Newport/PLANSPONSOR Executive Benefits Survey

2020 Edition

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Contents

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Executive Summary

Familiar Plans in an Unfamiliar World

For many of us, the world looks very different today than it did a year ago. Many things seem unsettled, uncharted and unfamiliar—from the economy and financial markets, to how we live and work. During times like these, employers and employees want and need familiar and traditional benefit plans, backed by the right structure and stability. And non-qualified deferred compensation (NQDC) plans remain one of the most valuable and important tools an employer has for attracting and retaining key employees. NQDC programs are well-established and allow employers and their highly compensated employees to achieve their mutual objectives.

The ongoing prevalence of NQDC plans is a key finding of this year's ***Newport/PLANSPONSOR 2020 Executive Benefit Survey***. In partnership with PLANSPONSOR magazine, the retirement industry's leading publication, Newport's team of non-qualified benefits consultants gathered and analyzed data from nearly 300 companies nationwide. Our NQDC professionals then used their industry knowledge and years of experience to offer important observations and valuable insights—including the impact of COVID-19 on employers and their NQDC plans.

Taking the Next Step

NQDC plans are extremely popular and virtually universal throughout corporate America. The question now is not whether to offer a plan, but how employers, financial advisors and plan administrators can best work together to ensure these plans are properly meeting the needs of a company and its key employees.

98%

of the surveyed companies currently offer a non-qualified deferred compensation program

One of the biggest challenges facing employers, advisors and administrators is the communication and education components of NQDC plans—the ones designed to inform eligible employees of the benefits of the plan, and inspire them to join it.

At Newport, we see this challenge every day as we talk to our clients and their NQDC plan participants. We also see this challenge reflected clearly in this year's survey results. As a leader in the non-qualified plan industry, Newport is working with our clients and advisor partners to develop new and creative ways to communicate with plan participants through different forms of media, a contemporary enrollment experience, and personalized education campaigns.

This year's ***Newport/PLANSPONSOR 2020 Executive Benefit Survey*** is also part of the next step in our ongoing efforts to improve what we collectively deliver to our clients and their plan participants. Through the survey, we uncovered trends and themes for employers and their financial advisors within the different components of NQDC plans including plan prevalence, eligibility determination, company contributions, distribution and payment options, funding vehicles, participant communication and plan administration. And due to the impact that COVID-19 has had on all of us, we added a section in this year's survey to address how employers are dealing with the economic impact of the pandemic and its effect on executive benefit plans. The COVID-19 survey responses and our analysis is included in this report for your use.

Our hope is that these findings provide employers and their advisors with practical information and thought-provoking ideas as they review and make plans for compensation and benefit programs now and in the coming year.

Current (and Constantly Changing) Environment

The landscape is constantly changing—sometimes quicker than we would like. Whether it is economic, social, environmental or political, change is a constant and often for good reasons.

What people do want is some stability and constants in their lives and in their ability to plan for their future. Company-sponsored retirement plans play a large part in an employee's financial planning, and employers and retirement plan participants like to see structured and trusted methods in this area to help them plan and achieve their financial and retirement goals.

The good news is that we have a great deal of stability and consistency in qualified and non-qualified company-sponsored retirement plans. In particular, defined contribution 401(k) plans and deferred compensation plans are two of the most stable forms of participant directed voluntary plans available today.

IRC §409 was introduced over 15 years ago and changed how employers, advisors and plan administrators design, implement and administer NQDC plans. We also had the 2006 Pension Protection Act that provided guidance on corporate-owned life insurance (COLI) best practices. However, over the last several years, non-qualified plans have not fundamentally changed. This is because they are widely accepted and adopted by many companies and organizations. All of the components work because government, businesses and participants understand the risks and rewards involved.

We should always expect more change. Corporate and personal income tax rates may change, and investment markets and business climates always change. However, we should recognize, and use to our full advantage, now what we have available and what we know works to achieve our objectives. NQDC plans provide the vehicle that a company's key management employees need and want in order to reach their financial planning goals. And while there have been a number of creative design, investment and funding ideas that we see in this year's survey results, NQDC plans are largely a constant that can be counted on by plan sponsors and participants.

Key Survey Findings

The following are several of the results, key findings and marketplace insights of this year's survey from Newport's non-qualified plan consultants.

Company Goals and Participant Satisfaction

- The primary goals for employers for their NQDC plans are creating a valuable financial planning tool for participants and offering a competitive plan to their peer companies. Most employers have been satisfied with the effectiveness of their plans to meet these two goals.

- Employers noted that their NQDC participants are very satisfied with the ability for the plan to meet their financial planning needs and with the investment choices offered.

- As noted earlier, however, employers reported that the delivery of the NQDC plans is not currently meeting the needs or expectations of participants in the areas of website experience, plan communications and education.

- Consistent with the communication concerns, the top two NQDC plan enhancements that employers would like to see in 2021 are improved plan communications and better online tools for participants that would allow them to more effectively manage and forecast their accounts.

Prevalence, Plan Design and Investment Options

- Nearly all respondents—98%—indicated they currently offer an NQDC plan—which continues the increase in prevalence from our last survey. Partly in response to staying competitive with peer companies and partly with the help of relatively strong economic conditions over the last decade (setting aside the impact of COVID-19), companies have widely implemented and actively sponsor NQDC plans for their senior management and key employees.

- Participant eligibility and the compensation levels have changed slightly from previous years' surveys. The most common forms of eligibility are compensation and job position which account for over two-thirds of the respondents. Generally, the minimum compensation is $150,000+ with three-quarters of employers reporting that they have thresholds at or above this level. Anything below these levels and participation rates start to suffer.

- Because of current economic conditions, one other important and timely employee deferral feature is the 401(k) refund deferral. More companies are reporting nondiscrimination testing issues for their highly compensated employees (HCEs). An automatic deferral of any refunds can easily be added to an NQDC plan which completely offsets the lost pre-tax deferral of any participant 401(k) refunds.

- Our analysis of NQDC company contributions yielded two interesting observations. The first was that 26% of companies provided a discretionary company contribution to their plan participants, such as hiring bonuses or retention bonuses with customized vesting schedules. The second was the use of an Auto-Enrollment feature whereby the company makes a nominal contribution to a participant's NQDC account in an effort to jump start engagement with the plan. This is a new development that showed up in our survey for the first time (and one that Newport has seen in practice recently). This new feature dovetails well with the recurring theme of enhanced communication and education that we have seen recently with our own clients and throughout this survey.

- Investment options continue to be dominated by two primary choices: a custom NQ menu and 401(k) mirror. Employers report an almost 50/50 split between the two. The number of funds offered is largely in the 10-19 range and may include company stock or even a fixed rate option, and a derivative such as a collared S&P index. The last two can provide an upside return while protecting principal.

Informal Funding/Plan Financing

A critical decision in overall management of NQDC plans is the financing strategy and how it impacts the financial statements. Funded or unfunded, trust or no trust, tax-managed COLI or taxable mutual funds? All of these are questions that plan sponsors and advisors have to consider.

In this year's survey, there were some new trends and some steady results. One of the new trends was a large increase in the number of respondents who indicated that they use a trust as part of their financing strategy. In fact, 83% of companies said they use a trust if they have set aside assets to finance their NQDC plan.

COLI and mutual funds are still the most common financing assets used by plan sponsors. Mutual funds are used by many tax-exempt organizations while COLI or a combination of COLI and mutual funds is used by for-profit companies. The survey respondents indicated that they used mutual funds in 48% of their NQDC plan financing and COLI is used in 63% of plans.

83%

of companies use a trust as part of their overall financing strategy

Plan Administration and Participant Communication

- The risk associated with IRC §409A violations has become front and center with most employers, so virtually all plans have been outsourced to third party administrators (TPAs). This is particularly true for market-based plans and plans with significant participant activity (deferrals, distributions, investment changes, etc.). Our survey found that 86% of companies now use a TPA for some or all of their plan administration and record keeping ideally with a participant and plan sponsor website dedicated to NQ plan designs.
- Along with heightened requirements of plan administration comes the elevated bar of participant communication. The number one concern of employers and participants continues to be general knowledge about non-qualified plans and specific knowledge about plan features and provisions. Employers and participants are not getting good results from many of the traditional forms of communication including meetings, webinars, and emails. Participant education will be one of the major areas of focus for employers, advisors and administrators over the next few years.

86%

of companies use a TPA for a portion or all of their NQDC plan administration and participant communication

Summary

Many of us may be overwhelmed and distracted by the events going on around us right now. So, it is easy to understand why employers and employees may not have the time, energy or attention span to focus on anything other than critical missions at hand.

With that said, we cannot forget to keep long-term goals in mind and one of the most important goals that we all have besides our health and happiness is our financial well-being. As employers and plan sponsors, you have a valuable opportunity to assist your employees in achieving their financial goals through well designed and properly administered retirement plans. NQDC plans are virtually universal in corporate America today and certainly the most common form of benefit plan for senior management—and they are very efficient at helping these key employees with their overall financial and retirement planning.

NQDC plans do come with their own set of demands and challenges. There are plan design considerations, IRC §409A concerns, investment menu questions, participant communication needs and funding decisions. This year's survey has shown that there are a number of trends that have continued over the last several years, as well as several new NQDC ideas that have been developed and are being rolled out in existing and new plans. The good news is that, in order for employers to effectively accomplish all of this, there is considerable support available from non-qualified plan consultants, investment advisors and third party administrators. Our hope is that ***the 2020 Newport/PLANSPONSOR Executive Benefit Survey*** results will facilitate a conversation and help stimulate new thoughts of your own as you consider your non-qualified plans.

Methodology

Newport partnered with PLANSPONSOR for the first time in 2020 on our Executive Benefits survey. In addition to our traditional voluntary NQDC plan questions, we expanded the survey this year to include questions about supplemental retirement plans (SERPs) and a special section on the impact that COVID-19 has played on plan sponsors' non-qualified programs. These new questions and the question format were jointly developed by PLANSPONSOR and Newport and distributed by PLANSPONSOR Research and Surveys team. The survey was sent to a broad cross-section of organizations including PLANSPONSOR subscribers, Fortune 1000 companies and other large for-profit and tax-exempt companies.

Data collection was performed by PLANSPONSOR and included answers from 282 unique companies and organizations. The data was analyzed for consistency and prepared for presentation by Newport's professional compensation consultants and non-qualified plan consultants. All individually submitted data is kept strictly confidential, and only aggregate results are reported so as not to disclose any individually reported information.

Interested in more NQDC resources from Newport? Click here.

Non-Qualified Deferred Compensation Plans

Non-Qualified Deferred Compensation Plans

The following pages offer insights into this year's Newport/PLANSPONSOR Executive Benefits Survey. This first section explores the questions and survey results of the prevalence and plan design considerations of non-qualified deferred compensation (NQDC) plans.

Goals and Satisfaction

Rank each of the goals below in their order of importance for your NQDC program.

	1	2	3	4	5	6	Ranking
Allow executives to accumulate assets for their financial planning needs	42%	15%	16%	17%	8%	2%	**1**
Offer a compensation program that is competitive with peers	22%	23%	22%	14%	15%	5%	**2**
Retain executives	15%	18%	24%	24%	15%	3%	**3**
Attract executives	11%	20%	16%	25%	23%	5%	**4**
Compensate executives in a more tax-efficient manner	9%	22%	18%	17%	30%	5%	**5**
Increase stock ownership of the firm by eligible executives	0%	2%	5%	3%	9%	80%	**6**

How effective has your program been in accomplishing the following goals?

1 = "Most Effective" and 5 = "Not Effective"

	1	2	3	4	5	Ranking
Allow executives to accumulate assets for their financial planning needs	47%	40%	9%	4%	0%	**1**
Offer a compensation program that is competitive with peers	28%	40%	25%	6%	1%	**2**
Compensate executives in a more tax-efficient manner	28%	49%	23%	7%	3%	**3**
Retain executives	20%	39%	32%	5%	4%	**4**
Attract executives	11%	39%	36%	10%	4%	**5**
Increase stock ownership of the firm by eligible executives	7%	20%	24%	10%	39%	**6**

Survey Findings

The two most important goals for plan sponsors continue to be 1) to ensure that key employees are receiving a valuable tool for their retirement planning and 2) that the plan is competitive with its peers. Plan sponsors reported that their NQDC programs have been particularly effective in achieving these two goals. However, the attraction and retention aspects of NQDC plans is not as effective as plan sponsors hoped, which leads us to believe that more can be done with regards to communication and education. Stock ownership has been less of a priority and, for those that do consider this to be a goal, the NQDC plan has not been all that effective.

Marketplace Insights

The fact that "attracting key employees" didn't score higher may indicate that there is a market perception that a key employee terminating will cause a large NQDC payout—and a taxable event—thereby creating the incorrect perception that the plans are more of a retention vehicle than a vehicle to recruit key employees. Attracting key employees who have an NQDC balance at a competing company can be accomplished by allowing those associates to defer a large percentage of their upcoming salary and bonus, for multiple years if necessary, while they live off their prior NQDC distribution. This distribution/deferral combination creates an effective "virtual rollover" from one plan to another.

Non-Qualified Deferred Compensation Plans

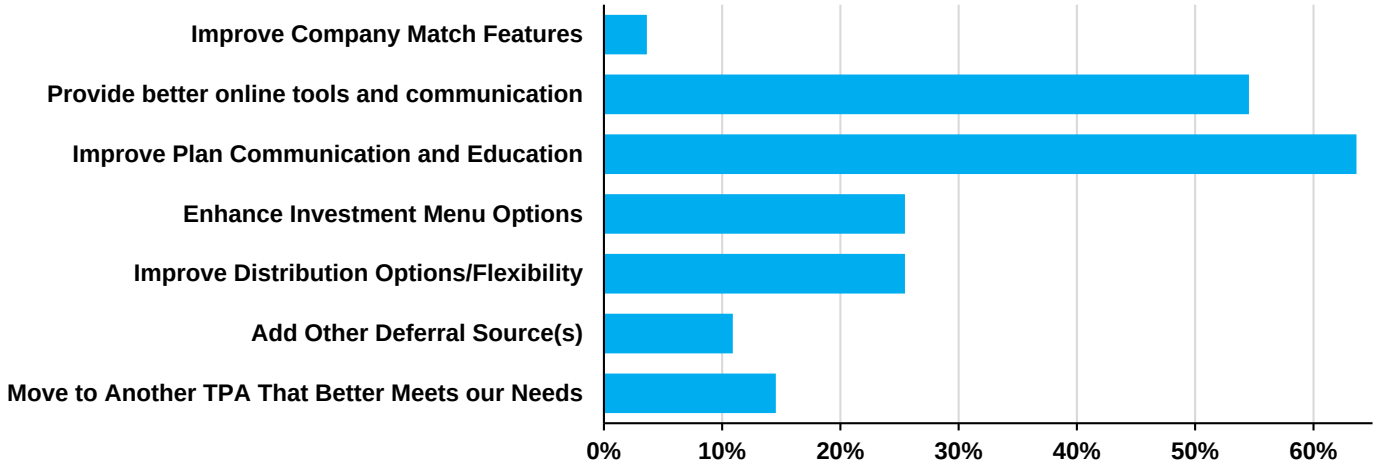
Goals and Satisfaction

How satisfied do you think PARTICIPANTS are with the following aspects of your NQDC plan?

1 = “Most Satisfied” and 5 = “Not Satisfied”

	1	2	3	4	5	Ranking
Impact on participants' retirement preparedness	39%	41%	15%	6%	0%	**1**
Investment choices	27%	48%	18%	4%	3%	**2**
Valuable component of participants' overall benefit package	26%	47%	22%	4%	1%	**3**
Impact on participants' tax planning	24%	42%	29%	5%	1%	**4**
Website experience delivered by service provider	25%	38%	28%	7%	3%	**5**
Plan education and materials	12%	48%	30%	7%	3%	**6**
Their understanding of the plan	8%	32%	44%	14%	2%	**7**

Are you planning any enhancements or changes to your NQDC plan in the next 12-18 months?



Survey Findings

Plan sponsors consider their NQDC participants to be very satisfied with the ability for the plan to meet their individual needs for retirement/financial planning and with the investment choices offered. The areas where the NQDC plans fall a little short of expectations according to plan sponsors are in the plan delivery and “participant experience”—website, plan communications, and education. To that end, the top two enhancements or changes that plan sponsors intend to do in the coming year are 1) improve plan communication and 2) offer better online tools.

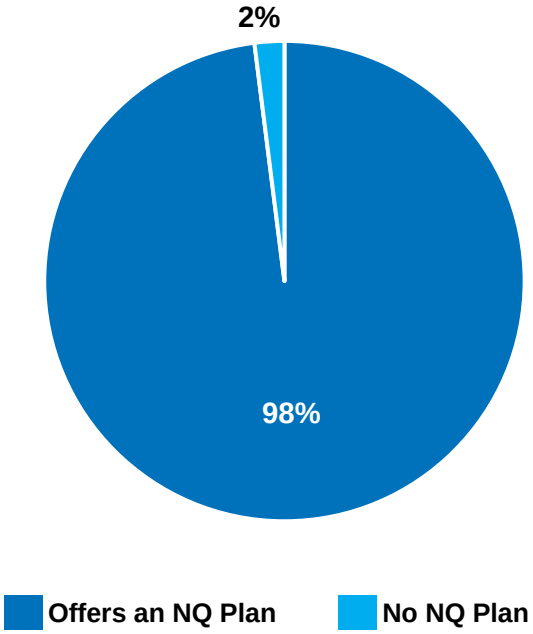
Marketplace Insights

The primary NQDC challenge facing plan sponsors, advisors and TPAs continues to be educating and communicating effectively to senior management and key employees. There is an increasing demand on the time of senior management, so these critical messages need to be rethought, repackaged and delivered in better and more creative ways.

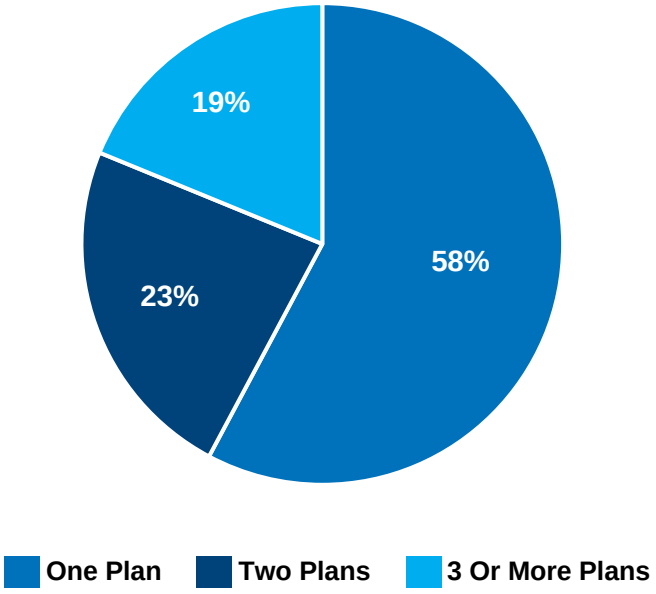
Non-Qualified Deferred Compensation Plans

Prevalence

Do you offer an NQDC plan at your company?



How many NQDC plans do you offer?



Survey Findings

This year's survey showed a marked increase in the percentage of companies offering a non-qualified deferred compensation plan with 98% reporting that they sponsored a plan for their senior management. 58% of these companies sponsored one plan with close to another one-quarter offering two NQDC plans.

Marketplace Insights

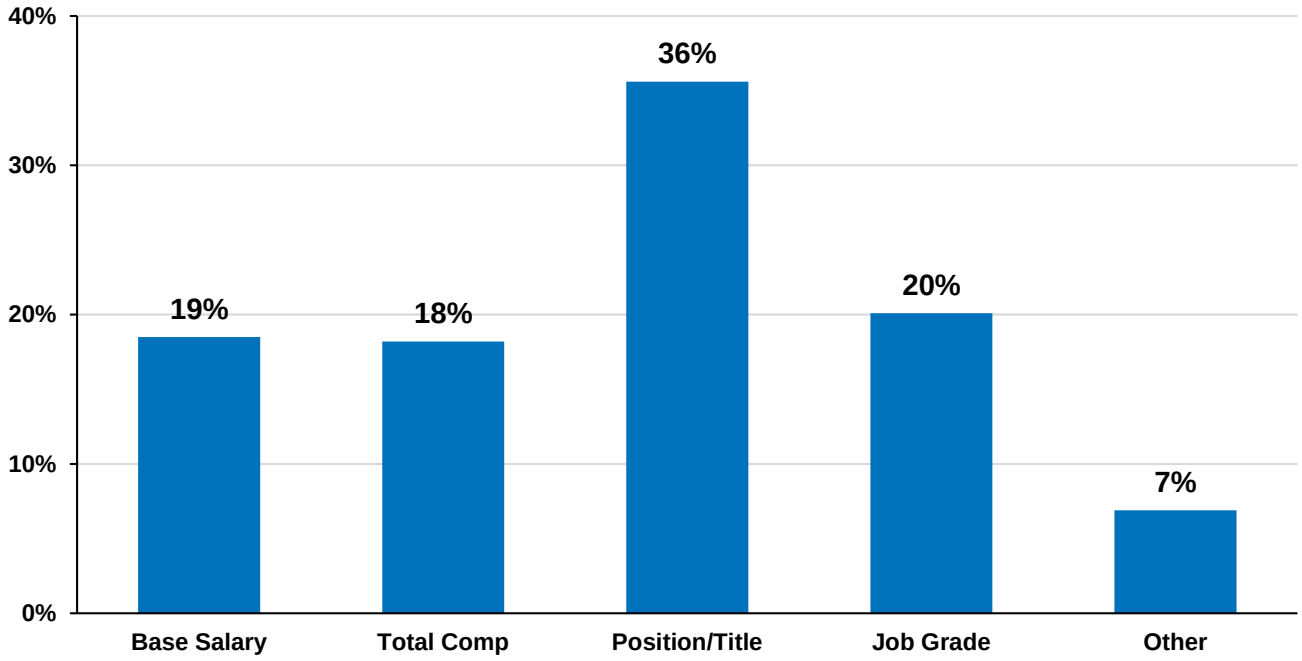
Over several years of these surveys, the number of companies and organizations that reported sponsoring NQDC plans has ranged from the 85%-95%. The increase this year to 98% of firms can largely be attributed to two factors: 1) strong economy (prior to COVID-19) and 2) different survey methodology.

