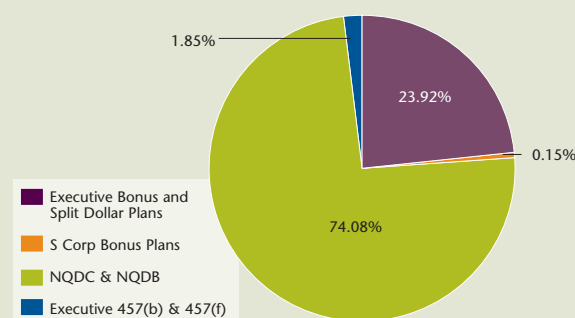
More than half of nonqualified plans are executive bonus and split dollar plans.

NONQUALIFIED PLANS, Percent of Plans



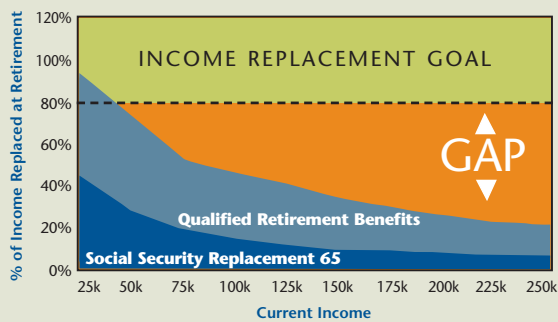
The largest number of nonqualified participants are covered under nonqualified defined contribution and nonqualified defined benefit plans.

NONQUALIFIED PLANS, Percent of Participants



Company Size

Restrictions and limitations on qualified retirement plans make it difficult for higher-paid employees and business owners to ensure an adequate retirement income. With qualified plans and Social Security alone, highly compensated employees could receive as little as 30% of their current income at retirement.



ASSUMPTIONS –

- 1) Beginning at age 45, 401(k) contributions are maximized (up to 15%) with up to 4% employer match, but are limited by: Maximum Compensation Limits and Highly Compensated Employee elective deferrals capped at 8%.
- 2) 4% annual salary increases until retirement age 62.
- 3) Assets earn 9% during pre-retirement and 7% during retirement distributions.
- 4) Retirement income paid to age 75. 401(k) benefits adjust annually at 4%; Social Security benefits adjust annually at 2%.
- 5) Assets are fully depleted over income period.

Qualified Plan Benefits
Social Security Benefits

This information is from the Principal Financial Group Replacement Ratio Calculator with source information from the Annual Statistical Supplements to the Social Security Bulletin (http://www.ssa.gov/SSA_Home.html).

Solutions

Recruit. Reward. Retain. Companies often establish nonqualified deferred compensation plans to recruit, reward and retain key employees. These plans can have a minimal cost to the employer while helping key employees supplement their qualified plan savings.

View Point – Independent Bank Corporation

Client Profile

- Banking and financial services
- 1,400 employees

Challenge: Administration

- New legislation made the client's nonqualified plan no longer viable on a going-forward basis – the client wanted a viable solution to allow key employees to defer income over and above qualified plan limitations as well as administrative services for their old plan, which was grandfathered
- Client preferred to have administrative and investment services under one roof

Solution

- Implemented an Excess Plan for the client, which allows key employees to defer with no limits
- The Principal introduced combined statements for Independent Bank employees, that show 401(k), ESOP and nonqualified plan (for key employees only) information on one statement

Results

- 100% of key employees participating in the nonqualified plan – \$2 million in assets

Testimonial Comment

"The combination of education, technology and ability to seamlessly integrate our 401(k), ESOP and nonqualified plans through The Principal were huge selling points."

– Laurinda Neve, Vice President Human Resources,
Independent Bank Corporation

Fast Fact

The Principal is the nation's second-largest provider of nonqualified executive benefit plans.

(Source: Plan Sponsor, December 2004)