Nonqualified Retirement Plans

Informal Funding Comparison

For a nonqualified retirement agreement to achieve the desired income tax and ERISA consequences, the agreement needs to be unfunded or informally funded. An employer can informally fund a nonqualified retirement agreement by setting aside assets that are owned by the employer. These assets remain subject to the claims of the employer's general creditors. The employer is under no obligation to set aside funds, however the use of an informal funding vehicle may give creditability to the employer's promise to pay and increase the executive's confidence that the benefits will be paid.

This chart shows several options the employer might consider when considering various ways of informally funding its obligations under a nonqualified retirement plan.

Factors to Consider	Cash Flow	Bonds and Gov. Investment[1]	Stocks and Mutual Funds	Corporate-Owned Annuities	Corporate-Owned Life Insurance
Income Tax Deferred Growth	No	Maybe	No	No	Yes
Efficient Cost Recovery	No	No	No	No	Yes
Financial Statement Impact	High	Moderate	Moderate	Moderate	Low
Benefits Taxable to Executive	Yes	Yes	Yes	Yes	Yes

[1]Favorable income tax treatment may be available for certain types of treasury or bond investments.

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