What we've also seen in our work with plan sponsors is that these plans come in all shapes and sizes. Some plans are for a broad group of senior management—sometimes 5% to 10% of a company's total work force and some plans may be for just 1 or 2 senior officers at a company. Of the roughly 75-100 plans that Newport implements each year about half are new start-up plans.

Non-Qualified Deferred Compensation Plans

Participant Eligibility

How do you determine who is eligible to participate in your NQDC plan?



Survey Findings

Compensation and job position continue to be the most common criteria that companies use to determine plan eligibility. Compensation (base salary or total comp) accounts for 37% of the responses. This result is up from 31% in Newport's previous survey. Position/job title account for 36% of the responses—up from 22% in the last survey.

Marketplace Insights

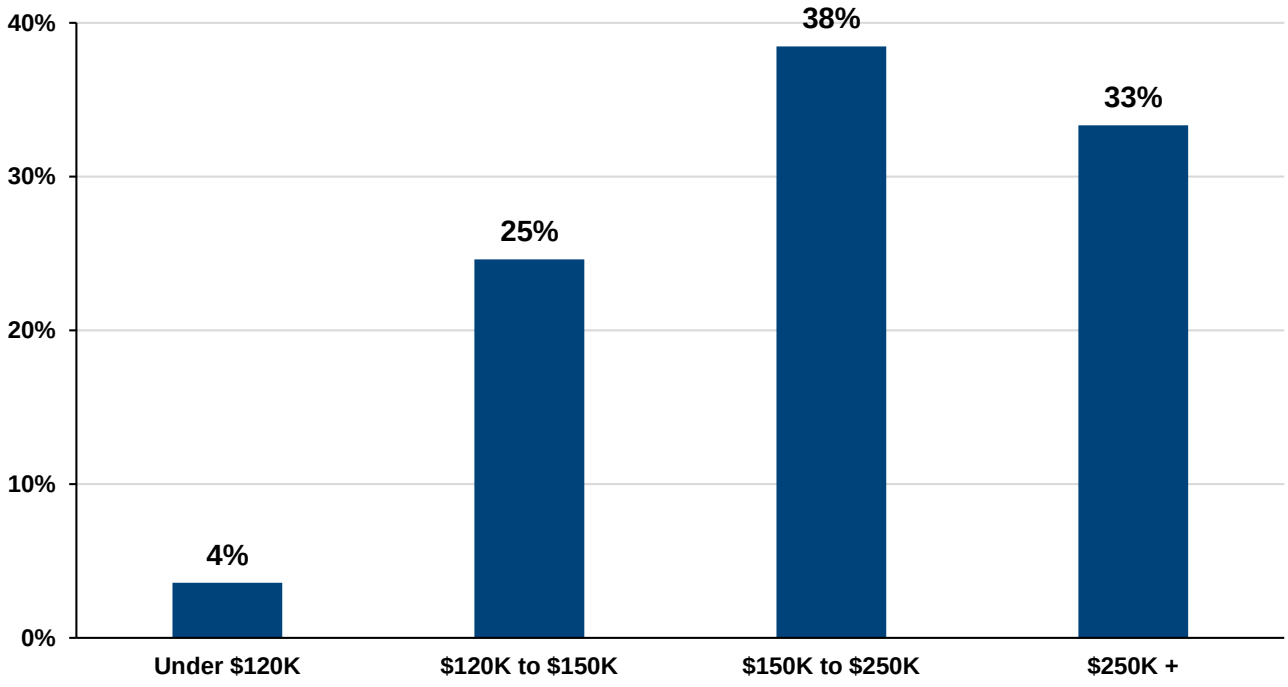
Compensation will always be an important benchmark used to gauge who and to what degree employees may participate in an NQDC plan. However, using position, title or job grade for eligibility purposes has been gradually increasing. Many plan sponsors feel that using a transparent criteria such as job title may avoid privacy concerns around compensation.

In addition, contemporary NQ plan design and plan documents do not pre-define eligibility. But rather the definition will be subject to an annual decision by the plan committee. This flexibility allows the plan sponsor to modify or add participants at its discretion year to year without having to make frequent plan amendments.

Non-Qualified Deferred Compensation Plans

Participant Eligibility

What is the minimum total compensation among those eligible for the plan?



Survey Findings

While total compensation is only one of the several eligibility tests that are used, it is one of the most common. Almost three-quarters of the survey respondents (71%) use compensation over $150,000 as the minimum compensation level for plan eligibility.

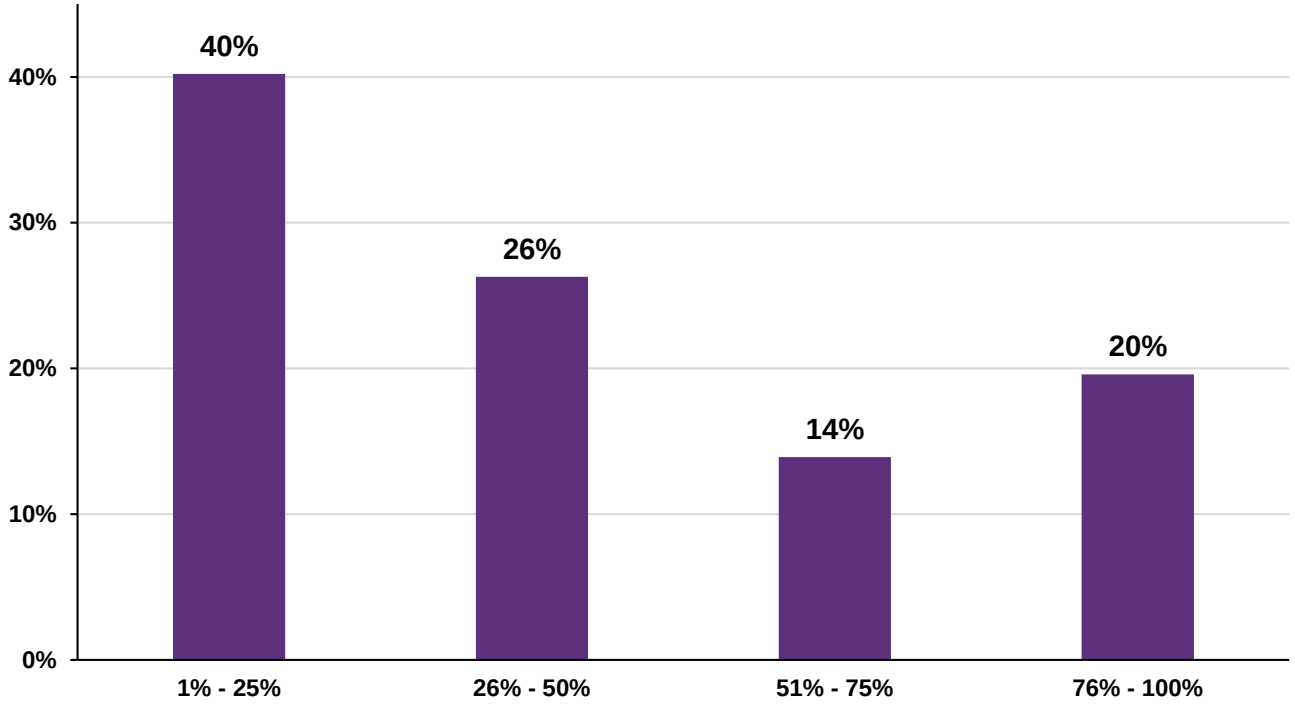
Marketplace Insights

In past years, we had seen some companies use the HCE compensation definition under qualified plan nondiscrimination testing ($130,000 in 2020). Recently there has been a trend towards raising the minimum compensation levels. Plan sponsors have found that participation rates have been low for those eligible participants making under certain compensation thresholds. There are exceptions for certain geographical areas, but generally $150,000 is the minimum compensation level where participants are able to significantly take advantage of voluntary deferrals.

Non-Qualified Deferred Compensation Plans

Participant Eligibility

What percentage of your eligible group is actively deferring into the NQDC plan?



Survey Findings

40% of companies indicated that participation rates were below 25% while only 20% responded that their participation rates were above 75%.

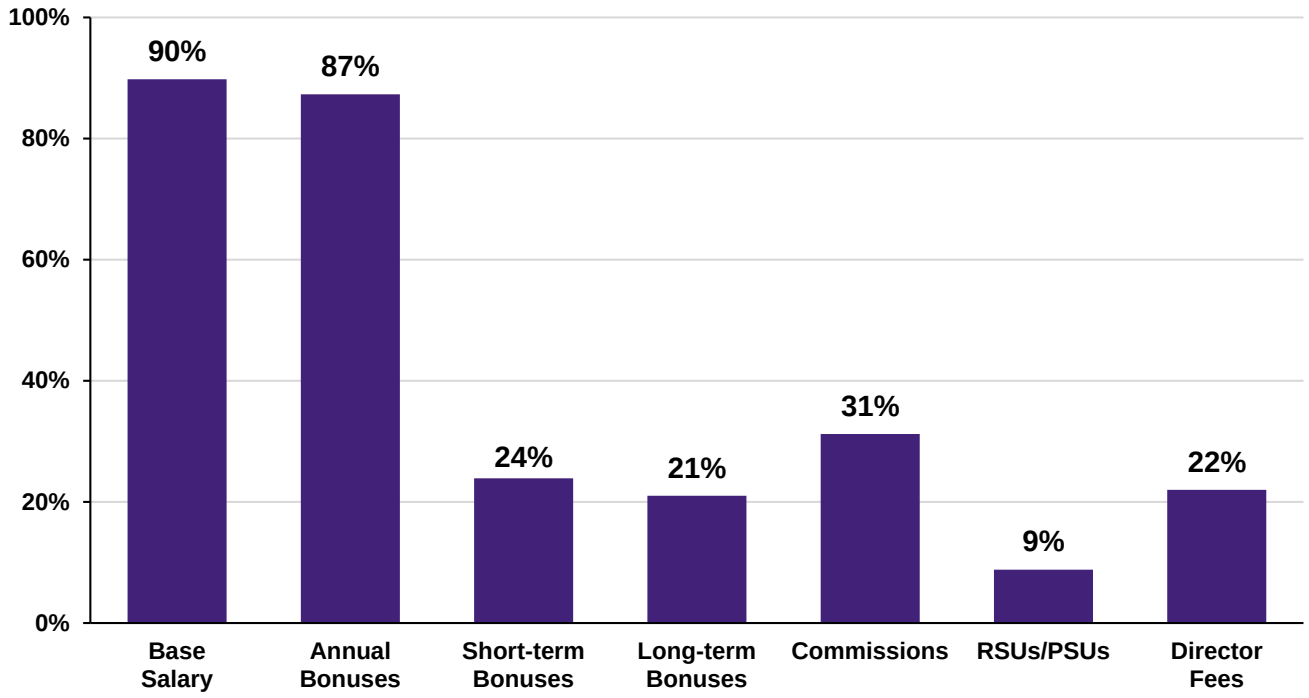
Marketplace Insights

These range of rates are consistent with Newport's broad NQ client base and it is also consistent with what has been reported in previous surveys. We have spoken with hundreds of clients on this subject and, as a result, we have identified the key drivers to participation rates. Economic or financial considerations are the primary factor that can drive participation rates higher. These considerations include high personal income tax rates, good economic conditions and matching company contributions. The other participation drivers are concerns about benefit security/creditor risk, participants' general lack of knowledge about the plan and ineffective communication methods that will always create lower participation rates. Once again, effective communication and education are critical to achieving a company's desired goals of their executive benefit plans.

Non-Qualified Deferred Compensation Plans

Eligible Compensation

What types of compensation may participants elect to defer?



Survey Findings

Base salary (90%) and annual bonuses (87%) are by far the two most common forms of deferrable compensation in NQDC plans today and that relationship has not changed significantly from past surveys. There was a slight increase this year to 31% of companies allowing deferral of commissions. Director fees and restricted stock are still common sources of deferrals amongst public companies.

Marketplace Insights

We have seen an increasing number of financial organizations and companies with large sales staff offer an NQDC plan to their commissioned sales team members, advisors and agents. Occasionally, these plans are standalone from the senior management plan because of unique company match and vesting features that some companies provide to their sales force to attract, reward and retain them.

Non-Qualified Deferred Compensation Plans

Eligible Compensation

What is the maximum deferral percentage allowed for each form of compensation?

	Most Prevalent			
	1st	2nd	3rd	Average
Base Salary	50%	75%	100%	68%
Annual Bonus	100%	75%	50%	88%
Commissions	100%	50%	75%	78%
Director Fees	100%	- -	- -	100%

Survey Findings

When base salary is offered as a source of deferrals, companies most often indicated that 50% was the maximum percentage allowed with 75% being a close second. For annual bonuses, commissions and director fees, 100% was the most common maximum percentage allowed.

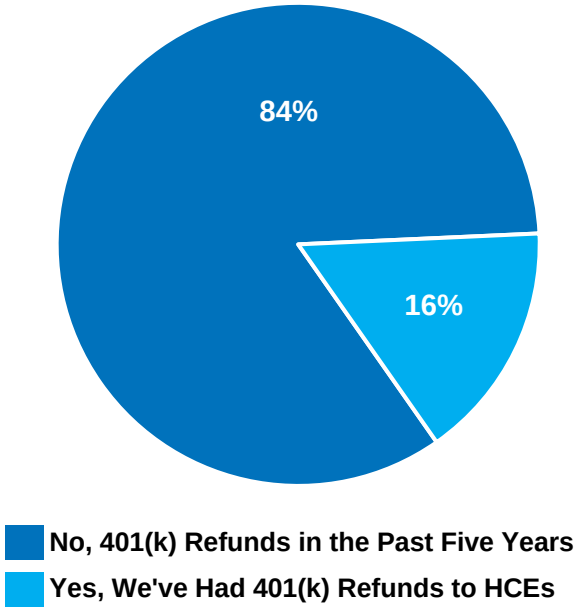
Marketplace Insights

Many companies will limit the salary deferral percentage to 75% or less to allow for payroll taxes and other pre-tax deductions to occur from non-deferred compensation. In our current economic environment, and with the impact that COVID-19 has had on many employers and employees, limiting salary deferrals to 75% or less may provide flexibility where there might not have previously been if a very large percent of salary had been deferred. Bonuses and commissions are more often not limited in the same manner (i.e., maximum of 100%) because there are other simultaneous pay sources from which to take payroll deductions.

Non-Qualified Deferred Compensation Plans

401(k) Nondiscrimination Testing Refunds

Has your qualified plan nondiscrimination testing resulted in refunds to any HCEs during the past five years?



Survey Findings

16% of companies responded that they have experienced 401(k) refunds paid back to highly compensated employees ($130K+) due to nondiscrimination testing in the past few years.

Marketplace Insights

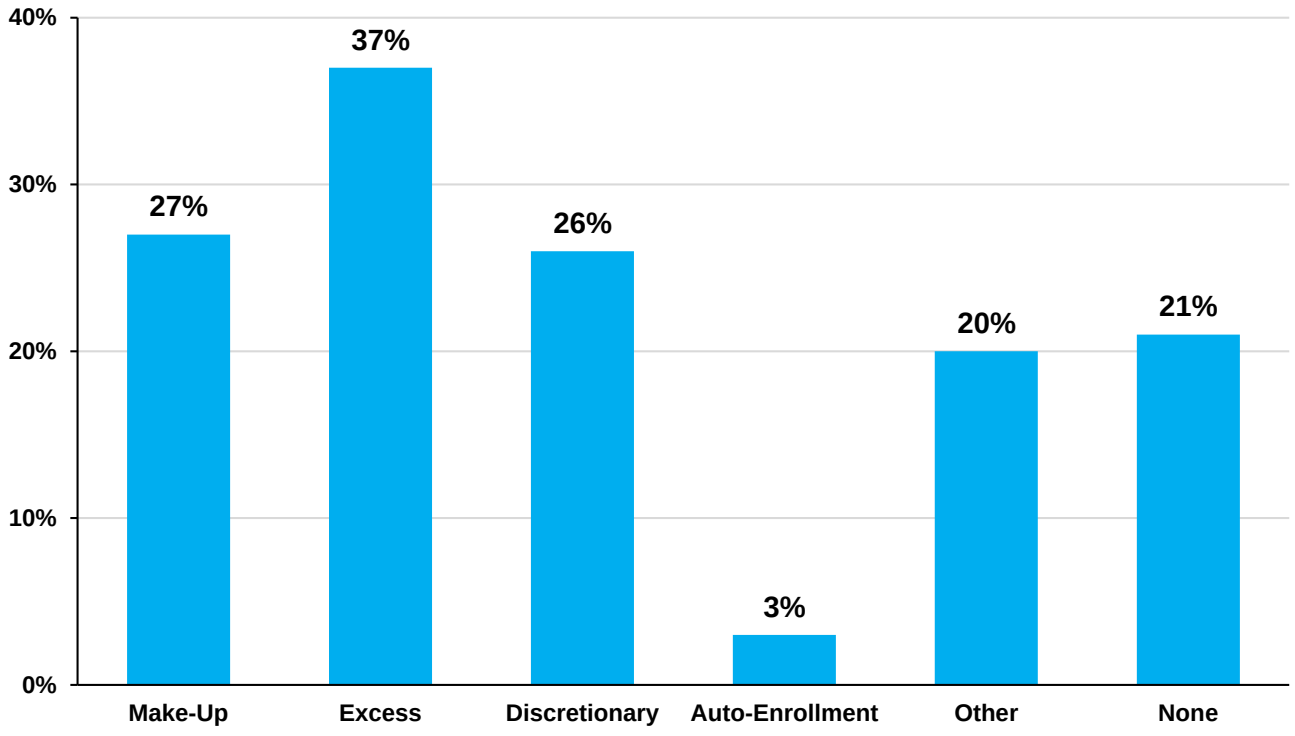
In the past few months, due to the recent economic concerns arising from the pandemic and the serious impact on all employees and particularly on lower wage earners, there has been an increased level of discussion in the plan sponsor community around qualified plan nondiscrimination testing.

As nondiscrimination testing continues to impact an increasing number of employees, one of the key takeaways is the ability for plan sponsors to implement an NQDC plan that includes a deferral election feature which allows for an automatic increase in a participant's annual deferral equal to the amount of the qualified plan refund. Note that plan sponsors can also add this feature to an existing NQDC plan.

Non-Qualified Deferred Compensation Plans

Company Contributions

What types of company contributions do you provide?



Survey Findings

79% of companies report contributing matching dollars to the NQDC, which is a notable increase from the previous Newport survey (73%).

Marketplace Insights

Two items of particular interest are the discretionary contribution used by 26% of companies and auto-enrollment with company dollars only, a relatively new and exciting feature. The discretionary contribution means that companies are finding utility for the deferral plan beyond traditional deferrals. We've seen that many companies are looking to the deferral plan to assist with hiring or retention bonuses to create new golden handcuffs or golden handshakes.

