



# DEFERRED COMPENSATION PLAN

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**Program Highlights & Fact Finder**

# Nonqualified Options for Employers and Key Executives



*No matter what the economic climate, employers need something extra to attract and retain the best talent*

## **Deferred Compensation Plan**

It's a fact of business: No matter what the economic climate, employers need something extra to attract and retain the best talent. A comprehensive compensation package—including both qualified and nonqualified retirement plans—can be the key. However, the government places strict legal limits on what a “highly compensated” employee can contribute to a qualified retirement plan or receive in benefits. As a result, many of these select employees cannot defer the same percentage of income to their 401(k) and other qualified plans as can their coworkers.

Nonqualified deferred compensation plans can help offset these limitations. The deferred compensation plan allows businesses to design a truly competitive supplemental retirement plan because it is not subject to most ERISA requirements like qualified pension and profit-sharing plans.

## How It Works

### Step 1: Deferring Income

- The key executive defers a percentage of his or her pre-tax salary and/or bonus for a period of years. In return, at the retirement or death of the executive, the employer provides a supplemental retirement income for the executive and his or her family.

### Step 2: Purchasing Life Insurance

- The employer uses the executive's deferred compensation to purchase a life insurance policy on the life of the executive, suitable to his or her risk tolerance, time horizon, and financial goals.
- The employer is the owner of the policy and names itself as the beneficiary. The executive is the insured.
- The policy offers an income tax-free death benefit and accumulates a tax-deferred cash value for the employer.<sup>1</sup> Premium payments are not deductible.

### Step 3: Receiving Income

- When the executive retires or at another specified date, he or she begins receiving the deferred benefits from the employer, at which time the employer receives an income tax deduction and the benefits are taxable to the executive.
- The employer can use the accumulated net cash value—through withdrawals or policy loans—to fund the benefit distributions.<sup>2</sup>
- Since the deferred compensation benefits are an unsecured promise by the employer and are subject to the claims of the employer's creditors, the employee is not taxed until the income is distributed.

### Step 4: Beneficiaries

- In the event of the executive's death, the plan may provide that his or her beneficiaries receive either a taxable annual income or a taxable lump-sum death benefit, depending on plan design, funded by the policy proceeds received by the employer.

## The Advantages

With the deferred compensation plan, both the employer and key executives benefit. Depending upon the design of the plan, here's how:

### The Executive

- Reduces taxable income in deferral years.
- Has income deferral opportunities not subject to qualified plan limits.
- Accumulates tax-deferred retirement benefits until distribution.
- Can enjoy a preretirement survivor benefit.

### The Employer

- Has minimal ERISA requirements.
- Controls the plan, owns the life insurance policy, and can include the cash value of the life

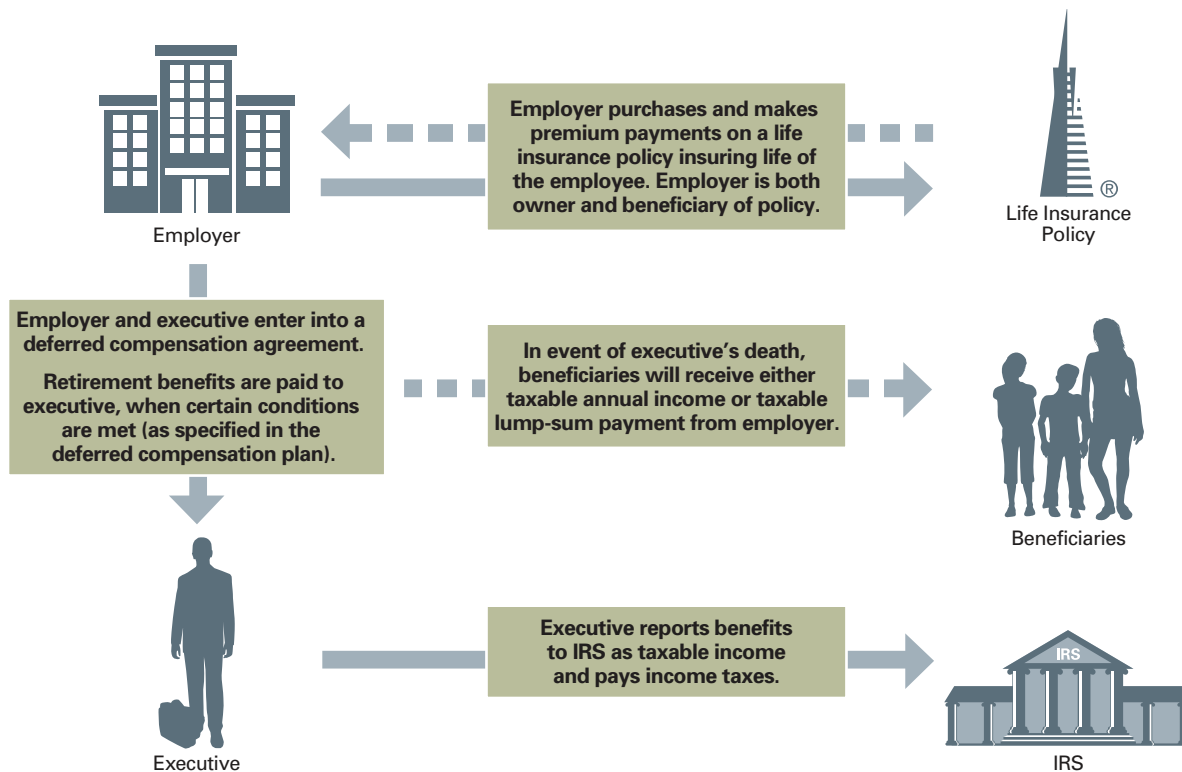
insurance policy as an asset on the company's balance sheet.

