

Nonqualified Deferred Compensation

CONCEPT APPLIED:

A nonqualified deferred compensation arrangement allows an employer to provide retirement income and, in many cases, death and disability benefits to key employees, often with benefits in excess of those permitted under qualified plans.

HOW IT WORKS:

True deferred compensation plans offer future income in exchange for current salary reduction. Customarily, however, employers use “salary continuation” arrangements that promise future compensation without reducing current compensation.

Deferred compensation arrangements must be unfunded to ensure current income tax deferral for employees. Employers may not set up a specific reserve fund in which a participant has a vested right. A life insurance policy is uniquely suited to informally finance a nonqualified deferred compensation plan.

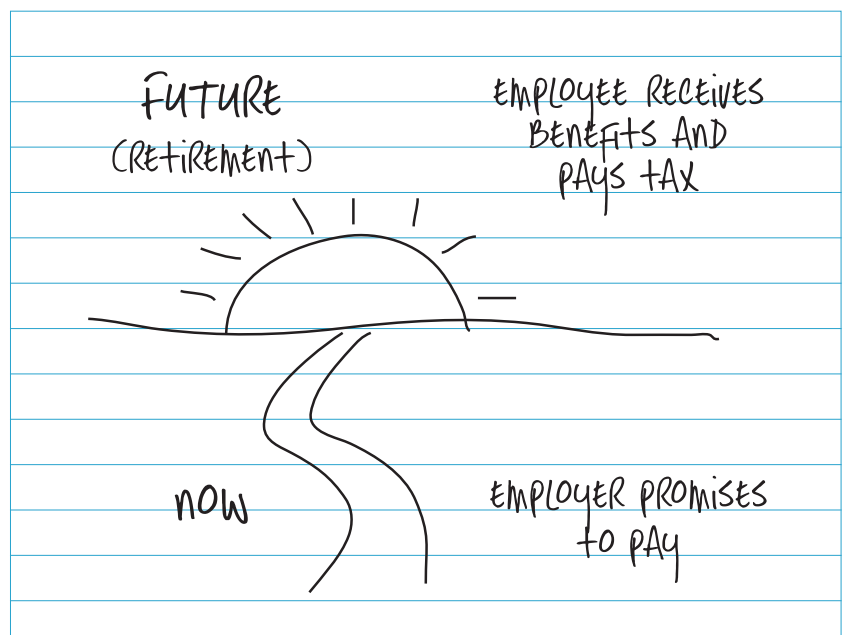
WHY IS IT USEFUL?

Nonqualified deferred compensation arrangements can be designed to reward and retain valuable, highly compensated employees. Life insurance is useful in that it can ensure that funds will be available to pay promised benefits.

50 WORDS OR LESS

Deferred compensation is a contract between an employer and employee that specifies future compensation. A nonqualified deferred compensation arrangement:

- Is exempt from ERISA’s regulatory requirements
- Can attract and retain valued and highly compensated employees
- May provide different benefits to individual employees
- Does not require IRS approval



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