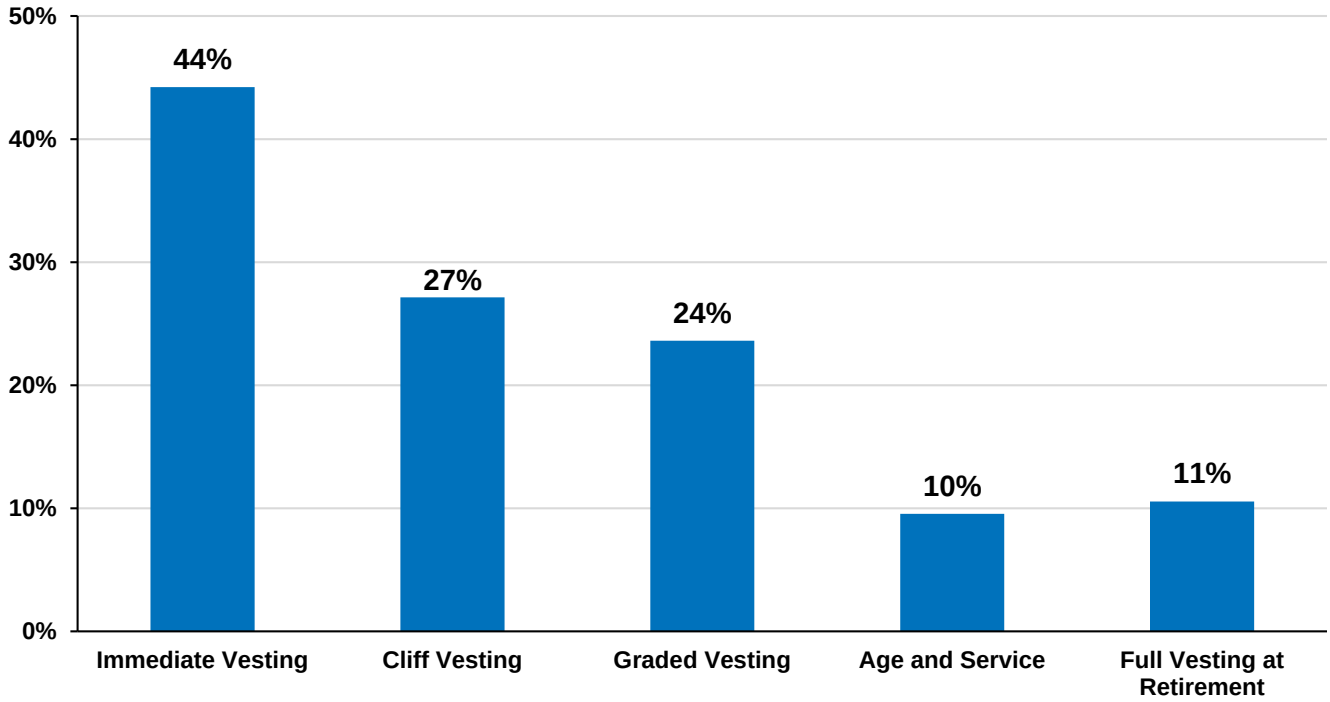
Auto-enrollment contributions are a nominal one-time company contribution only – not auto-enroll for participant deferrals. This company contribution is an effective means of immediately and permanently engaging participants in the plan—increasing plan familiarity and, by doing so, increasing overall plan participation. When we've seen auto-enrollment used, it's been effective, and we anticipate seeing more companies adopt this approach going forward.

These company contribution features help with the attraction and retention that companies desire by encouraging participation in the plans.

Non-Qualified Deferred Compensation Plans

Vesting Strategies

Which vesting strategies apply to employer contributions to your NQDC plan?



Survey Findings

Many employers (44%) vest contributions to their plans immediately. This vesting approach may in part reflect an "offset" to the increased risk associated with these plans.

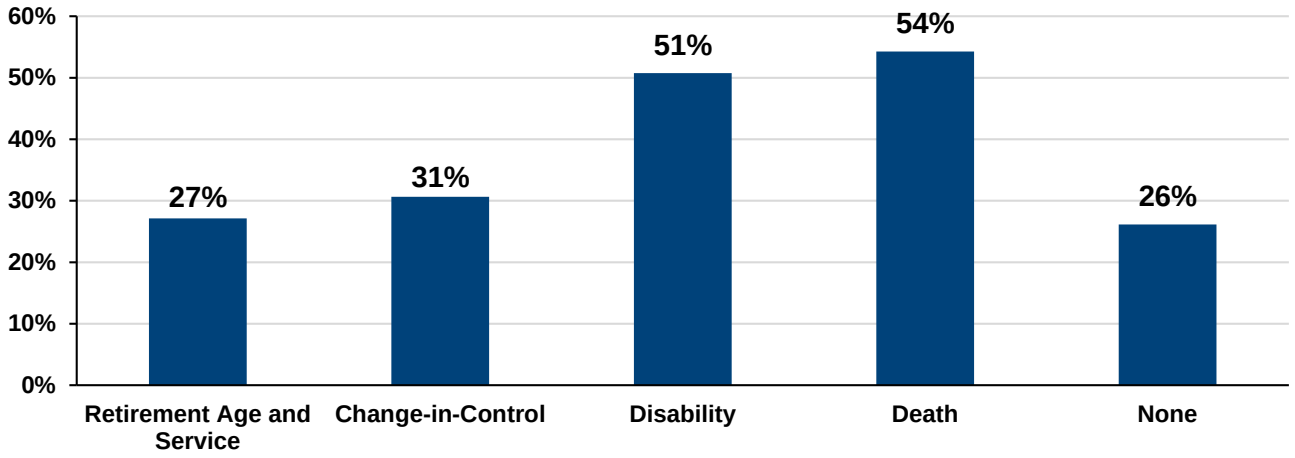
Marketplace Insights

The majority of plans use the typical approaches of an immediate, cliff or graded vesting. Cliff vesting may be rolling, and applied contribution-by-contribution rather than to all contributions at once. Complex vesting occurs more often in the tax-exempt space because of the differences in rules for these plans. However, we have observed this can unnecessarily increase administrative costs so we encourage sponsors to simplify vesting wherever possible.

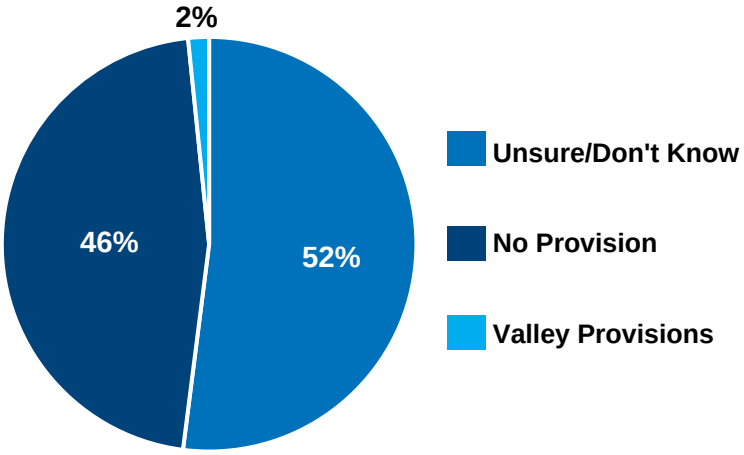
Non-Qualified Deferred Compensation Plans

Accelerated Vesting

In what instances does the plan provide for accelerated vesting of company contributions?



If accelerated vesting of company contributions after a change-in-control causes a Golden Parachute 280G impact, how does your company address it?



Survey Findings

Respondents accelerate vesting for several reasons, but primarily the participant's death or disability, with over half reporting so for each. Change-in-control and retirement age plus years of service each came in at under one-third.

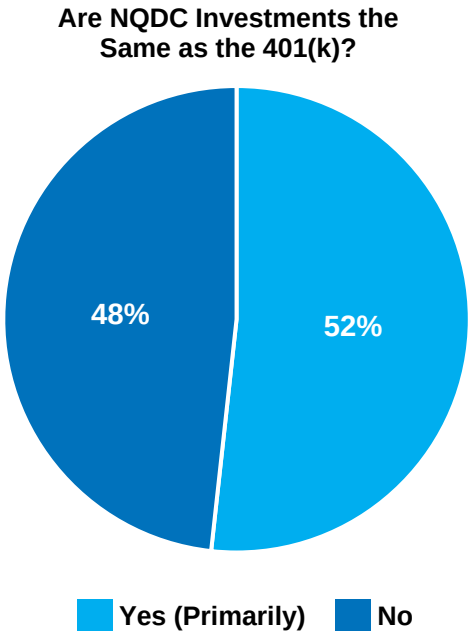
Marketplace Insights

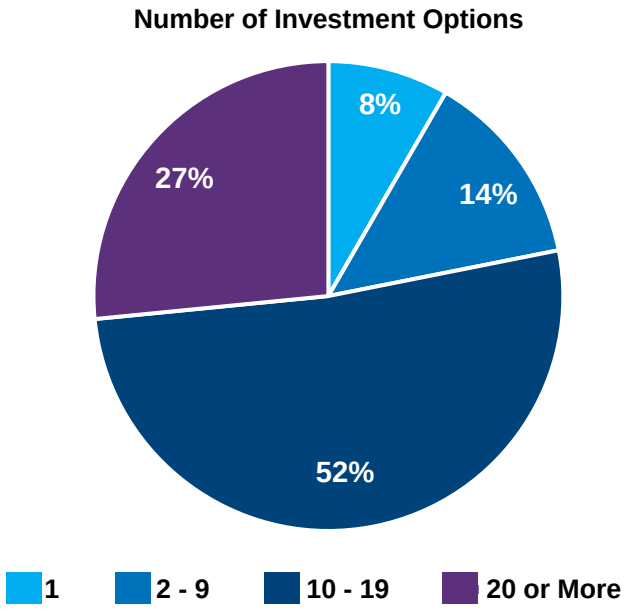
It is concerning that companies may be inadequately prepared for the potential impact that accelerated vesting of NQDC contributions could have on 280G, with 98% reporting that they either had no provision or did not know of how the provision was being administered. Companies should periodically review their change-in-control definitions, and also their methodologies for addressing 280G triggers and taxation. A biannual review of the NQDC plan, SERP, and other programs should be a part of a comprehensive plan for managing the impact of a change-in-control. NQ Consultants and TPAs that specialize in this can assist companies in developing change-in-control plans, and can also assist with the plan diagnostic to ensure that all plan procedures are in place and being followed correctly.

Non-Qualified Deferred Compensation Plans

Investments

Are your NQDC plan investment options the same as those offered in the 401(k)?
Number of investment options the plan offers?





Survey Findings

Results remain evenly divided with respect to whether the plan sponsor chooses to use the same investments as the 401(k) at 52% or a different menu at 48%. The number of funds used heavily weighs in favor of the 10-19 range with 52% of companies in that range.

Marketplace Insights

Companies offer their key employees a different investment menu than the 401(k) plan for any of following reasons:

- Key employees may have a different set of investment planning needs than the broader employee base.
- Although the plans are similar, not all 401(k) investments are appropriate for deferred compensation plans. For example, target date funds and stable value funds have specific uses in 401(k) plans that are not always applicable or available in NQDC plans, which provides more flexibility in planning for other life events.
- Using different menus allows participants to better diversify their retirement plan investments among a wider range of funds and fund companies.
- Having different fund menus helps to distinguish the plans for participants and may lead to less confusion.

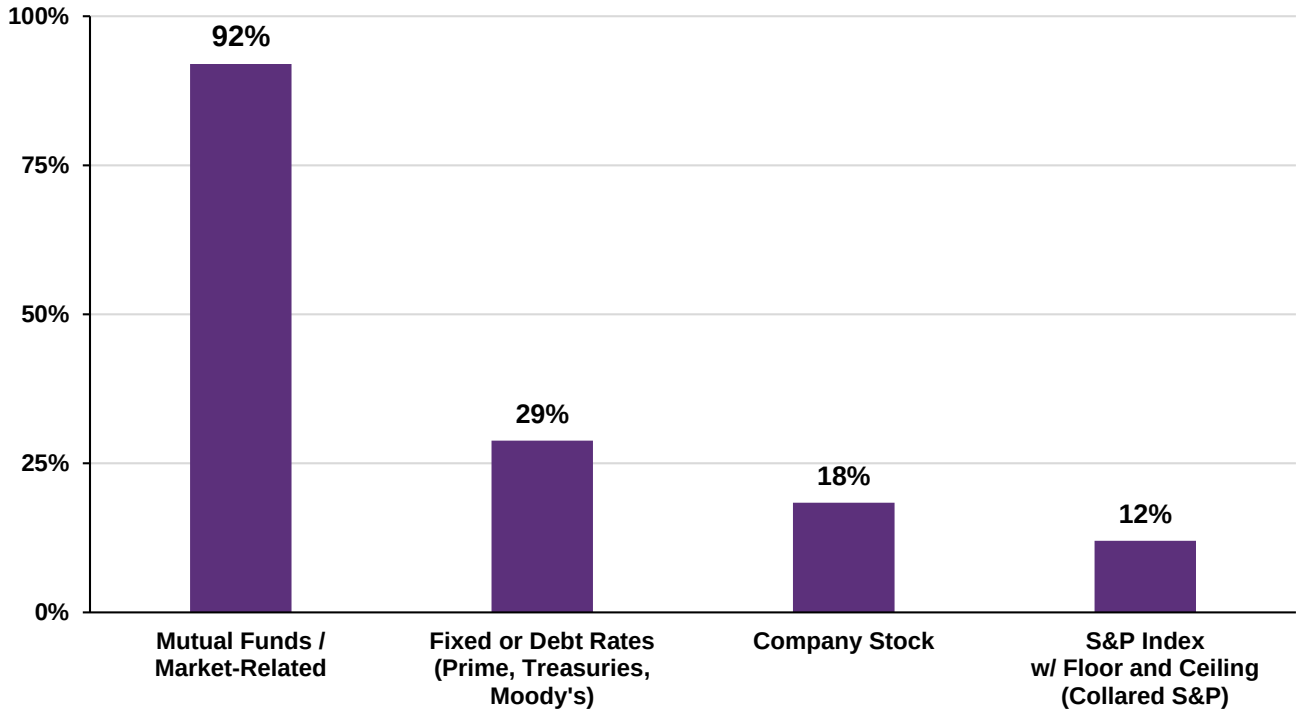
There are two primary reasons we typically hear as to why companies choose the same fund line-ups for both the 401(k) and NQDC:

- The plan sponsor wishes to avoid having to oversee and monitor two separate sets of funds.
- The recordkeeper is sometimes a 401(k) provider, so they may limit the availability of certain types of funds or specialty investments tied to the plan financing hence limiting the diversification of the menu for the NQDC participants.

Non-Qualified Deferred Compensation Plans

Investments

Specify the types of investment options the plan offers.



Survey Findings

Mutual funds or market-related investments are the most common participant investment option (92%). This result is up 3% from Newport's last survey. Model portfolios (risk-based and target date) are oftentimes offered as part of the mutual fund menu and survey respondents indicated that 40% of NQDC plans include model portfolios. The second most popular option at 29% is Fixed Rate or Debt-Based investments. Stock use continues to be popular coming in at 18%.

Marketplace Insights

A range of funds (similar to a 401(k) menu) is by far the most popular approach to investment menu construction for NQDC plans. But after that, menus are becoming more diverse. Model portfolios provide executives the ability to use the portfolio along with automatic rebalancing to put the investment decision on autopilot. Fixed Rate option alternatives continue to be popular, and participants often use them as a type of stable value fund or during periods of high market volatility and also as they near retirement to lock into known benefit amounts. We also continue to see a growth in company stock, along with the ability to defer restricted stock.

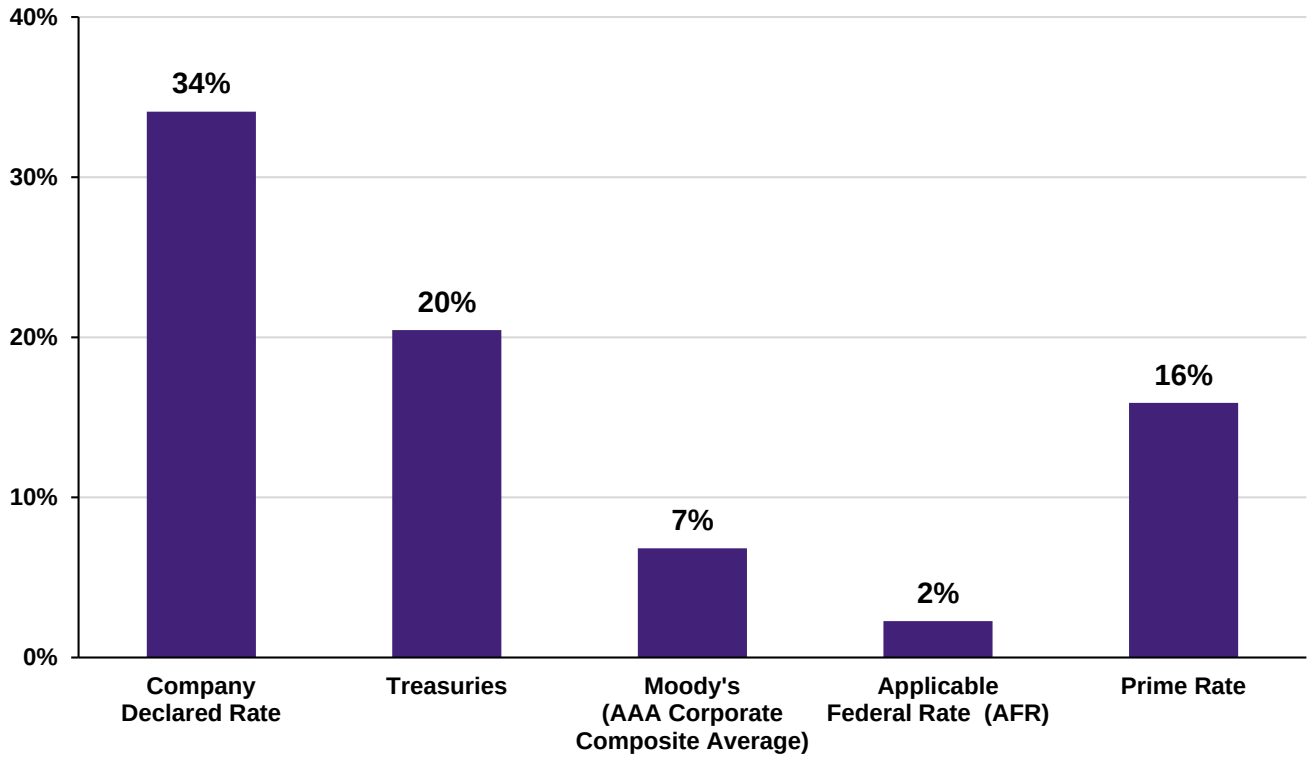
The appearance of the Collared S&P in the survey results is also of some interest. We anticipate that this could be of particular interest in tax-exempt and privately held companies, since these organizations typically lack the ability to offer equity opportunities to participants for them to build wealth.

Newport also expects that Managed Accounts will soon make their way into many non-qualified plan investment menus as we are now seeing in the qualified plan space. Managed Accounts will allow plan sponsors to offer participants to further manage their NQDC accounts with more customization and personalization.

Non-Qualified Deferred Compensation Plans

Investments

What specific fixed rate or debt rate options are available in your plan?



Survey Findings

Company declared rates (34%) are currently the most common form of Fixed Rate option. Often these rates are set based on an internal calculation by the company—either related to underlying financing of the plan, or perhaps to company performance or debt costs. Treasuries are also common at 20%.

Marketplace Insights

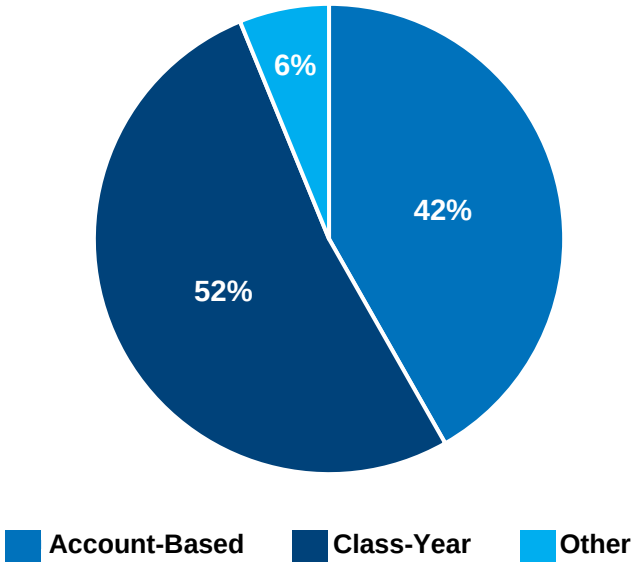
Treasury rates are well understood and easily determined, which contributes to their popularity. As a market-based rate, Treasuries generally avoid any tax for excess interest under the Social Security/FICA rules, and they also typically avoid any additional disclosure under proxy compensation disclosure regulations.

While a company declared rate (or Fixed Rate Option as it is also known) may not be as easily determined, it does have the advantage of giving the company significant control over the cost of the plan, and it can be financed using a tax-managed COLI strategy.

Non-Qualified Deferred Compensation Plans

Distributions

Does the NQDC plan use a “class year” structure or an “account-based” structure?



Survey Findings

Account-based structures (42%) and class-year structures (52%) continue to be popular. Account-based plans focus on participant-selected specified distribution dates (including in-service distributions, retirement, death, termination, etc.). Class-year designs have distribution elections for each annual enrollment and sometimes for each source of compensation deferred.

