Nonqualified 457(b) plans for non-governmental organizations

Rewarding key employees’ performance is good for business
A retirement benefit that helps you recruit, retain and reward key employees

What is a 457(b) plan?

This plan is an employer-sponsored benefit of 501(c) or non-governmental tax-exempt organizations for the key employees you choose. It’s basically an agreement between you and your key employees.

Those who participate in a 457(b) plan defer a portion of their annual compensation or bonuses into the plan before taxes. And you promise to distribute that money, plus any potential earnings and additional employer contributions, to them at a future time.
Keep your key employees satisfied with benefits they need and value

Things are going well for your organization. Much of this success is credited to your key employees. Their leadership and expertise are hard to match – and hard to find! What can you do now to help ensure your top talent remains committed to you – and not the competition?

Enhance your benefits package with a nonqualified deferred compensation plan. It can give you a competitive advantage by:

› Encouraging the best employees to join your organization as it grows.
› Keeping your key employees satisfied and motivated for the long term.
› Rewarding them for reaching goals.
› Helping employees bridge the retirement gap resulting from 401(k) or 403(b) plan testing and limitations.

No matter which of the areas above you are trying to address, we have a solution for your organization. To help you select the right plan, we’ll listen to your challenges, understand your needs and goals, and work with you and your financial professional to:

Discover – Identify the issues your organization wants to resolve and what you want to achieve.

Solve – Learn how this plan can help solve problems and achieve your objectives.

Design – Use the plan’s flexibility to tailor a plan to your organization’s and participants’ needs.

Partner – Trust the service and expertise we’ll provide to you and your key employees every step of the way, year after year.

Stay current – Make changes to your plan as your organization’s needs and goals change.
Discover

What are your organization’s goals?

It’s important to your organization to have a valued and affordable benefits package – plus a little more for your key employees. So think about the goals you want your benefits package to achieve – both short- and long-term, such as:

<table>
<thead>
<tr>
<th>Recruit</th>
<th>Attract the best employees as part of a competitive benefits package.</th>
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<tbody>
<tr>
<td>Retain</td>
<td>Encourage key employees to remain loyal to your organization.</td>
</tr>
<tr>
<td>Reward</td>
<td>Provide performance-based contributions to achieve organizational goals.</td>
</tr>
<tr>
<td>Retire</td>
<td>Help your key employees save enough for retirement above what 401(k) or 403(b) plans allow.</td>
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What are your key employees’ goals?

To have a successful plan, you need to address what your top employees want. Our annual trends survey shows participants consider deferred comp most important in reaching retirement goals. But you can customize the plan to help your key employees with a variety of goals, including:

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<thead>
<tr>
<th>Retirement savings</th>
<th>Save beyond 401(k) or 403(b) plan limitations with employee deferrals or optional employer contributions.</th>
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<tr>
<td>Managing taxes</td>
<td>Help manage the impact of taxes using the plan’s flexibility for when benefits are paid.</td>
</tr>
<tr>
<td>401(k) or 403(b) restoration</td>
<td>Use employee deferrals or employer contributions to restore benefits limited under a 401(k) or 403(b) plan.</td>
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Is a 457(b) plan right for you and your key employees?

Once you’ve identified the most important goals, then consider the role that a 457(b) plan can play in helping achieve those goals. These plans offer benefits and considerations for both the organization and the key employees.

The 457(b) plan can be beneficial in planning for retirement. The plan allows your key employees to save beyond retirement plan limits. Plus, it doesn’t require discrimination testing, minimum participation or Form 5500 filing if set up properly.

It’s also important for plan participants to remember that it’s a promise from you, their employer, to pay benefits to them in the future – and compensation deferred into the plan isn’t protected in the event of bankruptcy. But there are security mechanisms, like trusts, that you can put in place to provide a measure of protection.

A closer look at a 457(b) plan

<table>
<thead>
<tr>
<th>Feature</th>
<th>457(b)</th>
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<tbody>
<tr>
<td>Pre-tax contributions*</td>
<td>Yes</td>
</tr>
<tr>
<td>Earnings accumulate tax-deferred</td>
<td>Yes</td>
</tr>
<tr>
<td>Contribution types</td>
<td>Employee and employer</td>
</tr>
<tr>
<td>Contribution limits</td>
<td>Typically match 402(g) limits</td>
</tr>
<tr>
<td>Age 50 catch-up</td>
<td>No, but special Section 457 catch-up in final 3 years before normal retirement age</td>
</tr>
<tr>
<td>Ability to make changes in deferrals</td>
<td>Monthly</td>
</tr>
<tr>
<td>Ability to design an individual investment strategy</td>
<td>Yes</td>
</tr>
<tr>
<td>Vesting</td>
<td>Typically 100% vested at all times</td>
</tr>
<tr>
<td>Covered by 409A</td>
<td>No</td>
</tr>
<tr>
<td>Rollover provisions</td>
<td>No, however, plan-to-plan transfers are possible</td>
</tr>
<tr>
<td>10% IRS early-withdrawal penalty</td>
<td>No</td>
</tr>
</tbody>
</table>

* Plan contributions are subject to FICA/FUTA at vesting and subject to income taxes at time of distribution. Deferrals may not be treated as pre-tax in all states. Participants should discuss the impact of taxes with their tax advisor.
You’re in control of making the plan yours – it’s based on the specific goals of your organization and unique needs of your key employees. Together with your financial professional, we’ll walk you through the decisions that need to be made to design a plan that makes sense for your organization:

