



The Executive Nonqualified Deferred Compensation Program

Your Business ... POWERed by CPI

Executive nonqualified deferred compensation plans bridge the gap and help to achieve retirement prosperity.

When business owners or key executives are on the upper end of the tax bracket, they are often looking for alternatives to bridge the gap between what their qualified retirement plan will provide at retirement, and what they actually need to maintain their current lifestyle. Many executives foresee a gap of 25% to 35% between their income prior to retirement and their income during retirement. And many times this gap will become even wider because their 401(k) deferrals and any employer matching contributions are limited based on the results of the plan's ADP/ACP test results.

CPI's 409A-compliant executive nonqualified deferred compensation plan allows owners and executives to set aside unlimited amounts on a tax-deferred basis in a separate retirement plan designed for only them, the executive nonqualified deferred compensation plan. The benefits of a nonqualified deferred compensation program include:

- ▲ The additional funds set aside for retirement through elective deferral are not subject to current taxation.
- ▲ Account balances in a nonqualified deferred compensation plan remain assets of the employer. Elective deferrals are subject to FICA and Medicare withholding, and are not deductible by the employer until the participant takes constructive receipt.

Earnings on plan accounts are not taxable to the participant; however, the employer will be taxed on all of the plan's current income and capital gains.

- ▲ The inability for the employer to defer contributions at the time they are made has important implications for S corporations, partnerships, sole proprietors, and other types of "pass-through" entities. In pass-through entities, **salary deferrals by owners do not result in deferral of income taxes.**
- ▲ In addition to employee deferrals from earned income or bonuses, contribution sources can include additional employer contributions. Employer contributions to the nonqualified plan are not deductible to the employer until the account balance is paid to the participant.
- ▲ The plan design can include a vesting schedule that applies to employer contributions to create "golden handcuffs," helping to retain key executives.
- ▲ Plan participants can elect future distribution dates that are scheduled to occur while still employed or after retirement.
 - Distribution elections must be made at the time of deferral, and are permitted only at specified times.

The executive nonqualified deferred compensation plan is 409A compliant.

- A participant may choose, for example, to receive a distribution after a fixed number of years, or upon separation from service.
- Distributions are taxable to the participant upon receipt and cannot be rolled over to an Individual Retirement Account (IRA).
- At the time the participant takes distribution, that amount becomes deductible by the employer.

- ▲ Plan participants can continue to participate in the company-sponsored qualified retirement plan, as well as the new executive nonqualified deferred compensation plan.
- ▲ This plan is very economical to administer, and a valuable asset accumulation program.

Bridge the Gap Today!

There are many good reasons to establish a nonqualified deferred compensation plan today:

- ▲ Contributions favor highly paid executives
- ▲ Can include employer matching and/or discretionary contributions
 - Talk to your CPI representative about the ramifications of vesting employer contributions in an executive nonqualified deferred compensation plan.
- ▲ No IRS approval is required
- ▲ No contribution limits
- ▲ Not subject to discrimination testing
- ▲ No federal or state income taxes paid by the participant until benefits are paid
- ▲ Low cost fringe benefit for executives

As you can see, CPI's executive nonqualified deferred compensation plan can target the very people a qualified plan may limit: highly compensated executives.

A nonqualified plan provides a supplemental benefit to those employees without extending a proportionate benefit to other employees.

When evaluating an executive nonqualified deferred compensation plan, it is important to consider the following factors:

- ▲ The executive nonqualified deferred compensation plan is not available to not-for-profit or governmental entities.
- ▲ Participant deferral contributions are not deductible to the employer at the time they are made. For S corporations, partnerships, sole proprietors, and other types of "pass-through" entities this is an important distinction. In pass-through entities, **salary deferrals by owners do not result in deferral of income taxes.**
- ▲ Unlike qualified plan assets, all assets held in a nonqualified deferred compensation plan are owned by the employer and remain subject to the claims of the employer's general creditors.
- ▲ Nonqualified deferred compensation plans can be very flexible, but they are not simple. They require a plan document and are subject to detailed tax requirements.
- ▲ Before establishing a qualified or nonqualified retirement plan, consult legal counsel and a tax adviser to determine the suitability of the program.

Call today. 800.491.7859

CPI Qualified Plan Consultants, Inc.
 1809 24th Street | P.O. Box 1167 | Great Bend, KS 67530-1167
 www.cpiqpc.com®
 800.279.9916 ext. 765 or 800.491.7859