Marketplace Insights

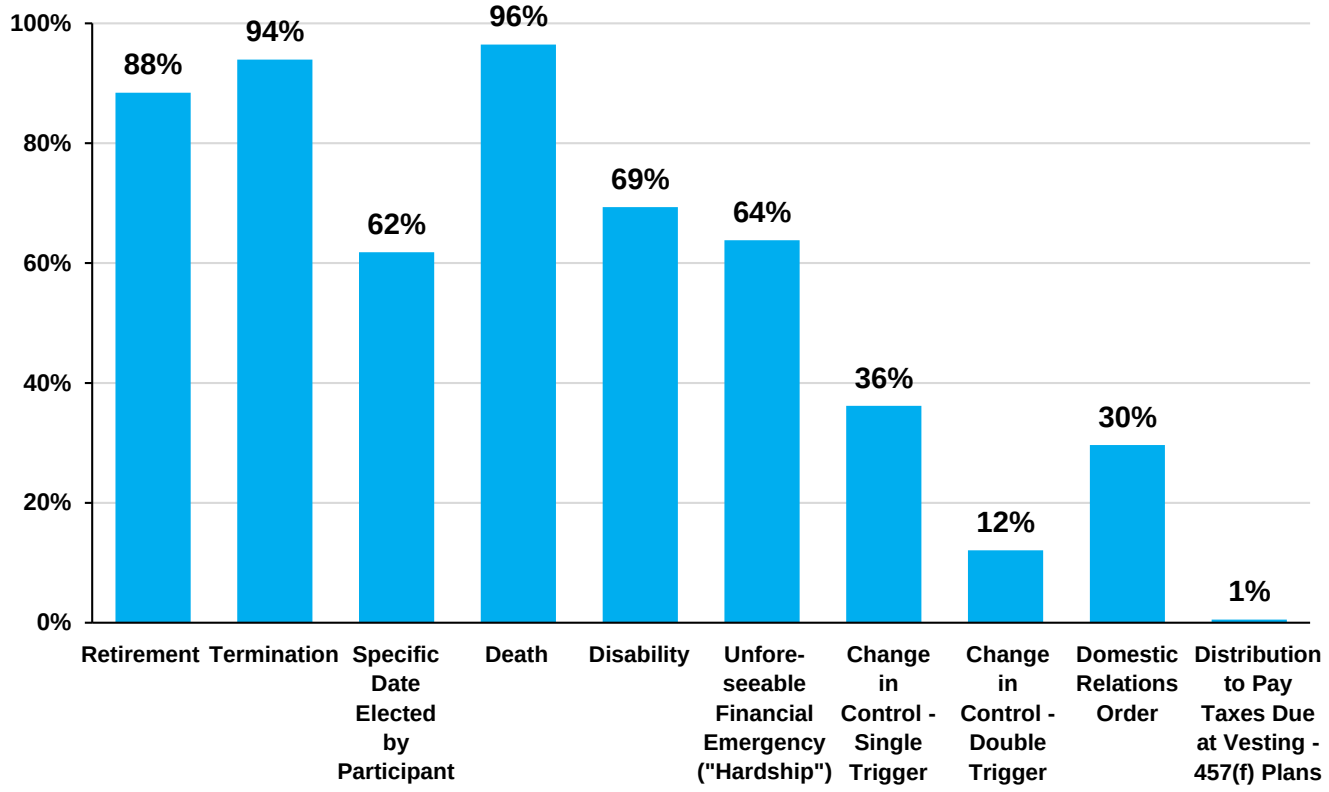
Account-based plans are generally viewed as simpler for participants to understand and manage. Account-based structures also fit well within the framework of IRC §409A, which focuses on proper administration of distributions. Class-year structures offer flexibility due to the greater number of sub-accounts created. However, this also produces more complexity for distribution management.

Over time, these two approaches have tended to split 50-50 with no one plan design becoming dominant. The class-year approach is broadly available through adapted 401(k) systems. The account-based design is a more refined and participant-friendly approach geared towards the management and timing of distributions. We anticipate that the current focus by employers to increase plan understanding will encourage more companies to use an account-based approach to assist their key people in distribution planning.

Non-Qualified Deferred Compensation Plans

Distributions

Under which of the following events may participants receive distributions from the NQDC plan?



Survey Findings

Death (96%), Termination (94%) and Retirement (88%) are the top three reasons for distributions. Disability (69%) remains high, although many plans have removed it to avoid ERISA claims procedures or other administrative concerns. An Unforeseen Emergency (64%) and Participant selected date (62%) round out the top reasons.

Marketplace Insights

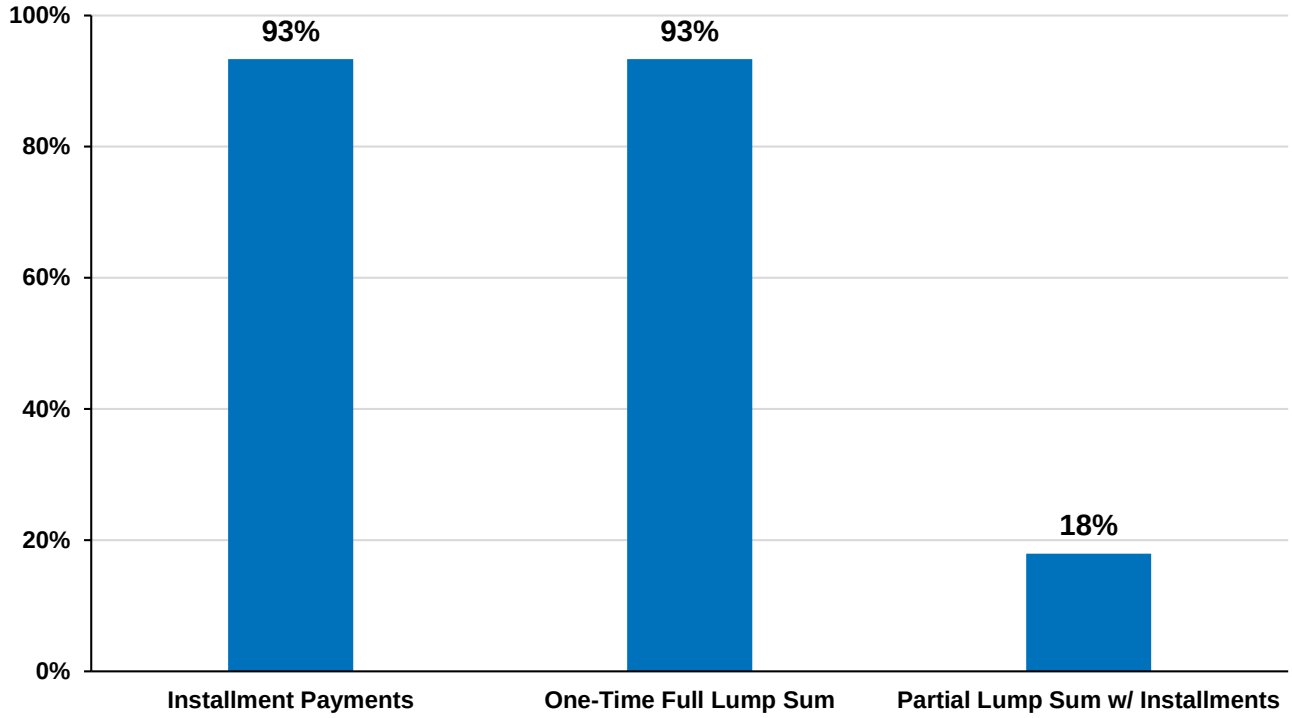
Since the implementation of IRC §409A, the rules for timing and events for NQDC distributions have been formally defined. During the past several years, plan sponsors have worked on which distribution events to allow in their NQDC plans. Death and Termination—including Retirement—continue to be the most prevalent distribution triggers but Specified Date accounts are a very important plan design feature as well. Specified Date (In-Service) distributions can allow participants to highly customize and personalize their accounts to meet their mid-term financial planning objectives such as saving for children's college tuition, second homes, boats, etc.

Distribution options also provide an opportunity for plan sponsors to coordinate their NQDC plans with other benefit programs in designing a total compensation program.

Non-Qualified Deferred Compensation Plans

Distributions

How may participants take distributions from the NQDC plan?



Survey Findings

Lump sum and installment payments continue to be the most popular forms of distribution (93% each). A partial lump sum in the first year of distribution with ongoing annual installments thereafter is another popular form of distribution (18%).

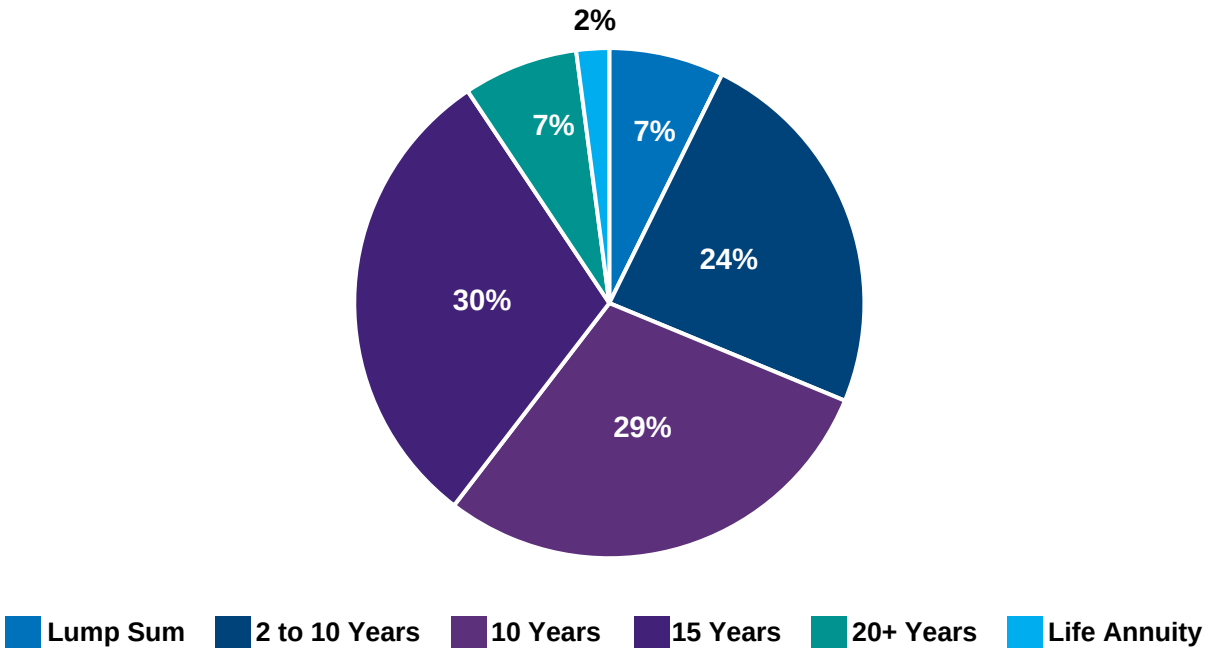
Marketplace Insights

Retirement distribution elections typically provide greater flexibility and allow longer duration installment payments than other events (termination, in-service payment, change in control, etc.). The longer duration afforded to retirement distributions (as opposed to a single lump-sum payment for a termination or shorter-duration scheduled in-service distributions) may also enhance retention and allow key employees to optimize their retirement cash flows.

Non-Qualified Deferred Compensation Plans

Distributions – Maximum Payment Periods (All Accounts)

What is the maximum period over which participants may take their payments from the NQDC plan?



Survey Findings

69% of plans allow distributions of 10 years or greater from NQDC accounts. Only 31% of employers require distributions of fewer than 10 years. Life annuities continue to be rare.

Marketplace Insights

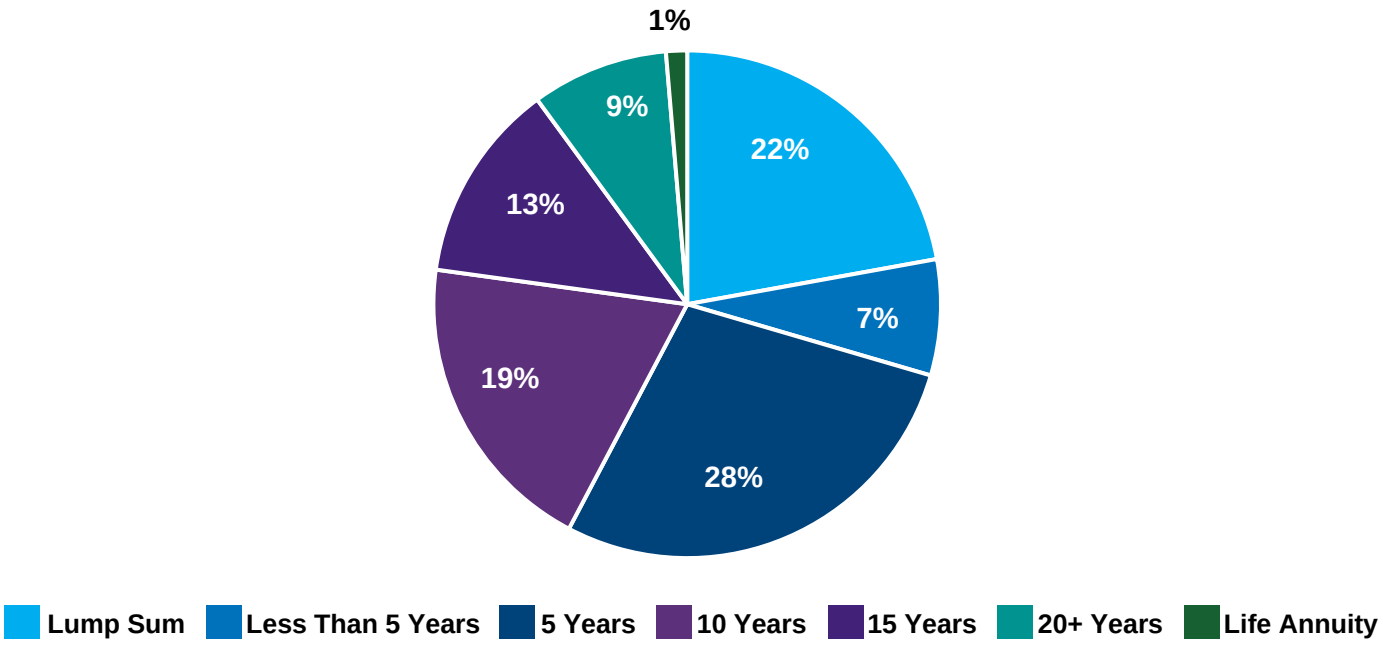
Given that federal rules allow distributions of at least 10 years to avoid state source taxes, it is still interesting that 31% of plans required distributions of less than 10 years. Once again, education and communication about plan benefits could increase the appreciation of these valuable plans. Other than 457 plans in the tax-exempt space, it's not common practice to have plans with a maximum distribution of fewer than 10 years.

We do recognize that many companies do not want the continued expense or ongoing administration for a terminated employee, and so a very common distribution for a termination is an immediate lump sum payment. Often employees who terminate are also concerned with leaving significant savings with a former employer. One tax and financial planning idea to assist new employees is for the new employer to allow a significant deferral in the first year of employment to offset a potential lump sum payment from the previous employer. The deferral creates a "virtual rollover" such that, in a short period of time, the employee can defer an amount equivalent to what he or she received from their previous employer so that they do not pay any more income tax than if they had not received the lump sum payment.

Non-Qualified Deferred Compensation Plans

Distributions – Maximum Payment Periods (In-Service Accounts)

What is the maximum period over which participants may take their in-service distribution payments from the NQDC plan?



Survey Findings

57% of all survey respondents indicated that their NQDC plans allowed maximum distributions of 5 years or less and only 23% allowed more 15 years or more.

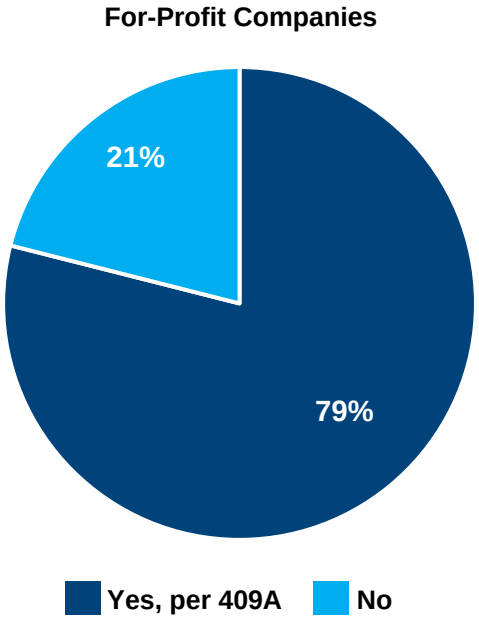
Marketplace Insights

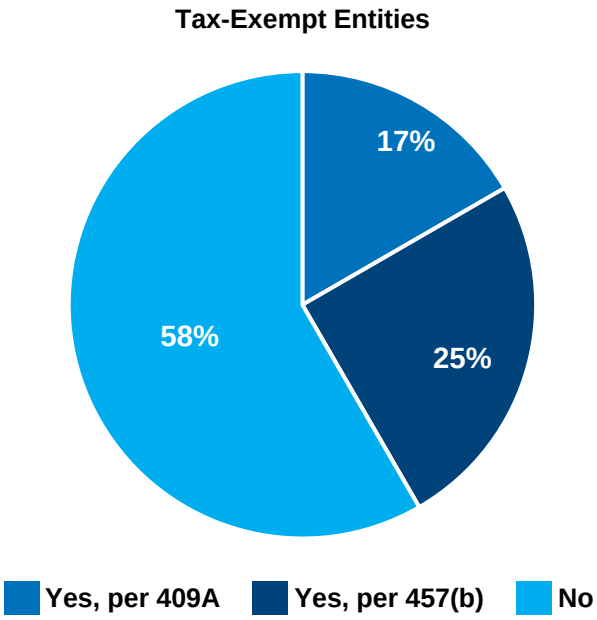
In-service distributions are frequently used for financing children's education, or for a special purchase such as a vacation home. Thus, it is not surprising that 57% report that in-service distributions must be no longer than five years. One to five years of annual payments is usually sufficient time to manage any mid-term financial planning events.

Non-Qualified Deferred Compensation Plans

Distributions

Are participants allowed to change their existing payment schedules?





Survey Findings

79% of For-Profit companies allow participants to change their payment schedules per 409A. In a smaller sample size, only 42% of Tax-Exempt entities report allowing participants to make distribution timing changes under either 409A or 457(b).

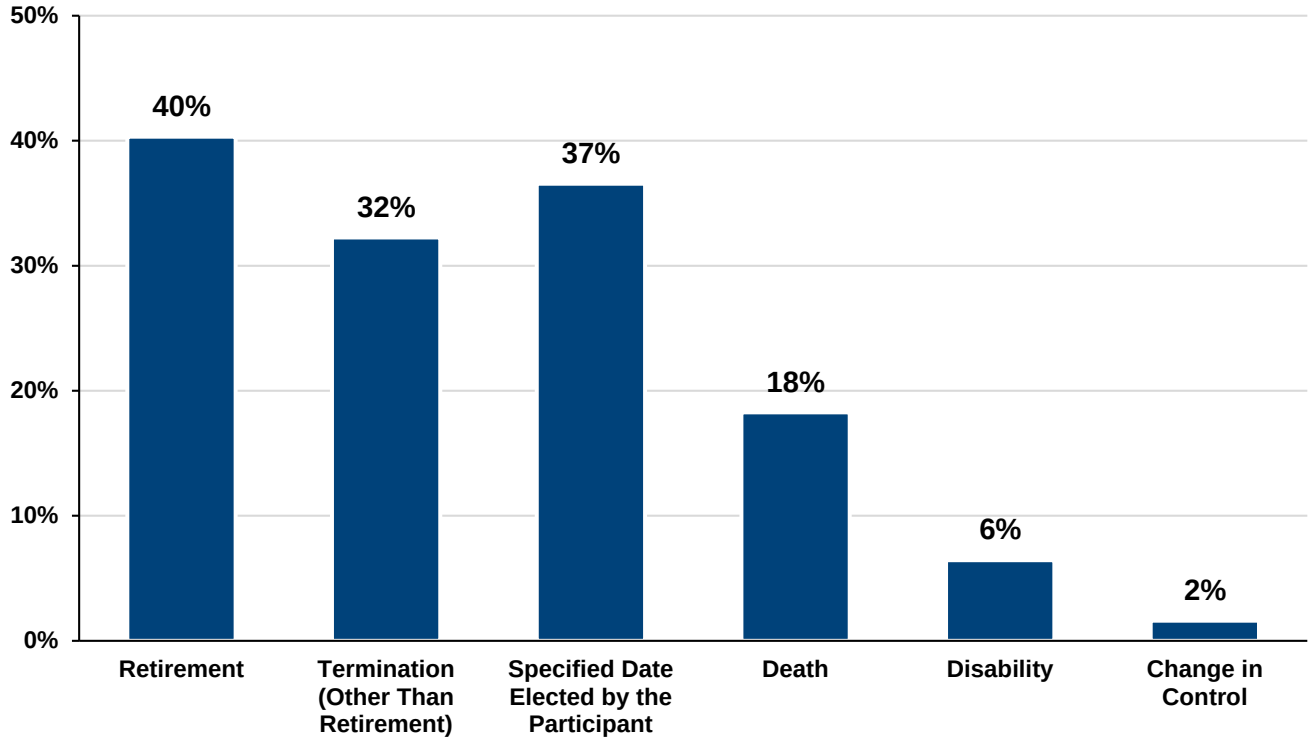
Marketplace Insights

With For-Profit organizations, allowing distribution changes is the norm, and sponsors who don't allow changes to distribution elections can be considered to have a non-competitive plan. On the Tax-Exempt side, organizations should consider allowing changes under 457(b), or for their 457(f) arrangements, allow changes under 409A. Otherwise, when competing for talent, their plans won't be as competitive as plans in the For-Profit space.

Non-Qualified Deferred Compensation Plans

Distributions

Which distribution schedules may participants modify?



Survey Findings

Generally, participants may modify their Retirement (40%), Specified Date (37%), and Termination (32%) elections. Other elections may also be modified, at a lower prevalence.

