

Summary | Nonqualified Incentive Bonus Plan

Rewarding your key employees' performance is good for business

A benefit that provides incentive for them and loyalty to you

Your top employees provide leadership and expertise every day. So it's important that they stay motivated and loyal to your organization. How can you provide incentives that encourage them to do their best, while staying committed to you for the long term?

The Nonqualified Incentive Bonus Plan, a type of deferred compensation plan, is a smart solution designed to help you reward and keep your top employees. It's a tax-deferred bonus program that provides additional compensation beyond 401(k) limits to the key employees you select (highly compensated "Top Hat" employees and non-Top Hat employees). And you set the vesting schedules that best meet your business goals.

Unlike most long-term incentive plans, this nonqualified plan allows your key employees to design an investment strategy and includes online access account, vesting and transaction information.



Here's how it works

This deferred comp plan is a type of bonus plan you provide to the key employees you select. You make pre-tax contributions into the plan for the key employee and promise to pay that money, plus any earnings, to them at a future date based on the vesting schedules you set.

How you informally finance your plan can help you do just that – whether with corporate-owned life insurance or taxable investments, or the organization's cash flow.

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“My employer really wants to motivate us to be at our best every day.”

– Mike F., plan participant for 8 years

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What you need to know

There are many advantages to this plan, just as there are some things to consider.



Increase morale – Top employees value this benefit, and it helps them remain loyal and motivated.

Improve retention – Retain select key employees by making employer contributions, which pay based on vesting schedules that meet your business goals.

Defer tax deduction – The money that accumulates to finance the plan remains an asset on the balance sheet until benefits are paid, and then the organization receives a tax deduction.

Pay service fees/charge – There are fees for plan administrative services, and there could be a charge to earnings on assets purchased to finance the plan.



Save more – Take advantage of tax-deferred growth and compounded earnings.¹

Decide when – Enjoy the flexibility to choose when benefits are paid, as allowed by the plan.²

Choose to participate – Both Top Hat and non-Top Hat employees are eligible to participate in the plan.

Design an investment strategy – Tailor the plan with a variety of investment options.

Limited protection – This plan is unfunded and doesn't provide the same protection as a 401(k) plan.

Potential penalties – If the company doesn't comply with IRS rules, participants in the plan could face taxes and penalties.

Help your key employees save additional dollars for the future with a deferred comp plan from Principal®. It's a great way to tie them to your business, while keeping it strong and successful.



[Learn more.](#)

Contact your financial professional today.

¹ Contributions to the plan are subject to FICA when benefits vest. Distributions are taxable to participants upon receipt.

² Distributions must be paid within 10 years of the original date of each company grant.

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