

AN INSIDE LOOK AT CURRENT PRACTICES IN NON-QUALIFIED DEFERRED COMPENSATION

NEWPORT GROUP'S 2017 SURVEY

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Quick Poll

Before we begin...

- Do you currently have an NQDC plan?
 - A. Yes, and we don't want to change anything.
 - B. Yes, but we need to update our plan design to reflect current market practices.
 - C. No, we don't but we are considering implementing one soon.

Stay tuned for the results!

Agenda

Review of Newport Group 2017 NQDC Survey

- *Plan Sponsors*
- *Plan Design*
- *Investments*
- *Funding*
- *Plan Administration*

Questions

Wrap-up



Survey Information

Survey sent to Fortune 1000 companies

- HR and Finance professionals

Included 40 detailed NQDC questions

Respondents

- 78% public companies/22% private companies
- 23 different industries

Available to Newport Group retirement plan sponsors

- Attractive, graphically designed 44 page report
- Access via www.newportgroup.com/knowledgecenter



*Source: Current Practices in Non-Qualified Deferred Compensation, 2017 Edition

PLAN SPONSORS

NQDC Plan Prevalence and Goals

92% of all companies surveyed offer a non-qualified deferred compensation plan.

Top 5 Goals for Offering an NQDC Plan

1. Remain competitive with peer companies
2. HCEs need additional savings opportunities to assist with their financial planning
3. Retention tool for senior management and other highly compensated employees (sales staff, physicians, etc.)
4. Pre-tax deferrals/tax-deferred growth
5. Attract new senior-level management



*Source: Current Practices in Non-Qualified Deferred Compensation, 2017 Edition

Participant Satisfaction

We asked plan sponsors how satisfied they thought participants were with different aspects of their NQDC plan.

Most Satisfied

- Valuable component of overall benefits package
- Helpful with retirement preparedness
- Overall tax planning

Least Satisfied

- Basic understanding of the plan
- Website experience
- Plan education and materials



*Source: Current Practices in Non-Qualified Deferred Compensation, 2017 Edition

PLAN DESIGN

Participant Eligibility

How do companies determine NQDC eligibility?

Over two-thirds of companies determine eligibility by job grade, title or total compensation

- Job Grade – 29%
- Title – 22%
- Total Compensation – 16%

For those that use total compensation

- Over \$250K – 25%
- Over \$150K – 60%
- Over \$120K – 90%



*Source: Current Practices in Non-Qualified Deferred Compensation, 2017 Edition

Eligible Compensation

Is it just base salary and bonuses?

Base salary and annual bonuses are the predominant eligible compensation source (93%) but other sources of deferrals are becoming more prevalent

- Long-term incentive plan deferrals are up – 32% of plan sponsors
- Restricted stock – 19% of plan sponsors

What about 401(k) refunds due to discrimination testing?

More companies are allowing an “automatic” increase in deferrals to account for a qualified plan refund

- 69% of plan sponsors have 401(k) refunds due to discrimination testing

*Source: Current Practices in Non-Qualified Deferred Compensation, 2017 Edition

Company Contributions

What types of company contributions are plan sponsors providing and what are the vesting schedules that are used?

There is an upswing in company contributions over the last survey with 73% of plan sponsors offering a company contribution

- Make-up Match – 23%
- Excess Match – 34%
- Discretionary – 12%

A majority of companies vest matching contributions immediately

- Immediately – 54%
- Cliff Vesting – 17%
- Graded Vesting – 22%

*Source: Current Practices in Non-Qualified Deferred Compensation, 2017 Edition

Plan Distributions

What are the typical distribution events that are allowed?

Termination—including retirement—continues to be an almost universal NQDC distribution event (97%) with a specified date being very popular (74%).

Some other key distribution design features to consider:

- Will the plan allow in-service distributions?
- Will retirement be treated as a separate event or as a form of termination?
- Will the plan have a single or double trigger for a change in control event?



*Source: Current Practices in Non-Qualified Deferred Compensation, 2017 Edition

Plan Distributions

What types of distributions can participants take?

Lump sum and installment payments are both used 71% of the time by plan sponsors.

Another emerging form of payment is a hybrid partial lump sum with installments for the remainder of the balance (27%).

Can they change their distribution election?

80% of plan sponsors allow participants to change their distribution election (with the appropriate 409A compliance).



*Source: Current Practices in Non-Qualified Deferred Compensation, 2017 Edition

INVESTMENT CHOICES

Types of Investments

How is the investment menu created?

A range of mutual funds (similar to a 401k menu) continues to be the predominant investment structure. A large percentage of plan sponsors also use or have added a fixed rate option.

- Mutual funds – 89% (includes COLI-based platform)
- Fixed Rate – 44%
- Company Stock – 34%

66% of plan sponsors use an investment menu that is different from the company's 401(k) plan.