Marketplace Insights

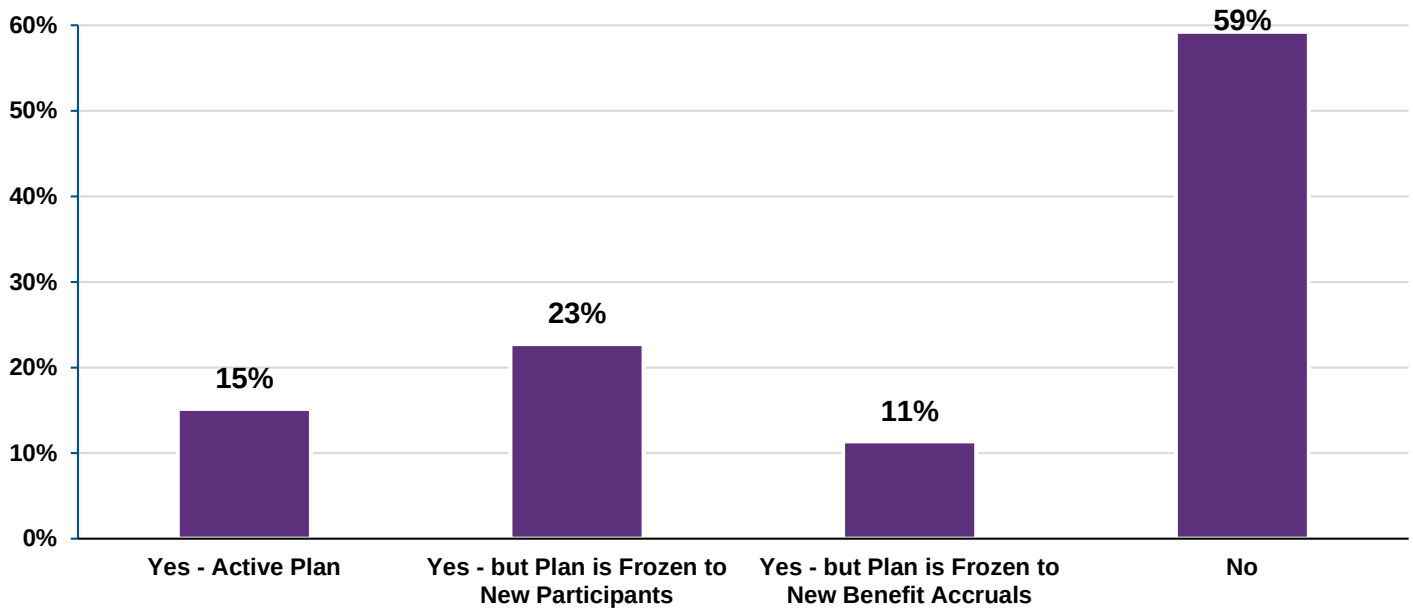
Newport believes the ability to change elections is the best practice for contemporary NQDC plans. We suggest the offering the ability to change elections as an essential feature for a competitive NQDC plan.

Supplemental Retirement Plans

Supplemental Retirement Plans

Defined Benefit SERPs

Do you have a defined benefit Supplemental Executive Retirement Plan (SERP), including any plans that may have frozen benefit levels or are frozen to new participants?



Survey Findings

As has been the general trend with defined benefit qualified plans, the prevalence of defined benefit SERPs has been on a slight decline over the last several years. While 43% of companies have a SERP, only 15% of those plans are reported as active.

Marketplace Insights

One of the earliest forms of deferred compensation were SERPs. For many years the primary form was a defined benefit SERP which was often used to restore pension benefits lost due to regulatory limits. Additionally, SERPs were important for a later-in-life hire, where the participant's qualified (DB) plan would not have enough years of service to accrue a full benefit. However, due to the shift toward defined contribution plans, SERPs have become less prevalent, although their ability to provide a fixed and defined benefit can be essential.

SERPs are still a very attractive way to provide either "golden handcuffs" or a "golden handshake" to an executive. In the first situation, vesting the benefit or designing it "back-end loaded" encourages the executive to stay on board. In the second case, adding years of service enhancements or another "kicker' to the formula can encourage an executive to retire.

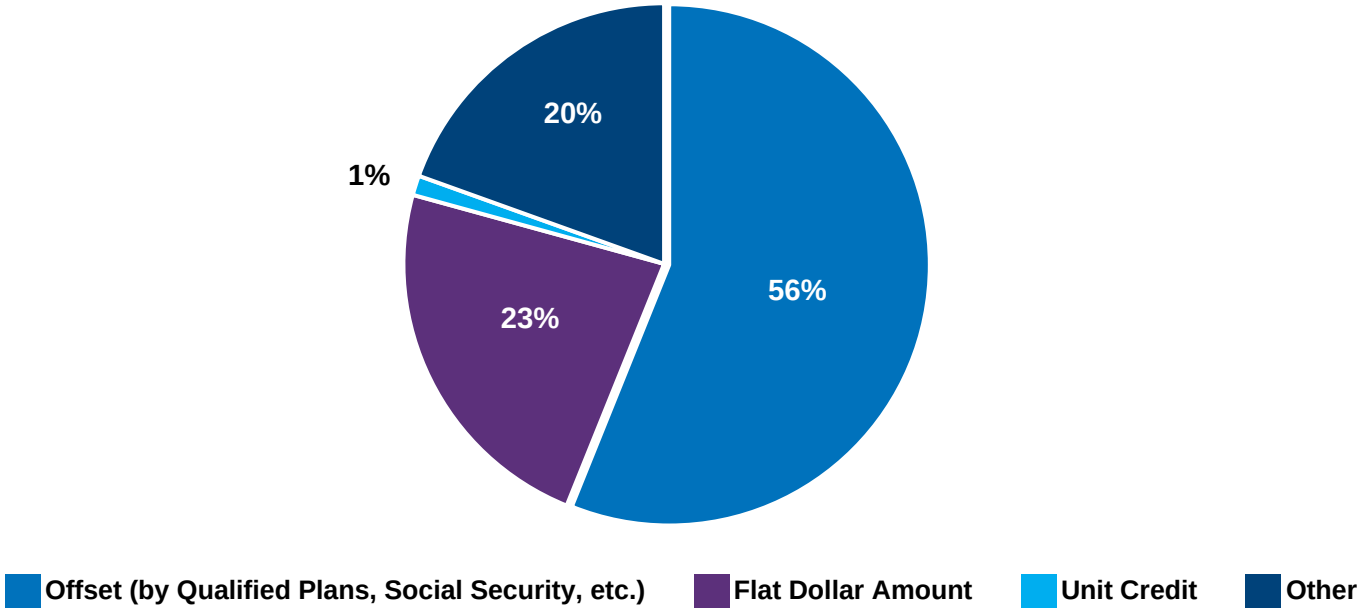
And of course, a SERP can be a key feature for a company that cannot offer wealth accumulation through equity awards, either due to the nature of the company, or the "flat" nature of its industry.

SERPs are an attractive way to accomplish all of this objectives because the benefit is in the company's control. Sometimes defined benefit SERPS are designed as a cash balance arrangement, where a benefit is targeted, and a plan interest rate and employer contributions are used to build the benefit over time.

Supplemental Retirement Plans

Benefit Formula

What is the benefit formula for the defined benefit SERP?



Survey Findings

Offset plans (56%) are by far the most common. Often these plans will restore benefits under a qualified defined benefit plan that would otherwise be lost due to regulatory limits. However, the plans are sometimes part of the entire compensation package.

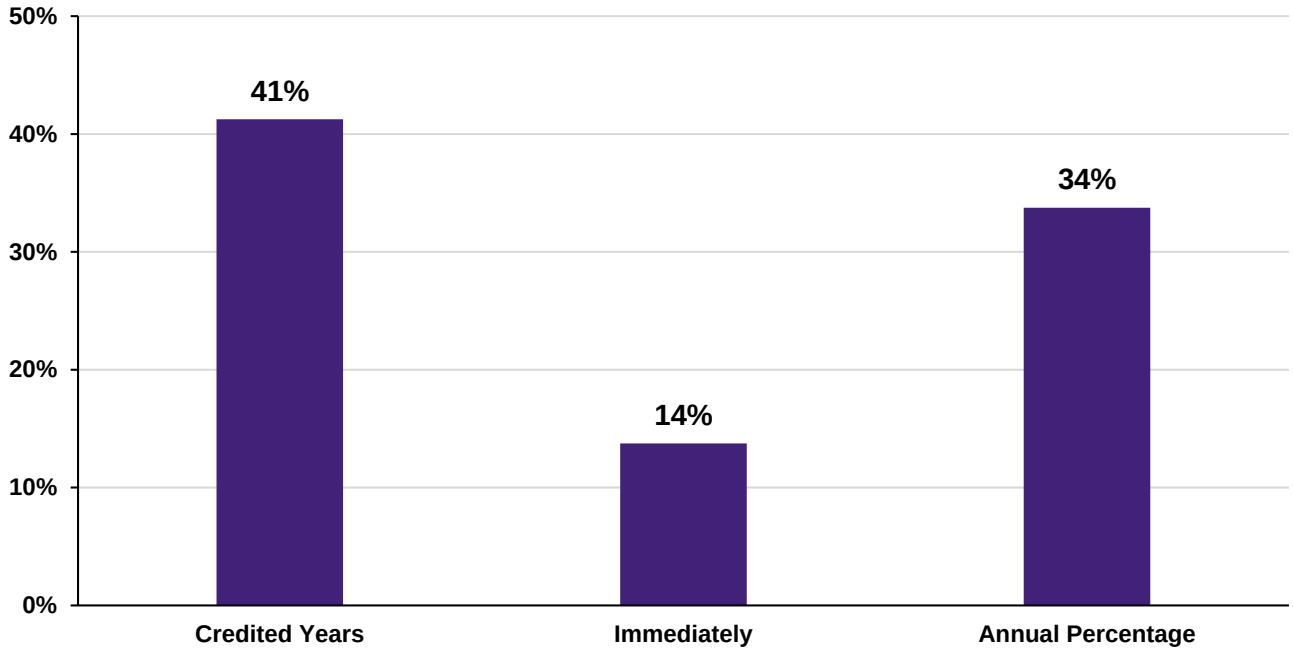
Marketplace Insights

Flat dollar amounts and other methods are common forms of SERPs used when equity compensation is not available. Several of the methods under “Other” included a percentage of compensation and a rate of interest intended to provide a specific benefit amount, typically instead of equity opportunities.

Supplemental Retirement Plans

Accrual Methods

How does the SERP benefit accrue?



Survey Findings

41% of employers that sponsor a SERP accrue benefits based on credited service. This is also the most common approach in qualified plans.

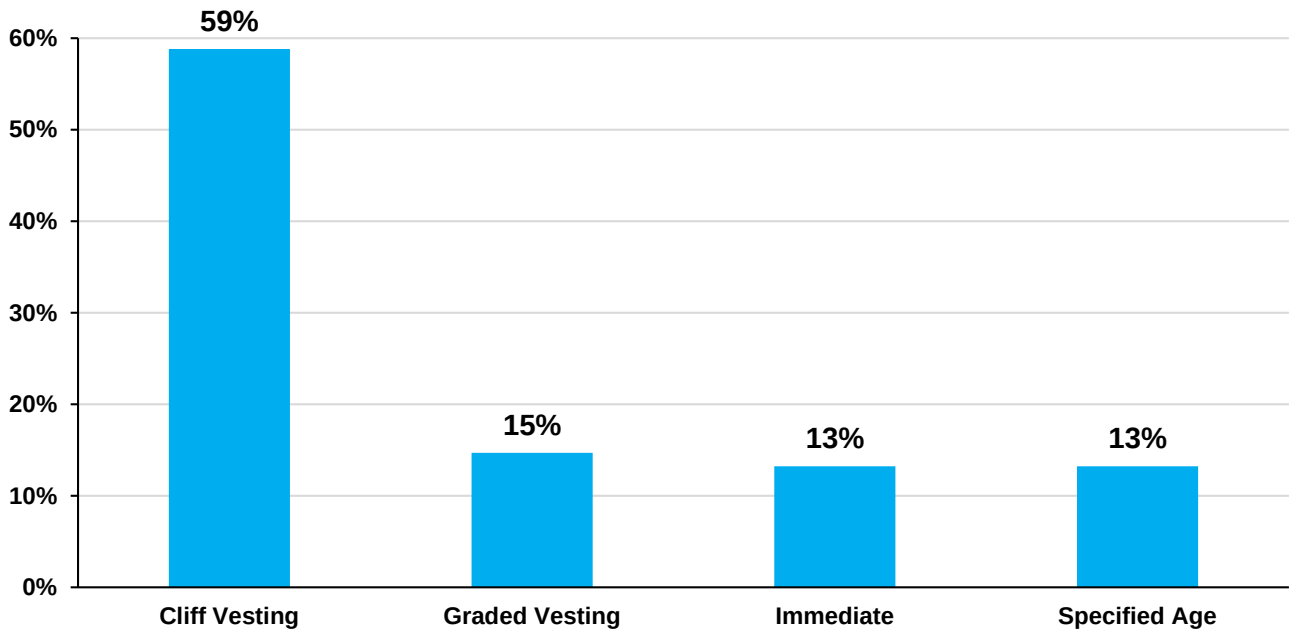
Marketplace Insights

The most prevalent approach is the traditional method of accruing benefits based on credited years of service to make up for limited qualified benefits. Plans that credit an amount immediately (14%) are typically adding to a compensation package that lacks equity compensation opportunities. Crediting an annual percentage (34%) can fit into either category.

Supplemental Retirement Plans

Vesting Methods

What is the SERP's vesting schedule?



Survey Findings

The simplicity of Cliff Vesting (59%) is by far the most common vesting method for SERPs. All other techniques rank nearly the same at 13%-15%.

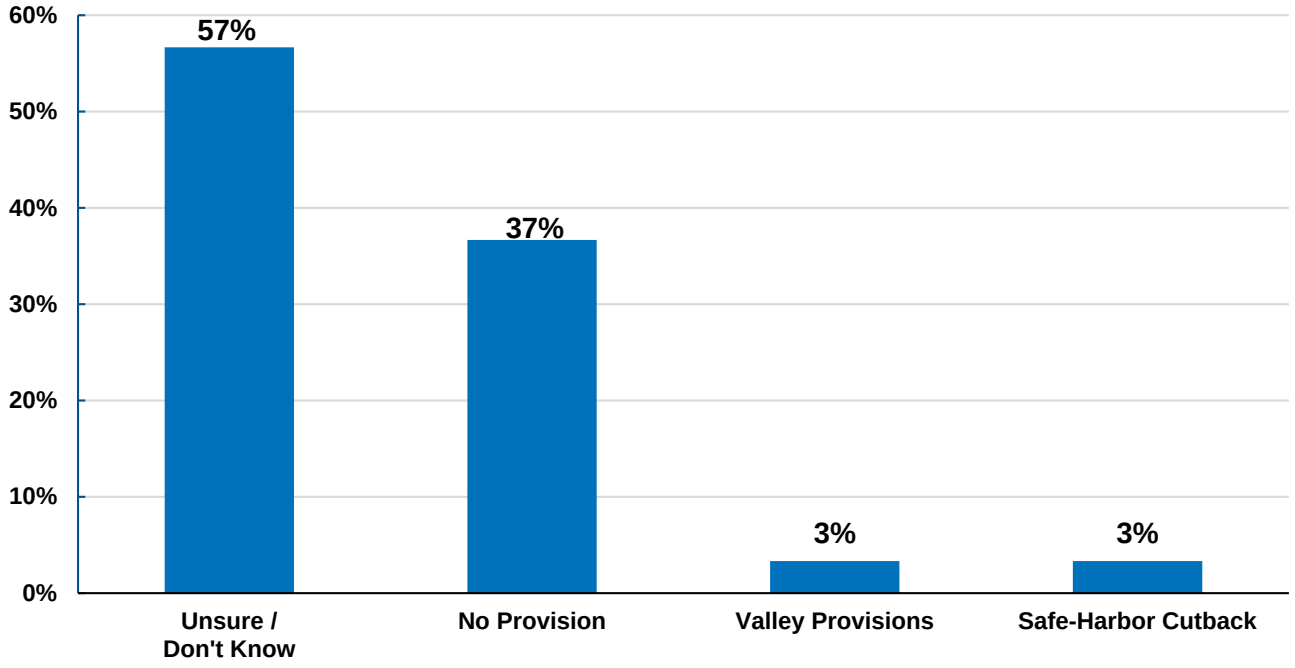
Marketplace Insights

A SERP is often either a make-whole arrangement for a group or an "equity replacement" for a few. Either way, cliff vesting after a specified number of years is a transparent and straightforward approach to vesting.

Supplemental Retirement Plans

Golden Parachute Provisions

If accelerated vesting of the SERP benefit after a change-in-control causes a Golden Parachute 280G* impact, how does your company address it?



Survey Findings

Similar to the situation in NQDC plans, 94% of companies report that they are either uncertain or have no provision to deal with golden parachute issues if accelerated vesting due to a change-in-control triggers 280G concerns.

Marketplace Insights

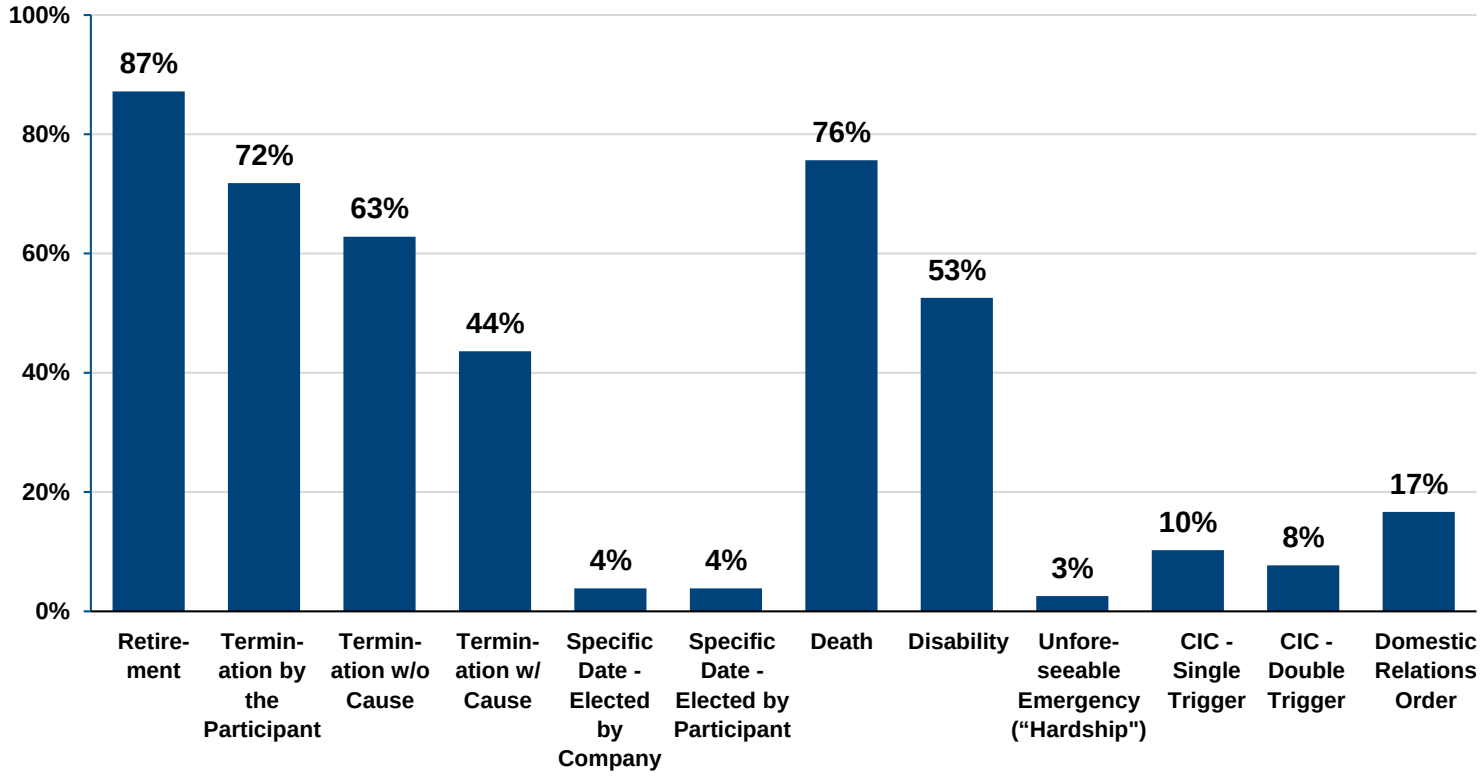
Over a decade ago, we saw many companies work to consolidate and codify their change-in-control provisions to deal with circumstances such as this. We wonder if policies exist, but have been forgotten or misplaced over the years. Although perhaps not the highest priority, the corporate world has become very fluid and companies may wish to make a point of addressing these issues during the next year.

**IRC Section 280G, dealing with Golden Parachute Payments, applies only to public and private C-corporations. Designed to protect shareholder interests, 280G imposes a special excise tax on payments to "disqualified individuals" following a corporate change-in-control. The rule applies only if the payment exceeds 2.99 times the individual's average annual taxable compensation for the previous five years preceding the change-in-control. Disqualified individuals include certain corporate officers, shareholders, and other "highly-compensated" individuals.*

Supplemental Retirement Plans

Distribution Types

Under which of the following circumstances may participants receive distributions from the SERP?



