

Nonqualified Deferred Compensation Plan Design Comparison



	Deferred Income Plan	Nonqualified 401(k) Look-Alike Plan	Supplemental Executive Retirement Plan (SERP)
Contributions	Executive Deferrals	Executive Deferrals and Employer Match	Employer Contributions
Accruing Benefits	<p>Used when an executive wants to defer taxes on earned income that is not currently needed.</p> <p>Deferrals may include salary increases, bonuses or directors fees.</p> <p>Deferrals accrue interest based a formula in the agreement. The executive is fully vested in deferrals.</p>	<p>The executive defers a portion of current income pursuant to the agreement. The employer contributes an amount based on a prearranged formula. The executive vests in this matching contribution based on a vesting schedule contained in the agreement.</p> <p>Deferrals and employer's matches accrue interest based on a formula in the agreement.</p>	<p>Defined Benefit: The employer agrees to pay retirement benefits, which are based on a formula – often tied to final average salary. The plan generally includes pre-retirement and/or post retirement benefits.</p> <p>Defined Contribution: The employer contributes a dollar amount each year to the executive's account. This amount may be a flat dollar amount or a percent of compensation. At retirement, the income stream available to the executive is determined by the amount in the account.</p> <p>The plan creates "golden handcuffs" used to help recruit, reward and retain valuable executives.</p>
Informal Funding	The employer purchases a life insurance policy on the executive's life.	The employer purchases a life insurance policy on the executive's life.	The employer purchases a life insurance policy on the executive's life.
Retirement Benefits	At retirement, the employer pays the promised benefits from cash flow or from the policy's cash values. The payment is deductible by the employer and is taxable income to the executive.	At retirement, the employer pays the promised benefits from cash flow or from the policy's cash values. The payment is deductible by the employer and is taxable income to the executive.	At retirement, the employer pays promised benefits from current assets and may recover the after-tax cost of the benefit payments out of policy values. The payment is deductible by the employer and is taxable income to the executive.
Cost Recovery	The employer can keep the life insurance policy in force until the executive dies, using the death benefit to recover the employer's cost of the plan.	The employer can keep the life insurance policy in force until the executive dies, using the death benefit to recover the employer's cost of the plan.	<p>There are generally two approaches:</p> <ol style="list-style-type: none"> 1. Recovery of after-tax cost of benefit payments as they are made from policy values, and recovery of the after-tax cost of survivor benefits (if EE dies during benefit period) and cumulative premiums from death proceeds. 2. If the employer decides to forego using policy values, recovery of all cost (after-tax cost of retirement benefits and/ or survivor benefits plus cumulative premiums) is made from death proceeds of the policy.