*Source: Current Practices in Non-Qualified Deferred Compensation, 2017 Edition

Number of Investments Choices

What is typical for the number of investment options offered?

55% of NQDC plans offer 10-19 investment choices for their participants

- 20 or more – 24%
- 10-19 – 55%
- Less than 10 – 20%



*Source: Current Practices in Non-Qualified Deferred Compensation, 2017 Edition

Fixed Rate Choices

When a fixed rate is offered, what are the indices that are used most often?

Fixed rates options tied to Treasuries or a company declared rate are the most common rates that are used

- Treasuries – 42%
- Company declared rate – 36%
- Moody's – 19%
- Prime Rate – 14%



*Source: Current Practices in Non-Qualified Deferred Compensation, 2017 Edition

PLAN FUNDING

NQDC Funding and Trust Prevalence

Are companies still funding their NQDC plans?

54% of companies set aside assets to informally fund their deferred compensation plans. The primary reasons for funding include:

- Managing expense volatility
- Providing participants an additional level of security
- Creating a pool of assets available for future payment of benefits

Are rabbi trusts being used?

Over 2/3 of plan sponsors use a grantor rabbi trust for their NQDC plan. Rabbi trusts provide some additional benefit protection in the event of a change-of-heart or a change-in-control by management.

*Source: Current Practices in Non-Qualified Deferred Compensation, 2017 Edition

Types of NQDC Funding

What types of funding are companies using?

Corporate-owned life insurance (COLI) and mutual funds continue to be the two most common funding vehicles.

- COLI – 64%
- Mutual funds – 30%

Other less frequently funding options are separately managed portfolios, total return swaps and company stock.

- Separately managed portfolios – 21%
- Company stock – 9%



*Source: Current Practices in Non-Qualified Deferred Compensation, 2017 Edition

NQDC Funding Levels

What percentage of NQDC liability are companies funding?

For those companies that fund their NQDC plan, 57% fund the total liability.

- 100% and above – 57%
- Over 66% – 84%
- Over 50% – 92%
- Less than 50% – 8%



*Source: Current Practices in Non-Qualified Deferred Compensation, 2017 Edition

PLAN ADMINISTRATION

NQDC Plan Administration

Who is handling the plan recordkeeping?

97% of plan sponsors outsource all or a significant portion of the plan administration.

Key advantages gained through outsourcing:

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



*Source: Current Practices in Non-Qualified Deferred Compensation, 2017 Edition

NQDC Plan Administration

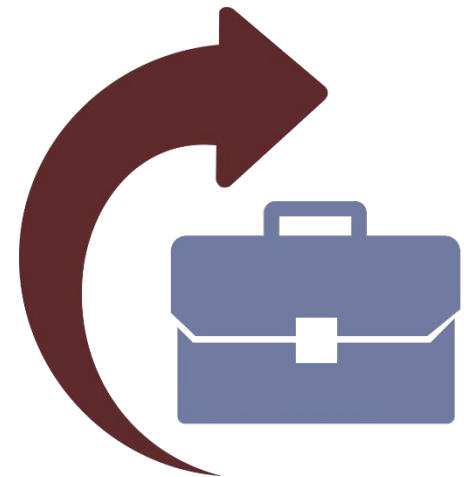
We asked plan sponsors how satisfied they were with areas of service from their current plan administrator.

Most satisfied with:

- Website experience (participant and plan sponsor)
- Responsiveness
- Corporate financial reporting

Areas for most improvement:

- Participant communication and education
- Plan legislation and tax monitoring
- 409A risk mitigation



*Source: Current Practices in Non-Qualified Deferred Compensation, 2017 Edition

APPLYING THE SURVEY

How to Utilize the Survey in Your Company?

Things to Consider...

- Review / comparison of your qualified and non-qualified retirement plans
- Present contemporary practices at a committee meeting
- See trends in NQDC design, funding, investments, plan administration, etc.
 - »Benchmark against your current plan to demonstrate market competitiveness with peer companies
 - »Maximize features for recruiting and retention purposes, etc.

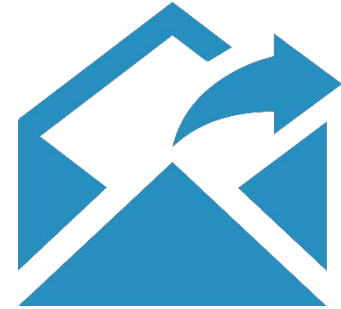
Accessing the Survey

Email and Print Version

Available at www.newportgroup.com

- Click on Knowledge Center or search for “Survey”
- Download and save to PDF file

Review latest trends and statistical information



Questions?



**If you have additional questions please contact your Newport Group Relationship Manager or email us at:
newportgroup@newportgroup.com.**

Thank you for attending today's presentation!

A very brief survey follows the webinar – tell us what you think!



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