Survey Findings

The standard events of Retirement (87%), Death (76%), Disability (53%), Termination by the Participant (72%), and Termination by the Company without cause (63%) cover most of the key ways for distributions to occur.

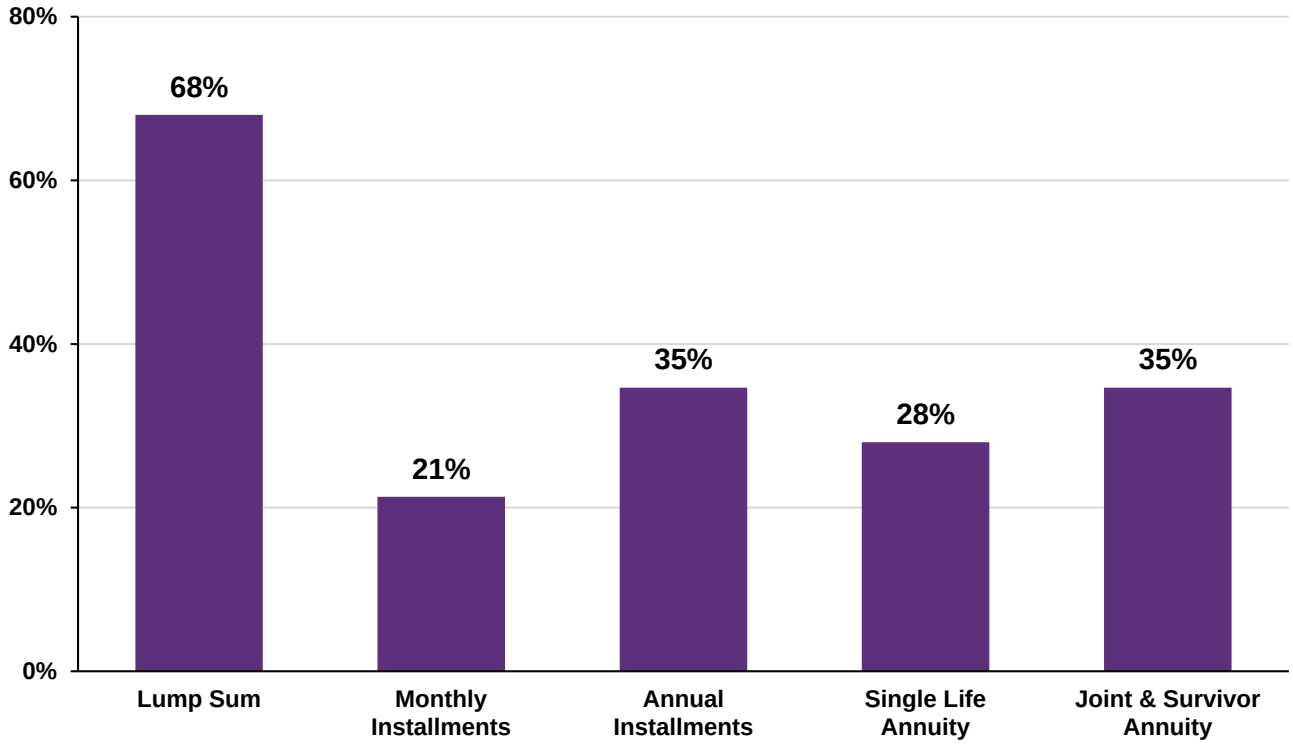
Marketplace Insights

Surprisingly, 44% of plan sponsors reported that a distribution would occur for a termination with cause. In addition, a change in control is not necessarily a distribution event. Rather, a termination or retirement would be the triggering event that would follow a change in control (CIC).

Supplemental Retirement Plans

Forms of Distribution

In what forms are retirement and termination payments made?



Survey Findings

A single lump sum payment is the most common form of distribution for SERPs (68%). This seemingly somewhat high percentage may be the impact of 457(f) arrangements in the tax-exempt space, but another factor may be that participants may have some benefit security concerns post-retirement when they are no longer involved in the day-to-day decisions of the company.

Marketplace Insights

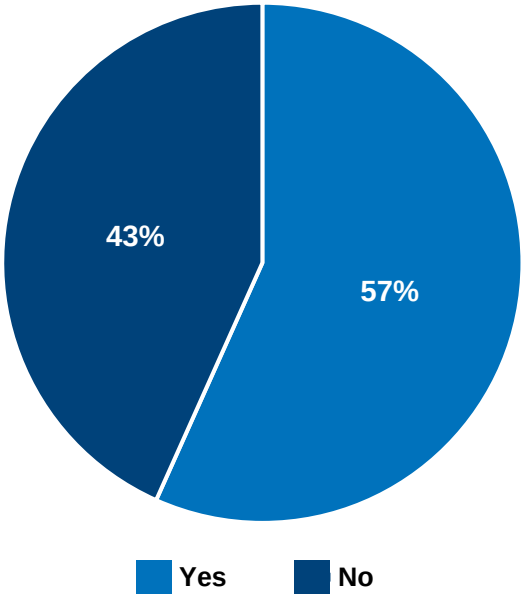
Generally, lump-sum distributions are less tax efficient. Participants can move to states with zero or low state income tax, collect SERP benefits over at least a ten year period and minimize their state income taxes. However, if a participant resides in a high income tax state and/or receives payments over fewer than 10 years, there may be a considerable tax bill that could have been partially avoided.

Plan Financing

Plan Financing

Segregated Assets

Do you currently set aside any company assets to finance your NQDC plan liabilities?



Survey Findings

57% of all NQDC plan sponsors indicated that they set aside assets to finance their plan liabilities. This is a slight increase from 54% in Newport's last survey. Companies set aside assets to informally fund their NQDC plan liabilities to manage the impact of plan expense and to have assets available for the participant benefit payments.

Marketplace Insights

This modest increase in funding levels from previous years is a result of several factors:

1. Relatively strong economy (up until the impact of COVID-19) – Better business conditions generally lead to more frequent and higher levels of financing for benefit plans
2. Volatile financial markets – Setting aside assets immunizes the company from the financial impact
3. Prevalence of voluntary deferral plans – More likely to set aside assets when the dollars are participant deferrals

Plan Financing

Reasons for Segregated Assets

List the primary reasons your organization sets aside assets to finance its NQDC plan liabilities?

	1	2	3	Ranking
Manage Asset Liability Ratio/Financial statement impact	34%	34%	31%	**1**
Have Source of Liquidity for Participant Benefits	30%	35%	27%	**2**
Improve Benefit Security	27%	16%	18%	**3**

Survey Findings

The top three reasons that companies gave to set aside assets is consistent from previous studies. The number one reason continues to be to manage the financial statement impact, followed by having a source of funds and then improved benefit security.

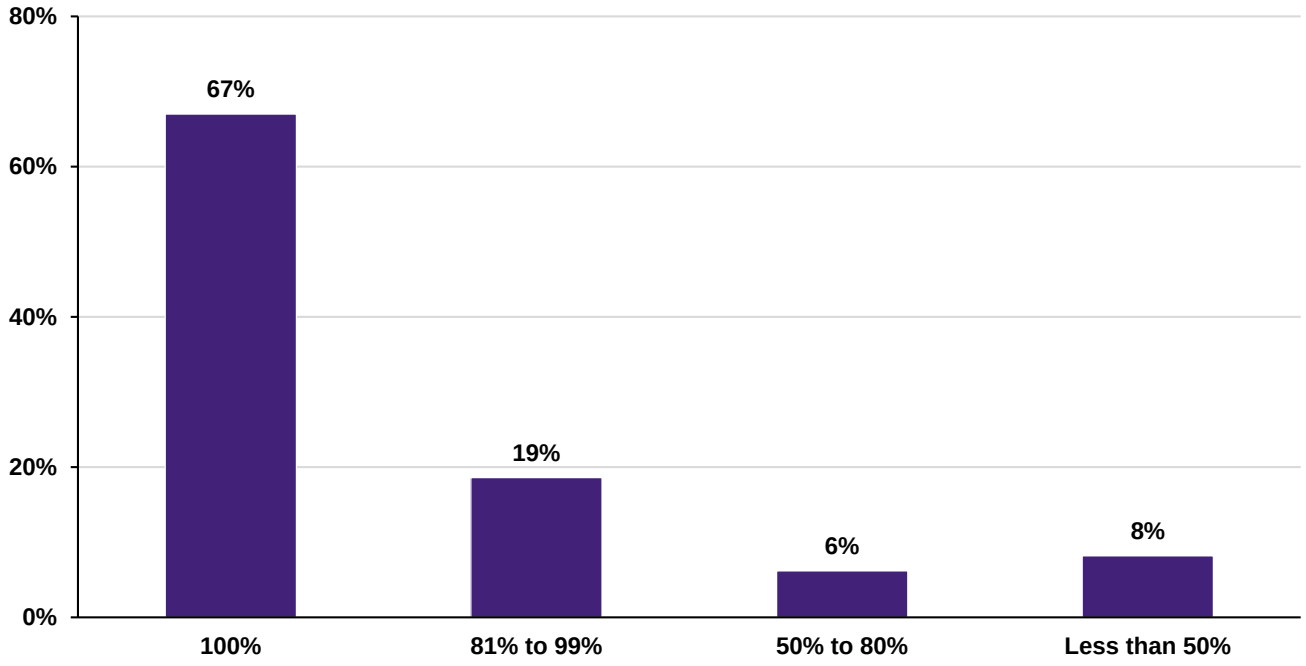
Marketplace Insights

Most companies want to eliminate or mitigate unnecessary exposure to their financial statements or net worth. For market-based NQDC plans, a large majority of plan sponsors choose to set aside assets to eliminate the impact to their financial statements. And while setting aside assets does not eliminate the credit exposure that employees have as participants in these plans, segregated assets provides a source of liquidity to make benefit payments and gives participants some confidence that management is prudently managing its benefit obligations.

Plan Financing

Types of Financing

What percentage of the pre-tax liability is informally funded?



Survey Findings

Two-thirds of all plan sponsors responded that they have assets that finance 100% of their NQDC plan liabilities. And only 14% fund less than 80% of their plan.

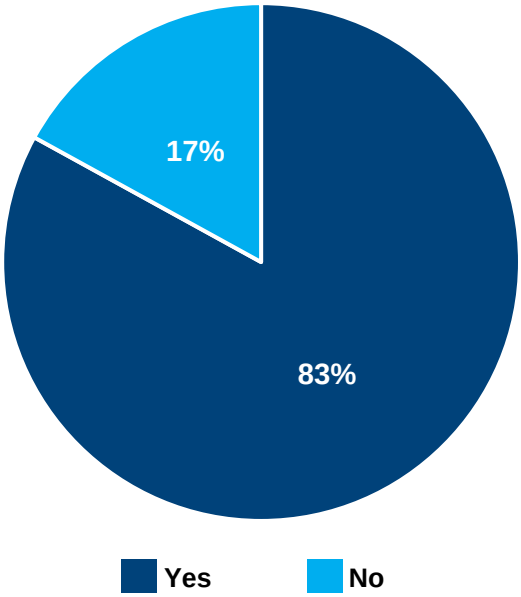
Marketplace Insights

While a majority of companies have always elected to fund their entire plan liability, this year's survey results of 67% is a 10% increase from previous year's results. The extra 10% largely comes from the companies that were previously in the 81%-99% category as that percentage dropped this year by 8%. Like we saw in earlier questions regarding the number of companies that set aside assets, we can attribute much of the increase in funding levels to the generally strong economic conditions that we experienced into early 2020. For companies that choose to fund at a lower percentage, that is oftentimes a strategy to hedge an after-tax portion of the plan liability.

Plan Financing

Rabbi Trusts

Do you use a trust for any plan financing?



Survey Findings

Grantor trusts (including rabbi trusts) are still the most common form of benefit security used by NQDC plans. An extremely high percentage of companies that set aside assets use a trust to hold those assets. This is a very large increase from previous survey results.

Marketplace Insights

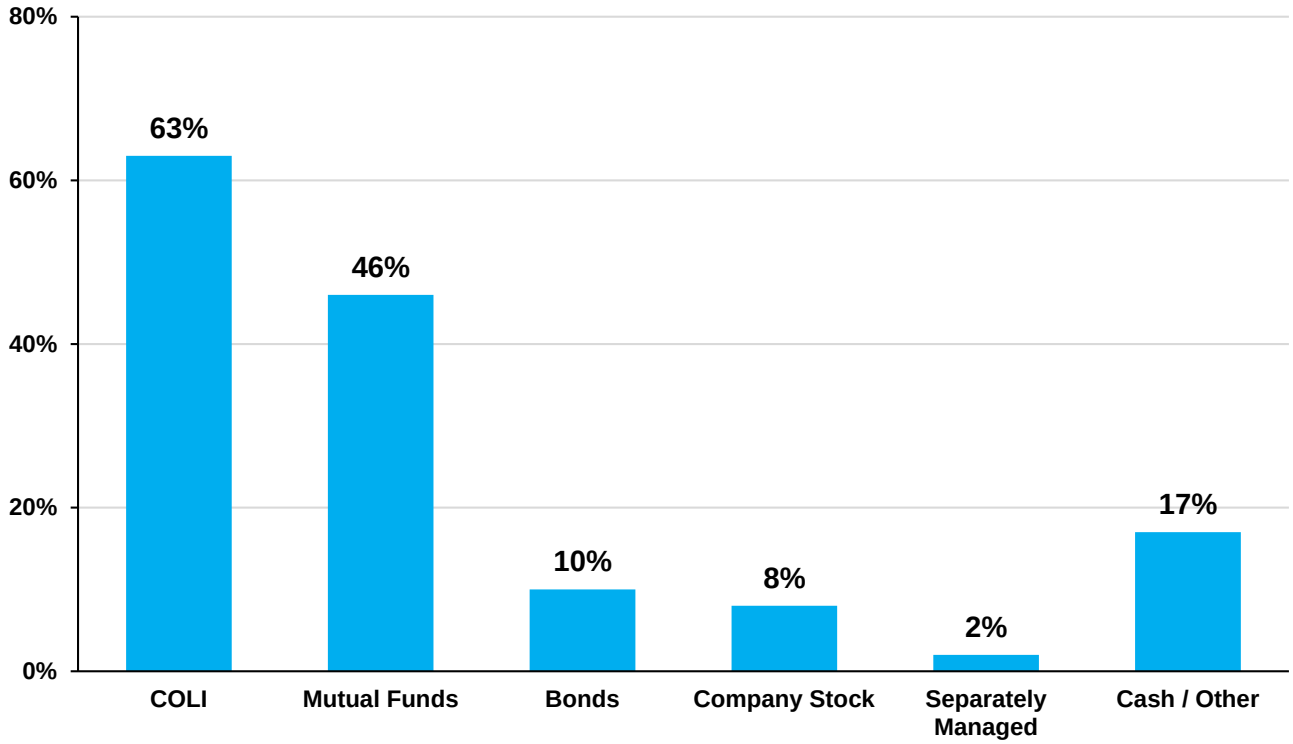
While the numbers are up from previous years, there continues to be two primary reasons for the high prevalence of trusts (rabbi trusts in particular) being used for NQDC plan financing: 1) low cost and 2) well-tested. Rabbi trusts do not provide protection from creditor risk but they do provide plan participants with benefit protection against a change-of-heart or change-in-control. The IRS has provided its rabbi trust guidance including Revenue Procedure 92-64, in which it offered a “model” grantor trust. Additionally, the cost of adding a rabbi trusts is relatively modest.

Other trust structures such as secular trusts have some benefits but participants generally lose the critical tax benefits of the NQDC plan as a result of gaining benefit protection.

Plan Financing

Types of Financing

What types of financing vehicles do you use?



Survey Findings

For the last 20+ years there have two primary funding vehicles when it comes to funding NQDC plan liabilities: corporate-owned life insurance (COLI) and mutual funds. COLI has remained the number one choice at 63% and has remained in this range for the last several surveys. Mutual funds (46%) are very prevalent and continue to be in the 50% range as seen in past surveys.

Marketplace Insights

Assets used to finance plan liabilities are always owned by the plan sponsor and taxed as income at the organizational level. As a result – particularly tax-exempt or low tax bracket companies – mutual funds are commonly used to finance their NQDC plan liabilities. The most widely used strategy is corporate owned life insurance or COLI. Variable COLI is simply stated as mutual funds inside of a life insurance contract wrapper. This is a tax-management strategy that a large number of companies (63% here and 64% in the last survey) use to mitigate the taxes on the income that comes from these assets.

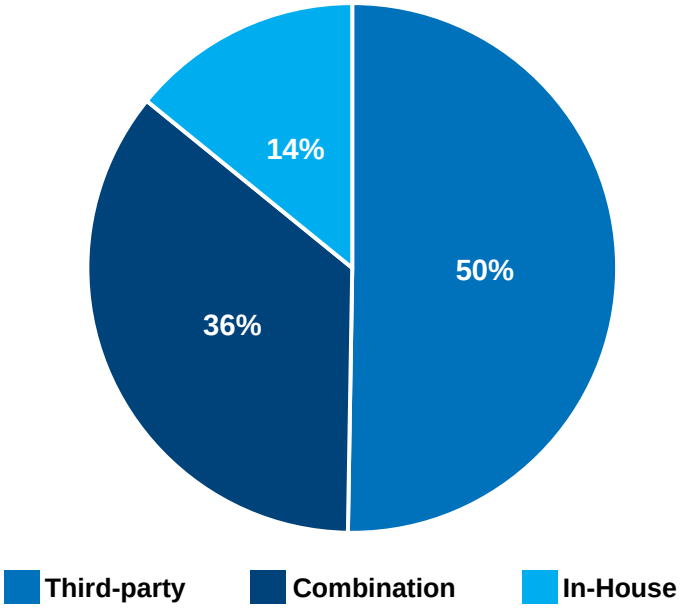
An emerging trend that we are seeing is a combination of COLI and mutual funds as plan sponsors are becoming aware that the TPAs that specialize in the NQDC market can handle and manage multiple trust funding types. The use of COLI mixed with mutual funds, especially as the plan matures and plan distributions start to exceed plan deferrals, creates a financing strategy with a high degree of tax efficiency coupled with cash flow management. Tax-managed COLI funds are usually invested in higher expected return investments (higher taxable income) with the lower yielding investments allocated to mutual funds.

NQDC Plan Administration

NQDC Plan Administration

Day-to-Day Plan Administration

How is the day-to-day NQDC plan administration handled?



Survey Findings

An overwhelming majority of companies (86%) outsource some or all of their day-to-day NQDC plan administration.

Marketplace Insights

With the advent of IRC §409A, the risks associated with NQDC plan administration concern many plan sponsors. Participants are liable, and companies may be indirectly liable to their employees, for tax penalties, excise tax and interest owed in the event of an IRC §409A violation.

Outsourcing services to a dedicated, knowledgeable NQDC administrator brings online and participant communication features and resources that may otherwise be difficult to create with self-administered plans. As seen in this survey, focused education and communication are critical to meeting the corporate goals of an NQDC plan. Generally, plan administration outsourcing provides more robust information and better access for participants. It also leverages both HR and Finance staff so that they may spend their time performing only the most essential tasks concerning the NQDC plan.

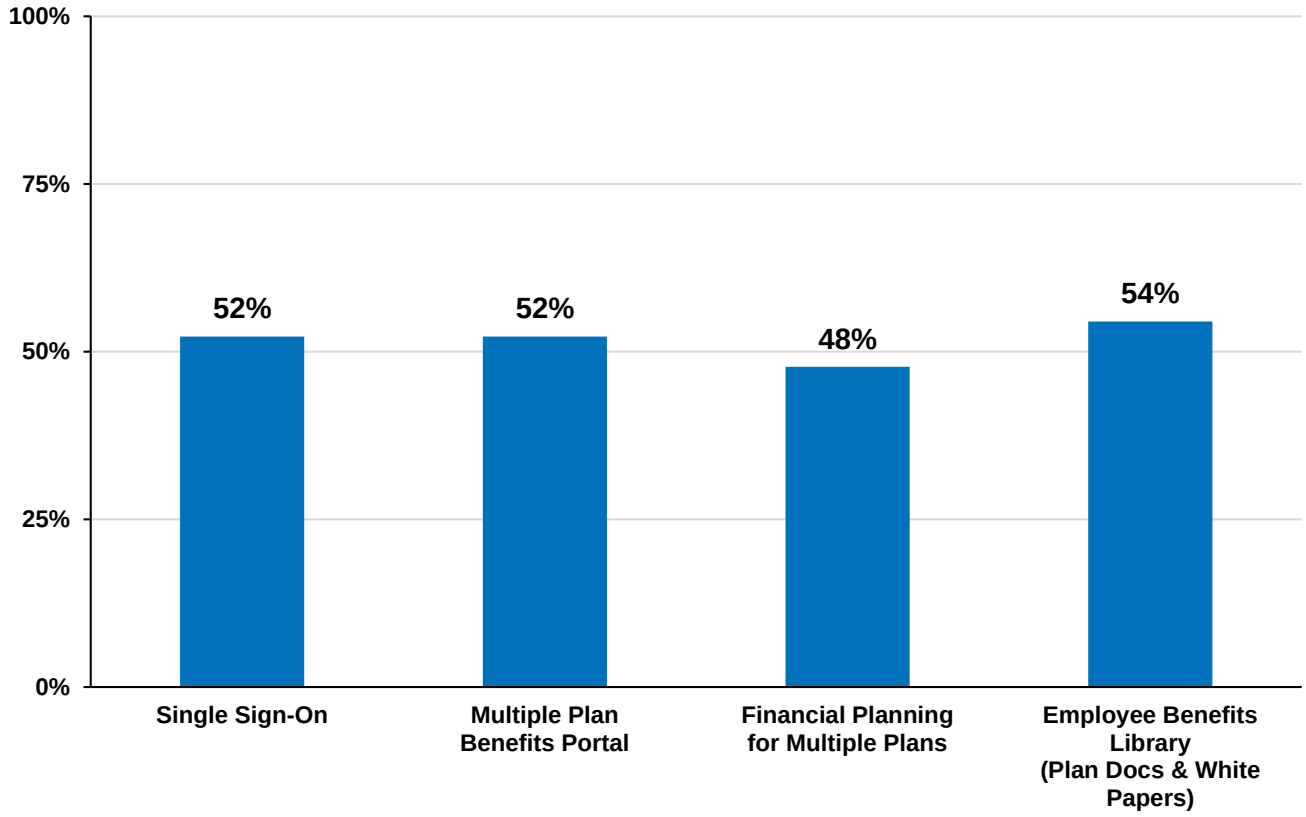
The following are the other key advantages that are easily gained through outsourcing NQDC administration:

- NQDC-specific participant website
- NQDC multi-disciplined client service team
- Consulting/legal support
- IRC §409A risk mitigation/support
- Corporate financial reporting
- Investment consulting
- Customized NQ communications and education
- Participant Service Center—specializing in NQ plans

NQDC Plan Administration

Integration Tools

Which of these plan integration features do you provide to assist participants?



