



Nonqualified deferred compensation plans

Trends in Nonqualified Deferred Compensation

2017 research results,
published March 2018

Insight through the lens of employers and their key employees

10th annual nonqualified deferred compensation plan study conducted by Principal®

The latest research results provide timely statistics and trends on deferred comp plans through the lens of both plan sponsors and participants.



This report can help you benchmark against your peers and gain valuable insights. Here's what you'll find:

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Key findings in this year's study

What employers said



Competitive benefits are key.

The race to recruit and retain key employees is intensifying, making competitive benefits more vital than ever. In fact, it's

the new top reason plan sponsors are offering the plan, and it's been on the rise since 2014. Other top reasons, showing steady results, include allowing participants to save more than qualified limits and using the plan as a retention tool. The rising value placed on benefits supports the reality that top talent is scarce and the market is competitive. A deferred comp plan provides a unique benefit that helps employers attract, reward and keep their key employees.

Simplicity, efficiency and flexibility are critical. And

the deferred comp plan is meeting that need. When plan sponsors anticipate what changes they'll be making, expanding available investment options and eligible participants rose to the top.

The role of the financial professional is important. New findings give insight on the role of the financial professional and where their value is needed most. Employers said they want to rely on them most for information on regulatory changes, initial plan set up, and participant education and advice.

“We're in a battle for key talent.”

–Employer¹

What key employees said



It's all about retirement. The trend continues to show the plan is important in helping participants reach their retirement goals.

In fact, progress toward their retirement savings goal continues to be the primary reason to participate, and plays the largest role in deciding how much to contribute.

The income bridge strategy is a popular approach in retirement. New this year, we found that half plan to use this source of income in their early years of retirement. It's a strategy that allows other retirement income, like Social Security, 401(k) and personal savings, to grow or be held until age-based limits are met.

Employer match and affordability impact participation. Employer match continues to play a large role in key employees' decisions to participate. More than half say an improved employer contribution or match would make the plan more appealing. For those that don't participate, the most common reason was because they didn't feel they could afford to defer income, not because they don't see the value of the plan.

They're more confident in their retirement savings. Based on their current retirement savings, over eight in 10 key employees report confidence in retirement readiness. And almost three of those 10 state they're very confident.

“It's the best option for me to save for retirement at this time. Especially with the employer contributions.”

– Survey participant¹

¹ This is not a paid advertisement. The plan participant participated in a nonqualified deferred compensation plan through his/her employer with plan administrative services provided by Principal®. The plan participant is not affiliated with any company of the Principal Financial Group and the views and opinions expressed are his/her own.

Top reasons these plans are valued



Employers

- 1 Competing in the battle for key talent.** The top two features that plan sponsors rank as most important are the ability to compete in the battle for key talent and to give those employees a way to save in excess of qualified plan limits.
- 2 Employer contributions are important, though optional.** Over half (53%) of employers choose to make contributions to key employees' plans. Retaining key employees and restoring the company's qualified plan contributions are the leading reasons why employers choose to make contributions.
- 3 Decision-making resources are valued.** Information about investment performance and plan options are what employers find most valuable in helping key employees make plan decisions. Over the next year, employers say their most likely plan change will be to offer different investment options, followed by expanding the number of eligible employees.
- 4 Plan design matters.** Most employers annually review design elements to help ensure the benefit is still meeting organizational needs.

Employees

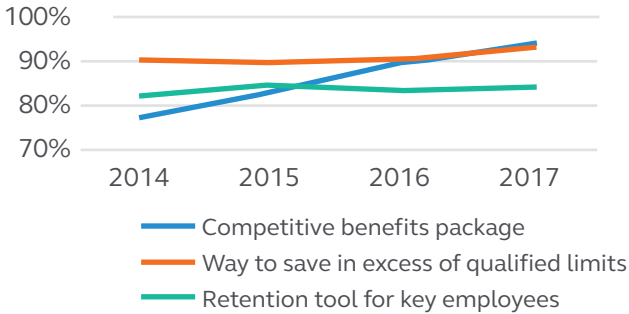
- 1 It's still about saving for retirement.** The ability of deferred comp plans to help key employees save for retirement continues to be the most important role of the plan and a main reason for participating.
- 2 Retirement income source.** Half of participants view the plan as a source of income to be spent down during the early years of retirement. More than 20% of participants say that the plan will provide 25% or more of their retirement income. One in ten participants view the plan as their number one retirement income source.
- 3 Flexibility in deciding how much to defer.** The top factors key employees consider when determining an annual compensation amount to defer into the plan are progress toward saving goals, personal tax rates and current income needs.
- 4 Contributions from employers drive behavior.** In 2017, 40% of participants say their employers make discretionary contributions on their behalf. And more than eight in 10 participants with an employer-match contribute enough to get the maximum match.