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<thead>
<tr>
<th><strong>Who participates</strong></th>
<th>Select the groups of key employees (“Top Hat” employees or independent contractors) to participate in this plan.</th>
</tr>
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<tbody>
<tr>
<td><strong>What can be contributed</strong></td>
<td>You can allow key employee deferrals in excess of retirement plan limits and/or provide employer contributions with the flexibility to vary benefits by individual employees.</td>
</tr>
<tr>
<td><strong>What happens with the contributions</strong></td>
<td>You can select a reference investment line-up to make available to participants from a broad range of options. In addition, you can decide how and when key employees may receive the benefits based on organizational needs.</td>
</tr>
<tr>
<td><strong>How benefits are paid</strong></td>
<td>Decide how payouts can be received from the plan. Benefits from a 457(b) plan can be paid as a lump sum or in annual installments.</td>
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</table>
How it works
This chart shows how money is contributed to a 457(b) retirement plan and paid out at a later date. It also points out that when the benefit is distributed to the key employee, the employer receives an income-tax deduction and the key employee pays income tax on it.

How does your organization pay for it?
Keeping your promise to pay benefits to participants in the future is important. Any of these financing options can help you do that.

- **Company cash** – No specific assets are set aside. Instead, benefits are paid through the company’s cash flow.
- **Employer-owned investments** – The company invests in mutual funds, which can be allocated similarly to the investments offered to plan participants.
How do we work with your organization and key employees?

You want to offer key employees the benefits they value – and those that will have a positive influence on them and your organization. Our team of experts will work closely with you and your financial professional to develop a strategy for implementing and servicing your 457 plan.

But we don’t stop there. Year after year, we’ll continue to work closely with you and your financial professional to fine-tune your plan to ensure your organization’s goals are met – and your plan is administered as efficiently as possible.

Keeping you in-the-know

To help you stay on top of your plan, a range of information is available on our website and accounting reports. You also have easy access to plan asset and liability reporting, investment resources and other tools to assist with administering your plan. Plus, depending on your plan type and design, you’ll receive:

- Access to plan participants’ account information.
- Daily valuation of assets/liabilities.
- Asset/liability information and rebalancing services.
- Updates on enrollment progress.
- Quarterly newsletter featuring legislative news, service updates and more.

Participants tell us they consider the deferred comp plan most important in:¹

- Reaching retirement goals – 73%.
- Considering taking a new job with a new employer – 60%.
- Deciding to stay with a current employer – 47%.
Turning your key employees into plan participants

Understanding the benefits of this exclusive plan is the first step – it’s what will encourage your key employees to participate. We’re here to help every step of the way:

Step 1: Introduce the plan

Whether this is a brand-new benefit or employees are familiar with this type of plan, we offer award-winning* custom education to introduce plan basics. We’ll help you make sure your employees are aware they are eligible so they can make an informed decision to participate.

Step 2: Enrollment

Participants can conveniently enroll online at principal.com. Our deferred comp specialists are available to answer questions Monday-Friday.

Step 3: Ongoing education and planning

Your participants need support to stay on track. We can also provide you with additional communication and education to promote greater understanding and appreciation of the benefit. Participants can find information about their accounts, investment strategy, contributions and scheduled distributions at principal.com.

* 2016 International Financial Communicators Awards Competition

The first question is simple. Can you afford to defer some current income? If you can, these additional questions will help you learn more.

a. Are you interested in saving on a pre-tax basis?

b. Are you concerned about meeting retirement goals?

Education materials prepare participants for the decisions they’ll make at enrollment.

Employees create their own tailored experience through dynamic, interactive digital education.
Stay current

How does the plan keep up with your organization’s needs and goals?

The deferred comp plan is your plan. Its long-term success depends on how well it keeps pace with your organization’s needs and goals -- today and tomorrow. So once your plan is in place, we’ll make sure to provide:

Close attention to the plan over time, such as a participant’s account balance from the beginning of the plan until payout at retirement.

Experienced specialists who offer feedback on factors that can influence the plan, such as plan design changes and regulatory updates.

Access to online dashboards of information.

“

If it hadn’t been for that additional savings tool, I would never have met my goal to retire at age 62. It was that important.

– Dan K., plan participant

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Ready to start?

Once you decide that a 457(b) plan is right for your organization and key employees, we’ll bring our expertise and resources to the table to help you put this plan in place within your desired timing. We’ll begin by:

• Gathering information from you about your organization.
• Tailoring the plan to your specific needs and goals.

Thousands of employers value the solutions and services we provide. You and your financial professional can count on us, too. We’ll do our best to deliver a positive experience for everyone involved.
An industry leader in your corner

Our history speaks for itself. We've been providing nonqualified deferred compensation plans for more than 25 years, and have over 75 years of retirement plan experience. We're the No. 1 provider of deferred comp plans\(^2\) and a leading provider of defined contribution plans\(^1\).

What sets us apart from others is our:

- Commitment to and experience in the business and retirement plan markets.
- Unique plan design and flexibility to tailor it to specific needs and goals.
- Personal consultation that focuses first on the right plan design, and then on the financing to support it.
- Specialized team of legal, accounting and financing resources with more than 200 years of combined experience to provide support.
- Service and commitment to building long-lasting relationships.

A member of the FORTUNE 500\(^6\), our employees are passionate about helping clients of all income and portfolio sizes achieve their goals. You can count on us to offer innovative ideas, investment expertise and real-life solutions to help make financial progress possible.

Learn more:

Contact your financial representative for more information or to help with the next steps in putting a plan in place.