

## Deferred Compensation

Nonqualified deferred compensation plans, also known as NQDC plans or DC plans, help highly compensated executives (HCEs) save tax-deferred beyond the limits of qualified plans.

### For Organizations as the Plan Sponsor

- Deferred compensation can be a powerful tool for recruiting, rewarding, and retaining talented executives and key employees.
- Companies can choose to make discretionary or incentive-based contributions.
- Accounting protocols are simple and straightforward, and government disclosure requirements are limited.
- Offering a nonqualified plan can help alleviate qualified plan nondiscrimination test failure, positioning the organization to better support the retirement readiness of all its employees.

### For Executives as Plan Participants

- Plan participants have options for withdrawing savings before they reach retirement age.
- Both savings and earnings through a nonqualified plan are tax-deferred during the period that is likely the executive's peak earning years, potentially creating a significant tax saving at the time of withdrawal.
- Flexible distribution options (the timing and form of payouts) enable better long-term tax planning.

Deferred compensation plans are efficient and typically appeal to the organization and the participating executives. Companies guided by knowledgeable executive benefits consultants should explore the variety of options available for structuring and funding this valued executive benefit.

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