What the trends tell us

Competitive benefits are more important than ever

There's been a steady and significant increase in plan sponsors citing competitive benefits as an important factor in deciding to offer the plan. In fact, for the first time, it became the #1 reason. Meanwhile, the other top two reasons have shown a steady level of importance.

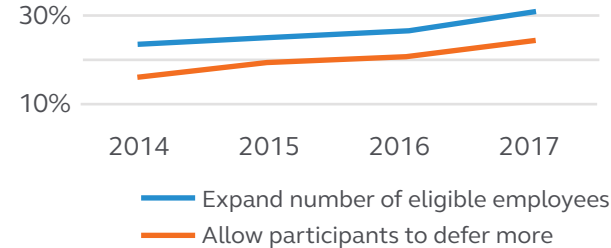
Total importance for top reasons to offer the plan



Employers are extending the benefits of the plan

Plan sponsors are showing continued increase in changes that increase the value of the plan for more employees. There's a steadily increasing interest in expanding eligibility and allowing participants to defer more. That's another sign that employers are focused on competitive benefits and using the plan to attract and keep top talent.

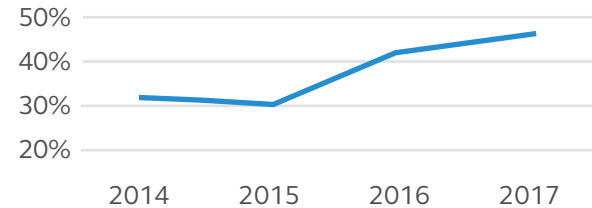
Total likelihood of making these types of changes to the plan



Key employees see more value in pre-tax deferrals

There's been a significant increase in employees citing tax rate management as a major reason to increase future deferral amounts. Saving money for retirement remains the most popular reason for deferral increases.

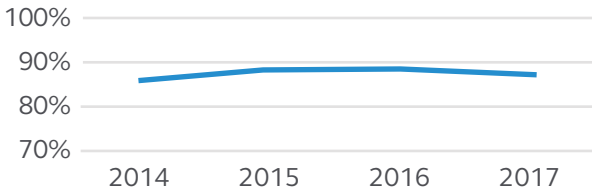
Manage income tax rate cited as major reason for deferral increases



Retirement is still the number one reason for participating

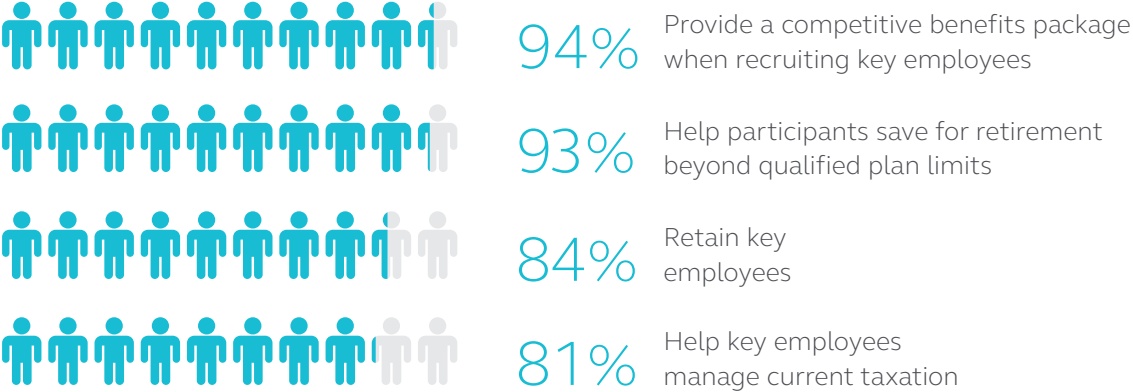
Despite the tax environment, changes in economy or any external factors, meeting retirement goals still tops the list of reasons key employees participate in the plan.