- Provides selected key employees with additional deferral opportunities different from those available to other employees.
- Gains an attractive tool for recruiting, retaining, and rewarding talented executives by providing additional retirement income.
- Receives an income tax deduction when benefits are paid out to the executive at retirement.
- Enjoys greater flexibility in plan design.
- May have alternative minimum tax (AMT) income.

<sup>1</sup> Notice and consent requirements and other provisions of § 101(j) must be met. Employer must also follow annual reporting requirements of § 6039I.

<sup>2</sup> This will reduce the policy's cash values and may affect the death benefit. Withdrawals or loans from, or pledged from, a life insurance policy that is a modified endowment contract (MEC) are taxable to the extent of the gain in the policy. If the policy is not a MEC, policy loans and pledges are not taxable when made and withdrawals in excess of basis are taxable.

# Deferred Compensation Plan Using Life Insurance



## A Deferred Compensation Plan Is Ideally Suited for:

- Employers who want to recruit and retain key employees.
- Companies that want to offer benefits in excess of those offered by their qualified retirement plans.
- Executives who want to supplement their retirement income and provide financial security for their families.

## Enhanced Retirement Income

A deferred compensation plan funded with Transamerica Life insurance policies can be an essential part of an executive compensation package. Through a life insurance policy, employers can recruit and retain key executives by offering a truly valuable financial perk—supplemental retirement benefits funded with deferred income.

# Deferred Compensation Plan Fact Finder

## Employee

Name \_\_\_\_\_ Annual Compensation \$ \_\_\_\_\_

Federal Tax Bracket \_\_\_\_\_ % State Tax Bracket \_\_\_\_\_ %

Company Ownership (if any) \_\_\_\_\_ %

## Employer

Name \_\_\_\_\_

Address \_\_\_\_\_

Entity Type:  C Corp  S Corp  Partnership  LLC

Federal Tax Bracket \_\_\_\_\_ State Tax Bracket \_\_\_\_\_

Total Number of Employees \_\_\_\_\_

## Illustration

Type of Insurance:  Fixed Universal Life  Variable Universal Life

Product to Illustrate \_\_\_\_\_

Policy Assumptions: Current \_\_\_\_\_ Guaranteed \_\_\_\_\_ Illustrated (VUL) \_\_\_\_\_

Insured's DOB \_\_\_\_\_ State of Policy Issue \_\_\_\_\_

Gender \_\_\_\_\_  Smoker  Nonsmoker  Select  Preferred  Standard

Desired: Death Benefit \$ \_\_\_\_\_ or minimum so as not to create a MEC \_\_\_\_\_

Death Benefit Option: Level \_\_\_\_\_ Increasing with cash value \_\_\_\_\_ Increasing, switching to level \_\_\_\_\_

Plus-Premium \_\_\_\_\_

Annual Insurance Premium \$ \_\_\_\_\_

Years to Pay Premium \_\_\_\_\_ or to age \_\_\_\_\_

Maximize Income from Policy at Insured's Age \_\_\_\_\_ for \_\_\_\_\_ years

If premium is not known, indicate desired cash flow from policy beginning in year \_\_\_\_\_ and ending in year \_\_\_\_\_

Policy Cash Value at 100 Equal to:  Endowment at initial face or  Cash value equal to \$ \_\_\_\_\_

# Deferred Compensation Plan Fact Finder (continued)

## Plan Design

### Employee Deferral:

- Deferral Amount:  Match policy premium \_\_\_\_\_  
 Specified \$ \_\_\_\_\_ for \_\_\_\_\_ years  
 None

### Retirement Benefits:

- Benefits Based On: Executive deferrals for \_\_\_\_\_ years  
Specified \$ \_\_\_\_\_ for \_\_\_\_\_ years  
Policy distributions \_\_\_\_\_

### Survivor Benefits:

- Benefits Based On: Executive deferrals for \_\_\_\_\_ years  
Specified \$ \_\_\_\_\_ for \_\_\_\_\_ years  
Death benefit for \_\_\_\_\_ years  
Present value rate \_\_\_\_\_%

### Employer Recovery:

- Amount of Recovery: Benefit payments \_\_\_\_\_  
Premiums and benefits \_\_\_\_\_  
No recovery \_\_\_\_\_  
Cost of money \_\_\_\_\_%

## Producer Information

Producer Name \_\_\_\_\_  
Broker/Dealer Affiliation (required for variable life proposal) \_\_\_\_\_  
Phone No. \_\_\_\_\_  
E-mail Address \_\_\_\_\_  
Date \_\_\_\_\_

Note: This can be illustrated with the Transamerica Nonqualified Deferred Compensation choice in our illustration software.



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