Survey Findings

Plan sponsors offer each of these four valuable plan integration tools approximately 50% of the time. There has been a trend towards offering these plan integration features as employers look to help participants with their financial wellness.

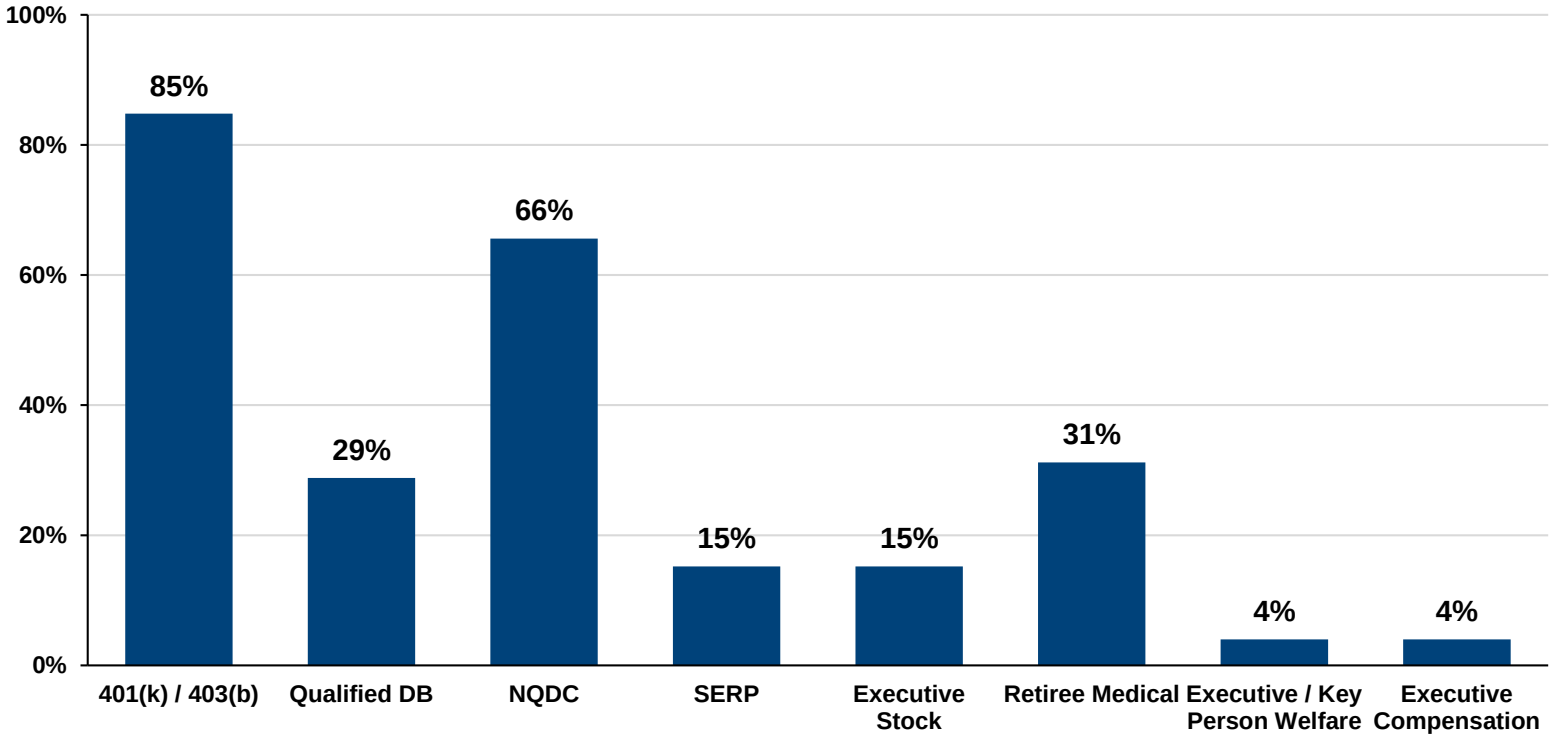
Marketplace Insights

What is significant with this set of responses is flip side. Unfortunately, half of all participants still do not have access to these very important tools. Meanwhile, company responses about plan administration satisfaction levels indicate improving participant understanding of the NQDC is a key area of desired improvement. A wider presence of these planning tools could be a meaningful step toward improving participant understanding as participants would have the tools they need to meet their objectives and to make better decisions about deferrals, distributions and asset allocation.

NQDC Plan Administration

Plan Dashboard

Which plans are included in a multiple plan "dashboard" or single-sign-on?



Survey Findings

401(k)/403(b) (85%) and NQDC (66%) are the plans most likely to be included in a participant dashboard. These two savings plans are fundamental to financial planning and wealth building so their inclusion in the dashboard is particularly important.

Marketplace Insights

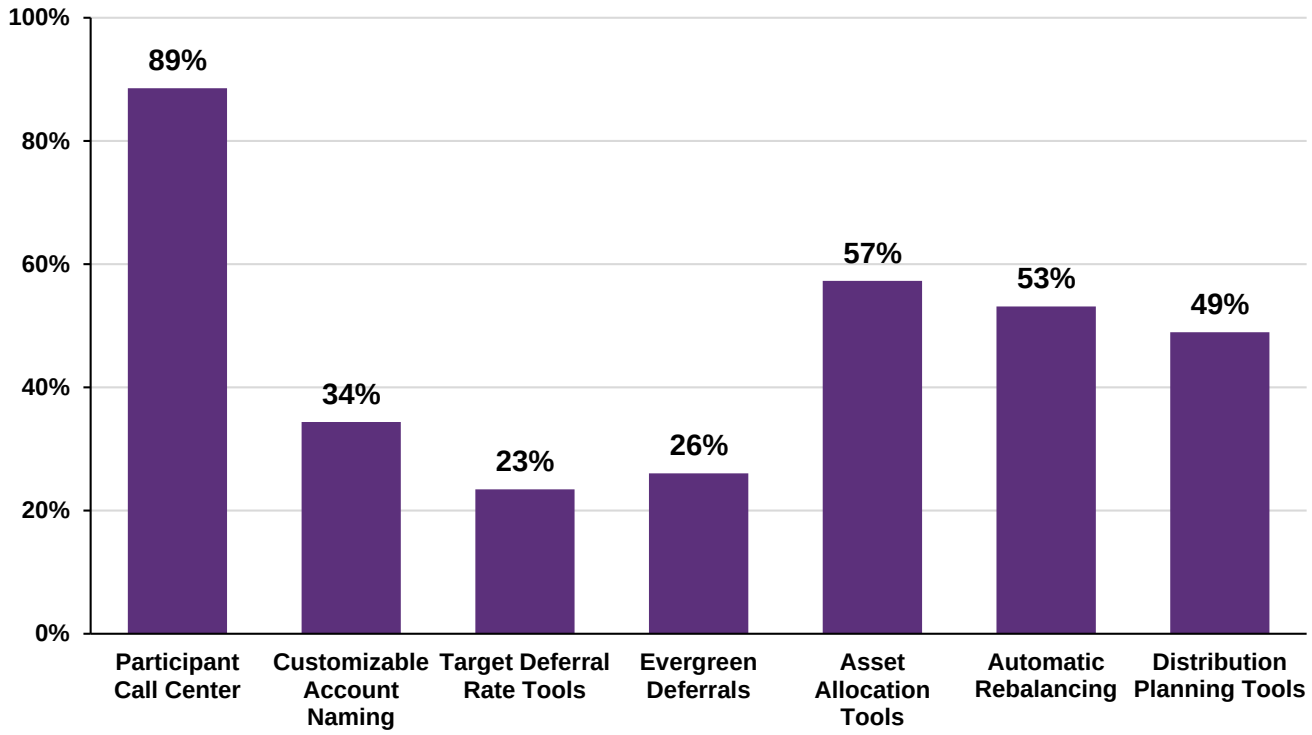
As they have for the past 10-15 years, employers continue a strong focus on plan communication and increasing participants' understanding of their various benefit plans. A participant dashboard is a simple tool to increase awareness—showing how key plans can integrate and contribute to an employee's overall financial plan.

With that in mind, this data suggests that other retirement and wealth-building programs should be included in the dashboard. Yet less than one-third of the other plan types are typically included.

NQDC Plan Administration

Participant Tools

Which of these tools/features does your NQDC plan administration system provide to assist participants?



Survey Findings

For obvious reasons, Participant Call Centers for NQDC plans are almost universal (89%). However, other valuable tools are only provided approximately 50% of the time or less.

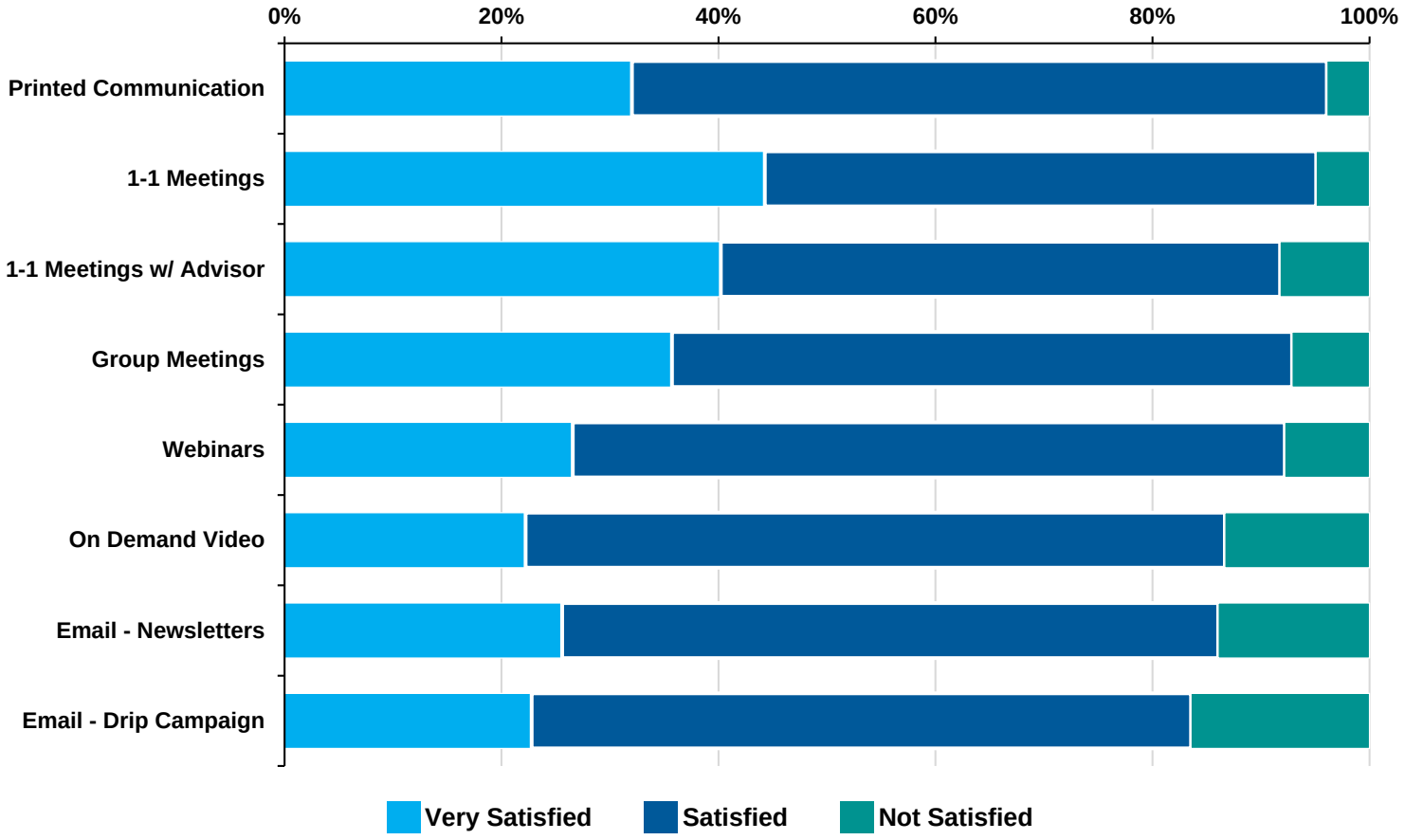
Marketplace Insights

Given the needs expressed for planning, distribution, and deferral tools, participant website features is another area where companies could look to address some of their issues simply by adding tools they don't currently have which would improve participant satisfaction with their plans.

NQDC Plan Administration

Plan Communication

Rate your degree of satisfaction for each form of plan communication.



Survey Findings

No form of plan communication scored above 50% in the “Very Satisfied” category. Group and one-on-one meetings were the highest rated with emails ranked as being the least effective.

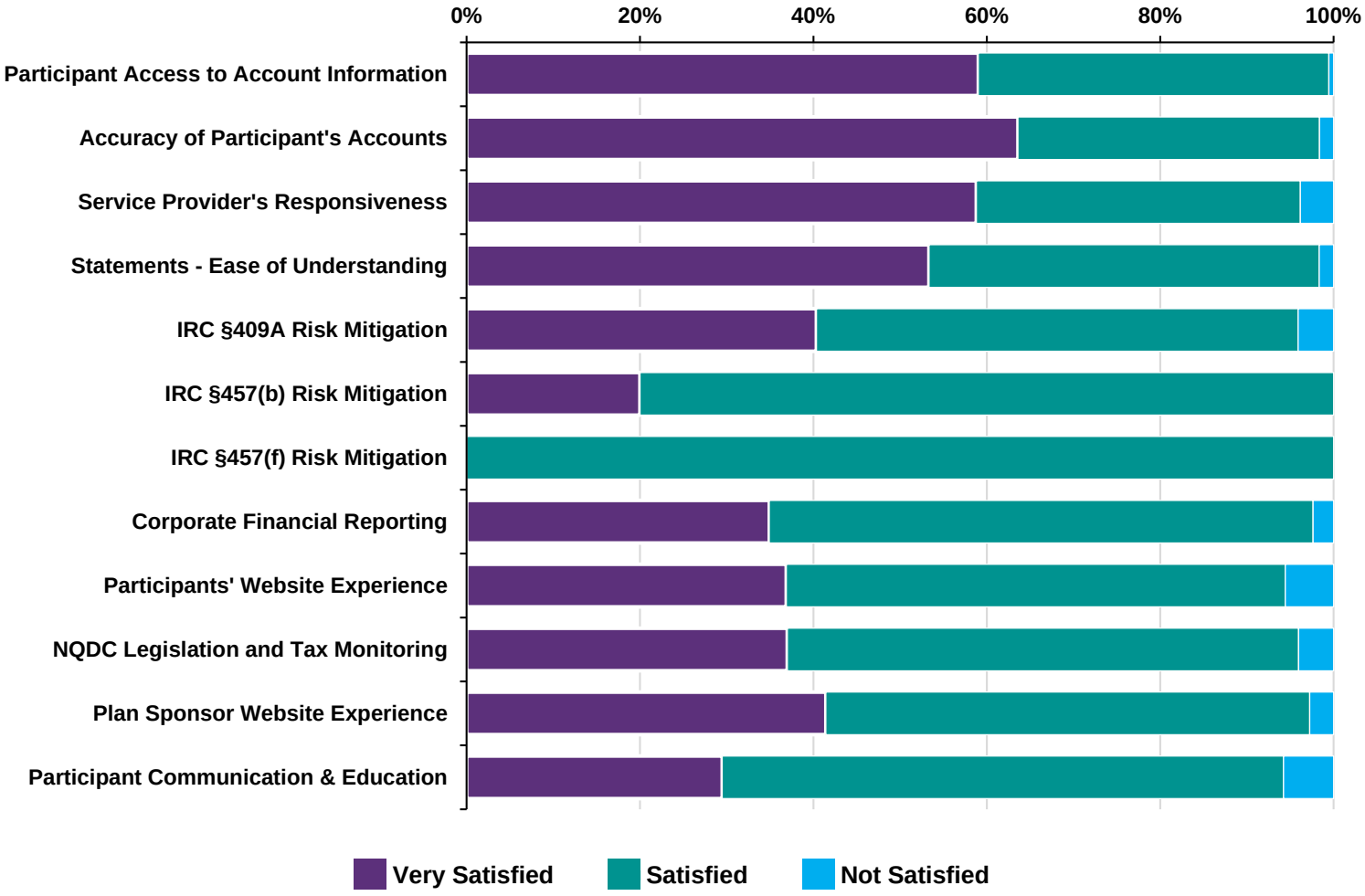
Marketplace Insights

It is not surprising that face-to-face meetings are the most effective forms of communication. However, these are the most time consuming and labor intensive forms as well. On demand materials and emails need to be examined for their effectiveness of capturing participants attention and interest. Given the focus on improved communication, there is an open opportunity to do better in this area.

NQDC Plan Administration

Plan Operations

Rate your degree of satisfaction for each form of plan operations.



Survey Findings

Plan sponsors report a relatively high degree of satisfaction with plan operations. However, there are concerns with 457 risk mitigation. Corporate financial reporting, NQDC legislation and tax monitoring, and participant website experience could all look for improvements in the “Very Satisfied” category.

Marketplace Insights

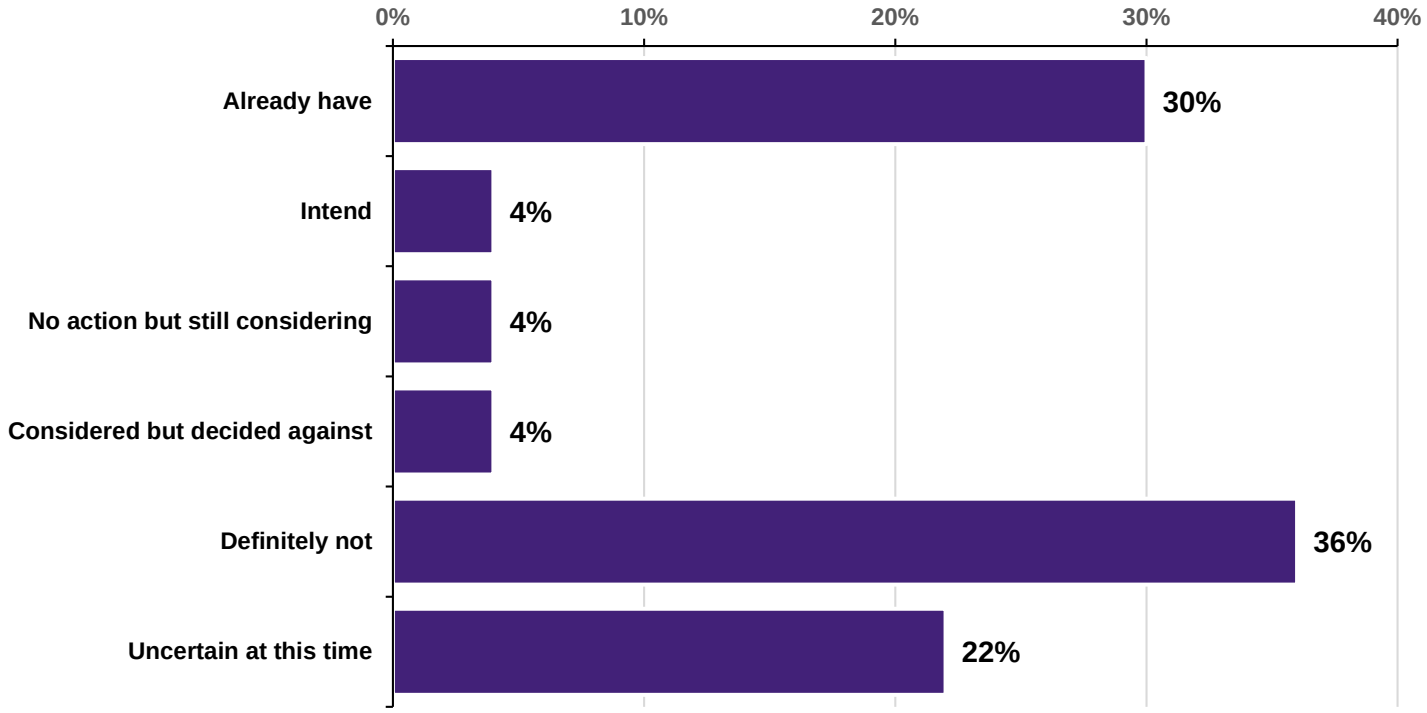
As with plan communication, plan operations and other areas of plan administration (e.g. consulting, investments, financial reporting, funding analysis) where plan sponsors have expressed a desire for support, many of these issues can be addressed by using a plan administrator with dedicated NQDC tools and resources.

