AdvisorFacts

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NEWPORT GROUP™

Newport Group 2017 Non-Qualified Deferred Compensation Survey: Prevalence of Plans Increases

A competitive executive compensation plan is becoming increasingly vital to attracting and retaining talented management. In fact, employers taking Newport Group's ***2017 Current Practices in Non-Qualified Deferred Compensation Survey***, said providing a competitive compensation plan, allowing executives to accumulate assets for their financial planning needs, and retaining executives were their top three goals when it comes to offering a Non-Qualified Deferred Compensation, (NQDC) plan.

According to the survey, NQDC plans are a more significant component of the executive compensation landscape than ever before, particularly among larger companies. Overall, 92% of survey respondents offer NQDC plans to executives at some level within the organization. We are also seeing a trend with smaller companies competing for top level executive talent offering NQDC plans as part of their overall benefits package.

"NQDC plans continue to be popular among *Fortune 1000* companies due to the growing flexibility of today's plans," said Kurt Laning, Executive Vice President of Newport Group.

2017 Survey respondents replied that their **Top 3 Goals** for offering an NQDC plan were:

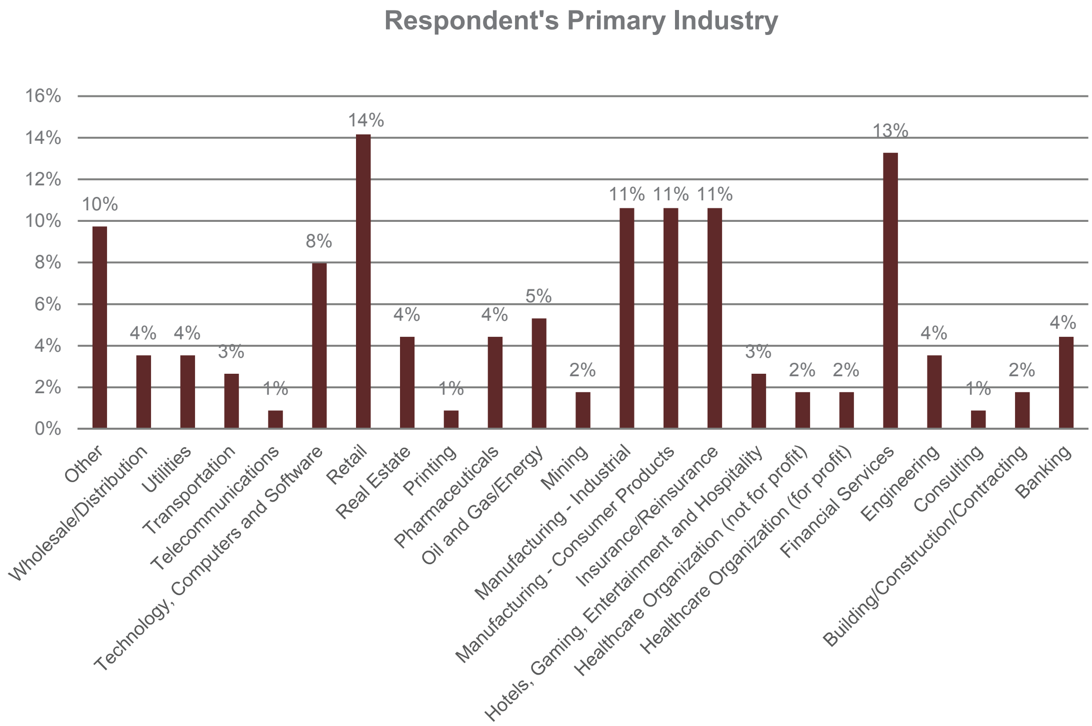
- Provide a **Competitive Compensation Program** – nearly 83%
- Allow executives to **accumulate assets** for their financial planning needs – almost 72%
- To **Retain** Executives – 63%

For nearly a decade, Newport Group has produced the ***Current Practices in Non-Qualified Deferred Compensation Survey***. Based on our 2017 evaluation of the non-qualified deferred compensation (NQDC) plans at 11% of the Fortune 1000 companies from various industries, we have created a tool to help our clients arrive at sound solutions, and to provide a benchmark for their executive benefits dilemmas.

Over the last 40 years, predominant themes have surfaced to cause corporations to implement supplemental benefit plans for their executives, most notably continued legislative limitations on the amounts executives can contribute and receive in qualified benefit plans. With the most recent tax proposals, deferred compensation will still be highly important and viewed as a vehicle that is vital for executives accumulating wealth, since their combined state and federal income tax bracket will likely exceed 40% in many cases, and that doesn't include Social Security, Medicare and other taxes that may bring that close to 50%.

Newport Group ranked #1 for NQDC assets in PLANSPONSOR's 2016 DC Recordkeeping Survey.

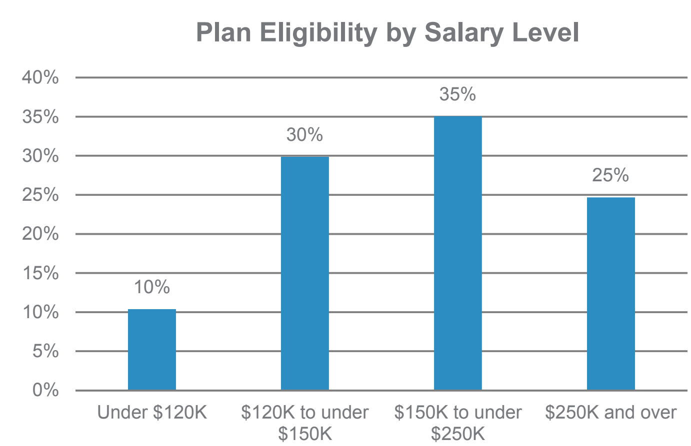
What companies participated in the 2017 survey?



- NQDC plan prevalence among companies surveyed in 2017 has increased to 92% up from 78% in 2015.
- 78% of 2017 Respondents are publicly held companies.
- 73% of the 2017 Respondents have annual sales/revenues of $2.5 billion and higher and 50% of respondents have more than 10,000 employees.

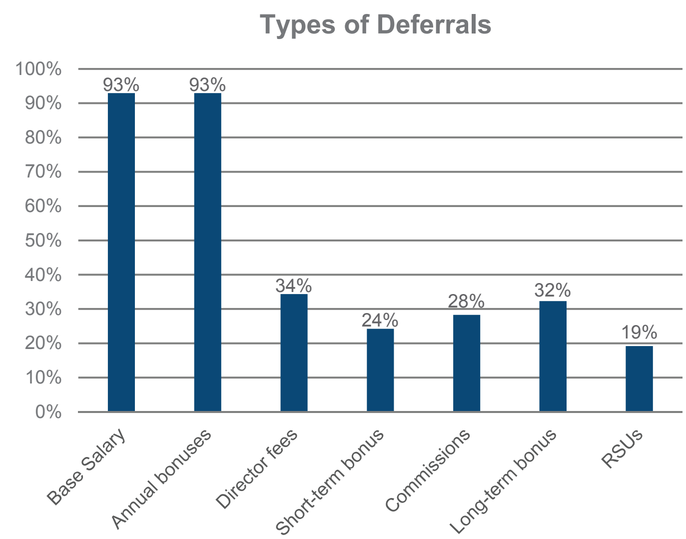
Plan Eligibility

The survey indicated that of employees eligible to participate in NQDC plans, 60% earned $150,000 or more, while 40% earned under $150,000. With limits on annual 401(k) contributions impacting more employees, companies have responded by offering NQDC benefits further down the corporate ladder," Laning said. Nonetheless, "51% of responding firms said they determine plan eligibility entirely, or in part, by position levels or job grades, while only 15% use base compensation as a criterion," Laning added.



Types of Deferrals

Leading types of deferrable compensation among responding companies included salary and bonus deferrals (93%) while 25%-34% allow deferrals of short-term bonuses, commissions, long-term incentives and director fees. Less than 20% of companies allow the deferral of stock and/or stock units.

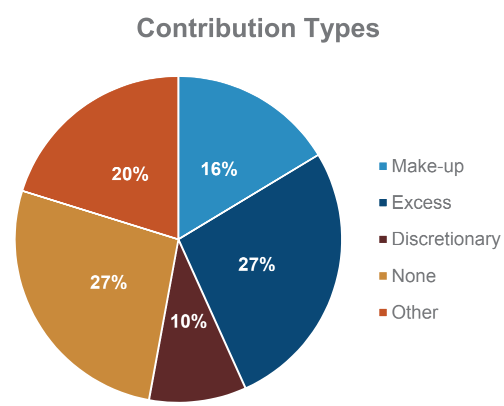


Company Contributions

Of survey respondents with NQDC plans, we saw a 30% increase in companies offering a match. This could possibly be tied to an ongoing shift away from Defined Benefit plans or Plan Sponsors are being discretionary with vesting schedules for retention purposes.