COVID-19 Impact on NQDC Plans

NQDC Plan Administration

COVID-19 Impact on NQDC Plans

Has your company reduced, or does it intend to reduce executive pay to assist with cash flow during the COVID-19 crisis?



Survey Findings

Survey results showed that 30% of companies have already reduced compensation for their executives. Another 36% said that they do not plan to make any type of compensation reductions. And the last 34% are still trying to decide the best way to adjust to keep their businesses moving forward.

Marketplace Insights

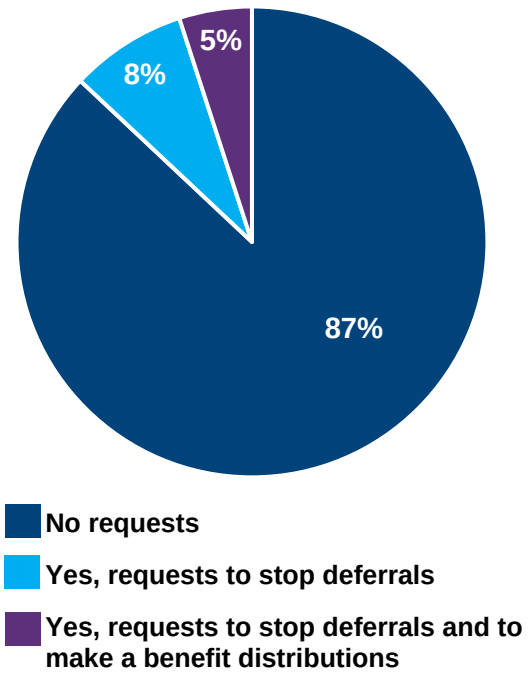
The pandemic has forced many companies to react in a number of ways that they have never had to in the past. There have been a full range of impacts on employers and employees and a full range of reactions. Some of these responses range from reductions in executive pay as reported above to staff furloughs and terminations.

Fortunately, businesses have reacted and responded in a balanced way – working to maintain both the health of their employees and the health of the company. While enterprises and their team members have indeed suffered, thoughtful corporate responses have helped many people to remain employed and have allowed businesses to continue to function. We captured some of these responses in our ***2020 COVID-19 Survey***, an extension of our ***Newport/PLANSPONSOR 2020 Executive Benefits Survey.***

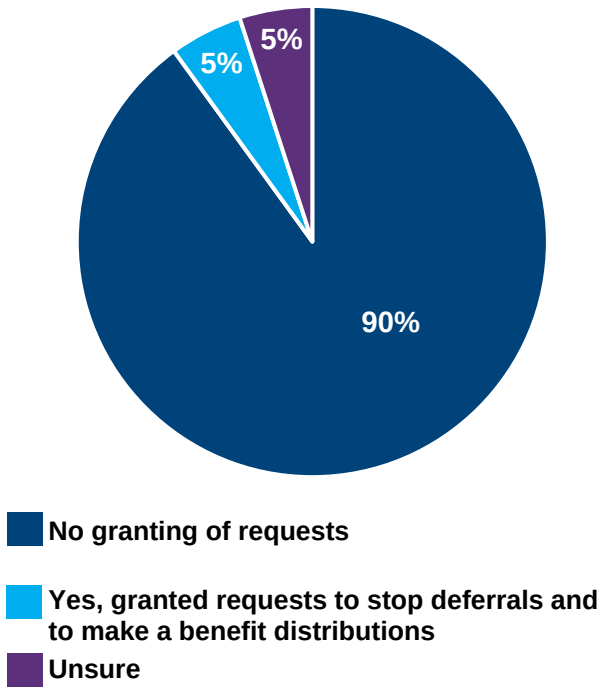
NQDC Plan Administration

COVID-19 Impact on NQDC Plans

In the last several months, have deferred compensation participants requested a financial emergency hardship?



In the last several months, has the company granted any financial emergency requests?



Survey Findings

A very small percentage of companies reported requests for financial emergency hardships. Only 8% of plan sponsors reported that they had received a participant request to stop deferrals and another 5% reported requests for ceasing deferrals and making a payment from the NQDC to meet the hardship request. Only 5% of employers reported granting any of the participant requests.

Marketplace Insights

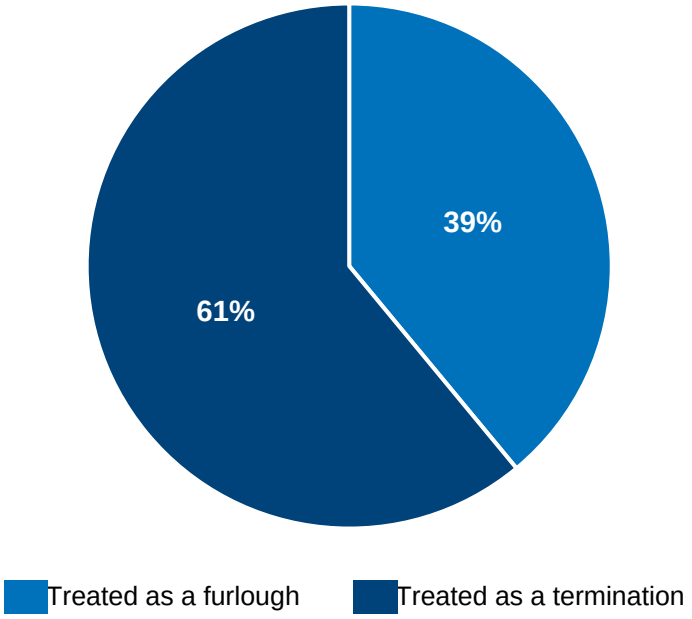
Under IRC §409A, “unforeseeable emergency” hardships have a high hurdle in order to qualify for approval. But, the impact of COVID-19 on participants could certainly rise to the level required for approval. In order to qualify, the hardship must be due to extraordinary and unforeseeable circumstances beyond the control of the employee. In addition, the financial hardship must not be able to be resolved by insurance or liquidation of other assets.

As the plan sponsor responses have shown in this survey, hardship requests have not yet become a frequent occurrence or a pressing issue.

NQDC Plan Administration

COVID-19 Impact on NQDC Plans

For those companies that have furloughed executives, how was it treated under the NQ plan?



Survey Findings

Of those companies that reported separations of key management personnel, 61% cited that these were permanent terminations. Those terminations could trigger payments from NQDC plans. 39% of plan sponsors indicated that the separation was only temporary and they intended to hire back these employees within a six-month window.

Marketplace Insights

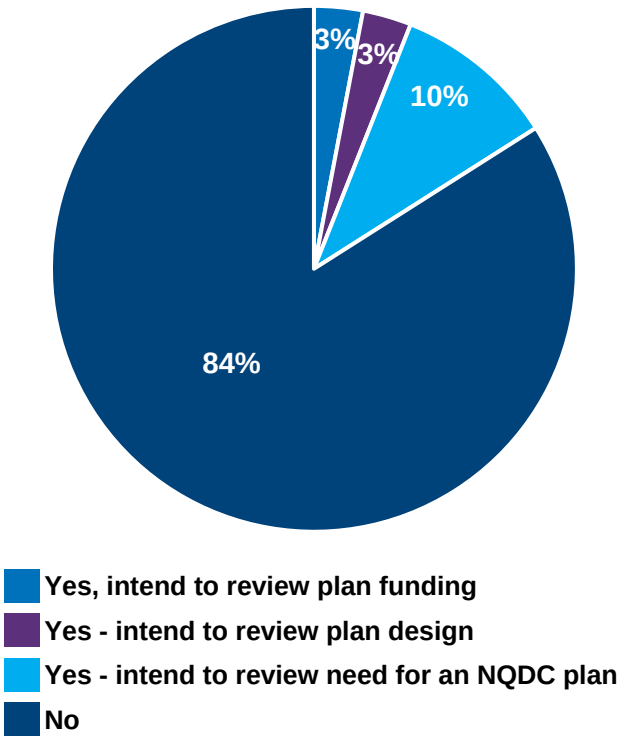
The six-month time period is important because, generally speaking, a furlough or leave of absence will not cause a payment from an NQDC plan if there is a reasonable expectation that the participant will return to work. If the furlough lasts longer than six months, the leave would be considered a separation of service for purposes of the NQDC plan.

Overall, we have seen less direct impact to NQDC plans as the CARES Act provided tax-preferred relief primarily for distributions from qualified plans. We have also seen most plan sponsors continue to operate their NQDC plans with no changes to their 2020 enrollment calendar. Most of them conducted their mid-year bonus enrollments as scheduled and are planning to offer participants the opportunity in the coming months to defer salary and bonuses earned in 2021. It is a weighty obligation of plan sponsors and advisors to constantly remind participants to focus on the long-term goal of financial wellness especially in turbulent times.

NQDC Plan Administration

COVID-19 Impact on NQDC Plans

Do you intend to review your organization's NQDC plan in light of COVID-19?



Survey Findings

84% of plan sponsors reported that do not have any current intention to review their NQDC plans due to impact of COVID-19. However, 10% indicated that they will now consider the need for an NQDC plan. 3% of the companies responded that they would review their plan design and their funding in the next twelve months.

Marketplace Insights

As with the other survey results, up to this point COVID-19 has not a had great impact on plan sponsors' needs to review their NQDC plan. Even so, we are likely to see some changes starting in 2021 with how employers communicate and educate their participants and how employees interact with the plan. In addition to the pandemic's impact, any corporate or individual tax rate changes that may arise due to changing economic and legislative conditions will affect the dynamics of how employers view these plans (income statement impact, funding decisions, etc.) and how employees make enrollment decisions (deferrals, distributions, etc.).

While we are in the midst of unsettling times, Newport is encouraged to see plan sponsors implementing new NQDC plans leading up to and during COVID-19. Year-to-date, we have helped approximately 50 companies implement a new NQDC plan and we have had virtually no plan terminations even with companies in the hardest hit industries like restaurant and retail. Most clients who are making plan modifications are reviewing with their advisors the eligibility criteria to ensure the plan is being offered to the right group of employees and the investment menus to ensure they have a well-diversified portfolio to offer to plan participants. Some companies are looking at adding model portfolios and fixed rate options to give their participants additional ways to diversify their accounts during volatile markets.

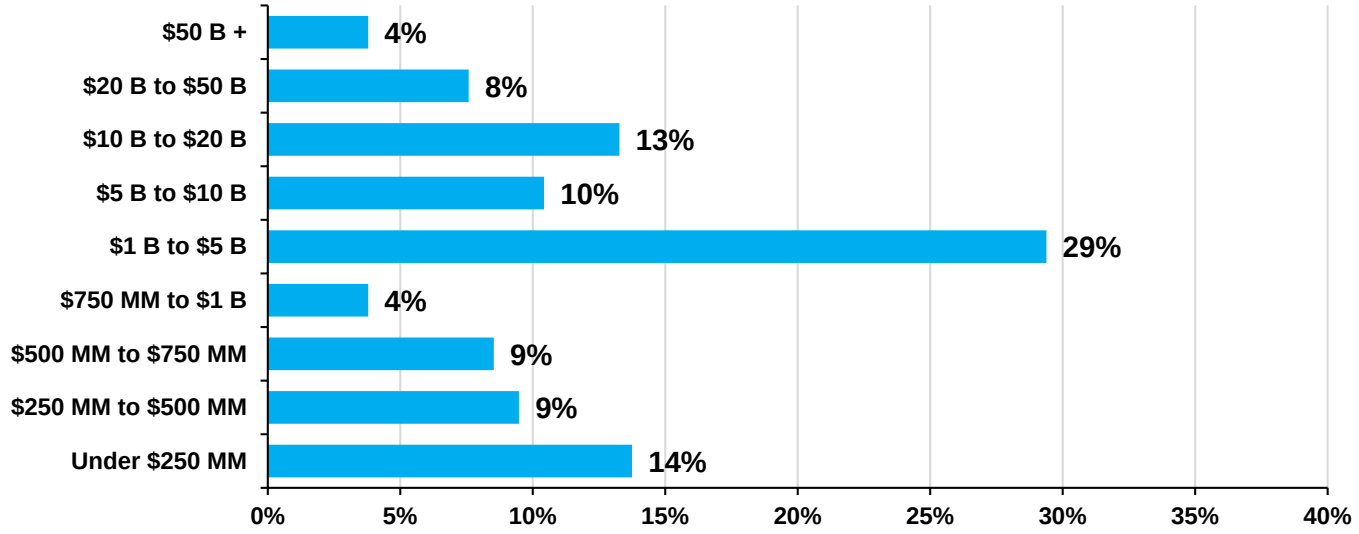
Survey Demographics

Survey Demographics

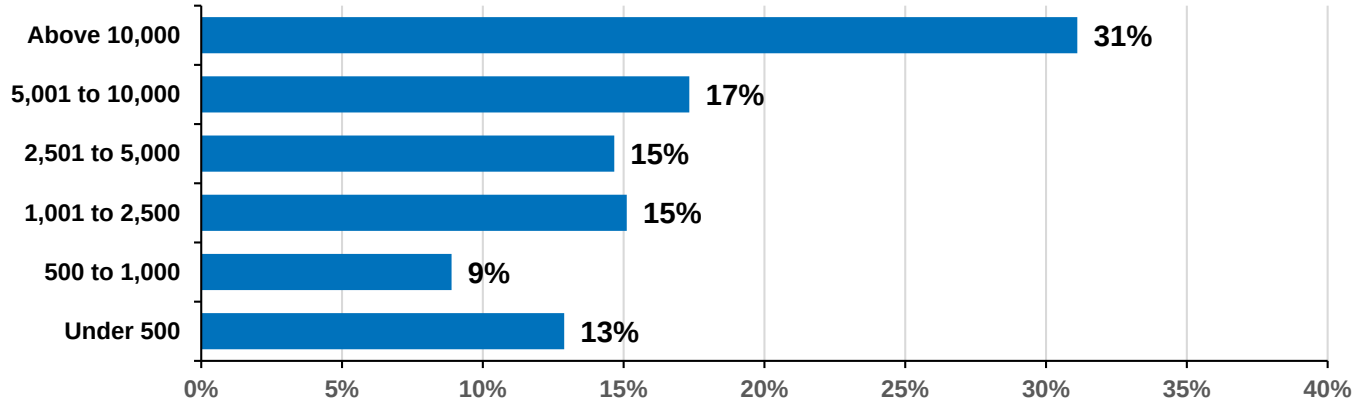
The following information summarizes the demographics of the data received from the 282 companies that responded to the Newport/PLANSPONSOR 2020 Executive Benefits Survey.

The responses represent a broad cross section of public and private for-profit companies from all industries as well as a large number of tax-exempt organizations.

Company Size



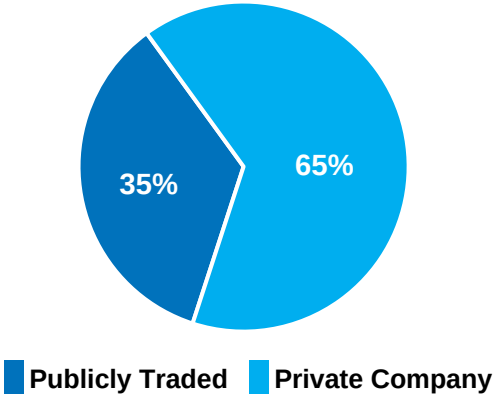
Full Time Employees (FTEs)

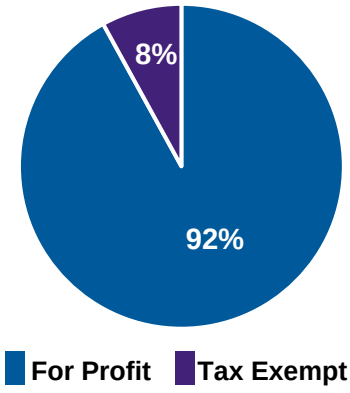


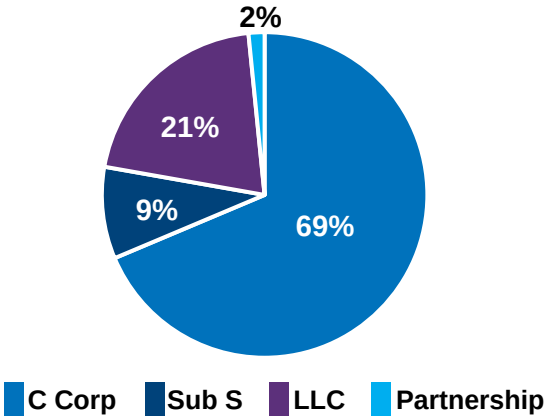
This year's survey represented a wide range of company sizes—small to very large. On the smaller end, 23% of 282 companies that responded have under $500 million of annual revenue. 22% have less than 1,000 Full Time Employees (FTEs) and 13% have fewer than 500 FTEs. There was also a significant number of plan sponsor respondents on the large end of the company-size spectrum, with 25% of companies stating that they had more than $10 billion of annual revenue and nearly one-third employing over 10,000 FTEs.

Structure and Industry

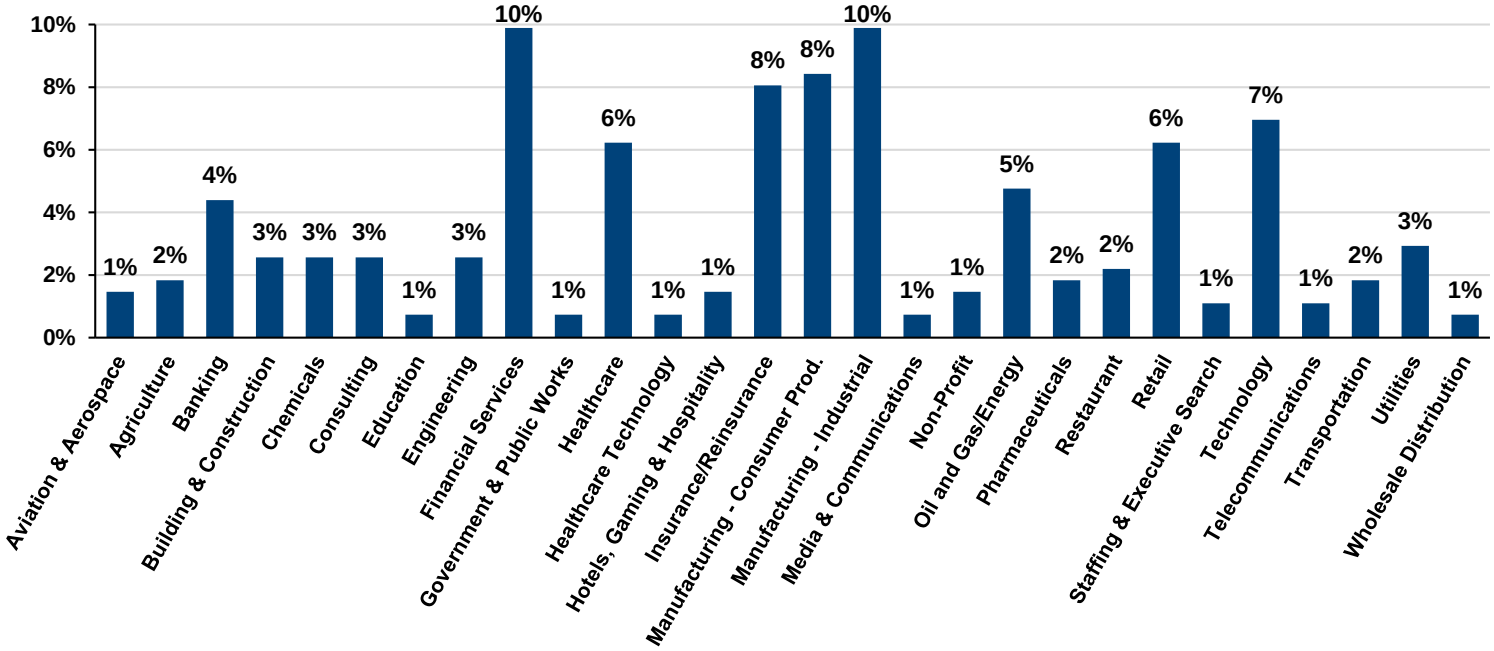
Company Structure







Industry Breakdown



Publicly traded companies represented 35% of the respondents in this year's survey which is a large increase from the 22% that was reported in Newport's last executive benefits survey. However, this year's respondents included many more small to mid-sized companies and tax-exempt organizations than previous surveys.

Companies from 37 different industries were included in the survey results with the largest representation coming from financial services (10%), industrial manufacturing (10%), insurance (8%), consumer product manufacturing (8%) and technology (7%).

For More Information

For questions about the data and analysis in this survey report, or about Newport's non-qualified retirement plan services and financial solutions, please contact:

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