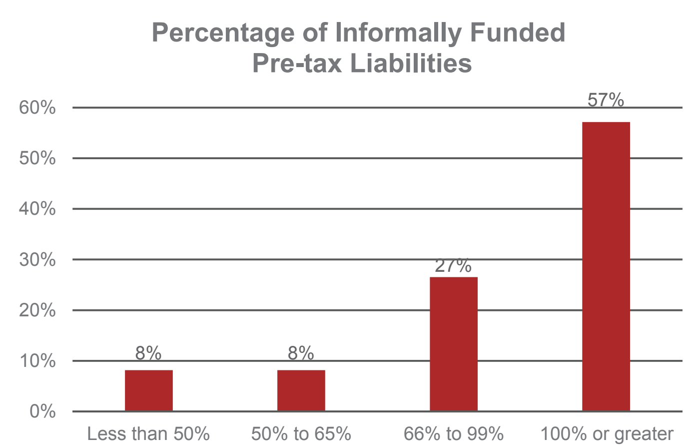
73% of respondents provide a company contribution—**up 23% from our last survey**.

Excess and make-up contributions are reported by 43% of respondents.



NQDC Plan Funding

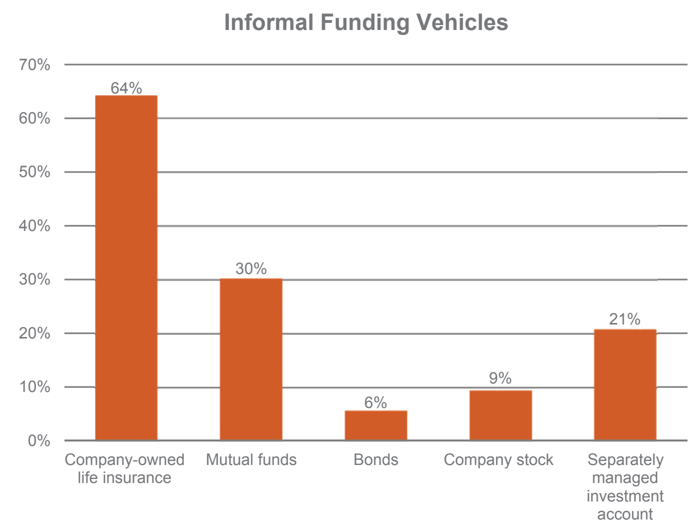
Newport Group's survey found that 57% of companies offering NQDC plans, have 100% of the pre-tax liability informally funded, while only 8% of surveyed plans remain less than 50% unfunded.



Informal Funding Vehicles

Of those plans that are informally funded, the **vehicle most commonly used is Corporate-Owned Life Insurance (COLI),** with 64% of plans relying on this method up from 55% in 2015.

Other common informal funding vehicles include Mutual funds (30%), followed by Separately Managed Investment Accounts (21%), Company Stock (9%), and Bonds (6%).

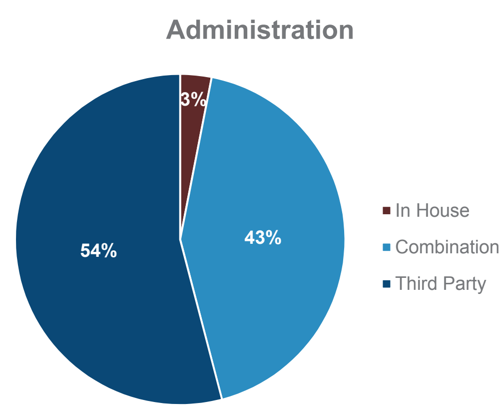


Grantor Trusts (Including Rabbi Trusts and Alternatives)

Grantor Trusts (including Rabbi Trusts) continue to be popular with Plan Sponsors, with 68% of respondents reporting this feature. This type of device is clearly seen as important protection for plan participants against adverse decisions of the plan sponsor.

Plan Administration

97% of all respondents noted that they have a third-party administrator or a combination of in-house and third-party management on their NQDC plan.



For more information about Newport Group's 2017 NQDC Survey results, please visit us at [newportgroup.com]() and watch for our 2017 Survey Results webinar invitation later this summer.

Disclaimers

Note that the views expressed above are those of Newport Group and do not constitute legal advice; readers are encouraged to consult their own legal counsel. This release is a high-level summary of a complex subject that is intended for Newport Group's clients and intermediary partners and should not be understood as providing a comprehensive discussion of all issues or requirements under the regulations or as a guide to compliance.