Total importance of the plan in reaching financial retirement goals

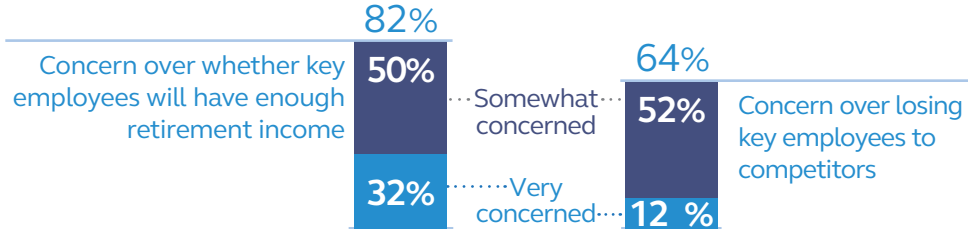


Employers: Statistics and insights

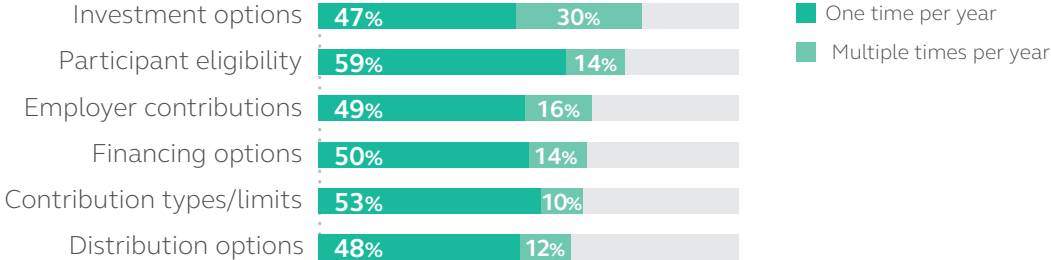
Top reasons why plan sponsors offer deferred comp plans:



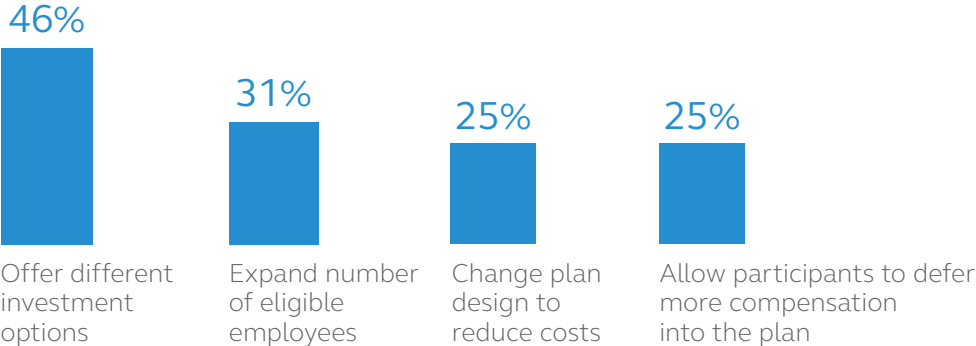
Importance of the plan for retirement and retention:



Frequency that employers review the plan to identify needed changes:



Changes plan sponsors are most likely to make to their plan:



Factors that build satisfaction with plan record-keeper:



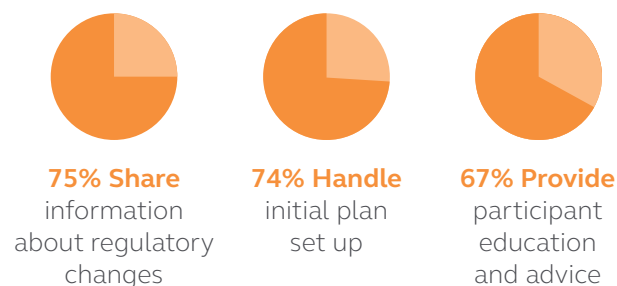
(The plan is) a mechanism by which we could both retain and attract the competitive talent that we are looking for.

- Employer¹

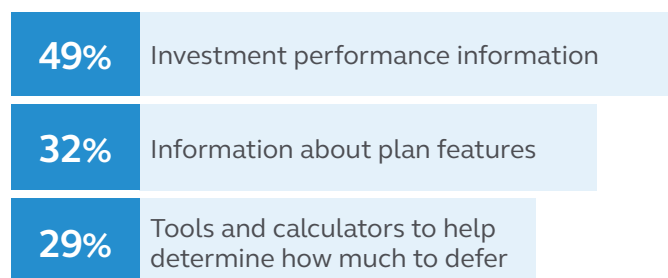
Employer contributions into the plan:



How employers expect financial professionals to play the largest role:

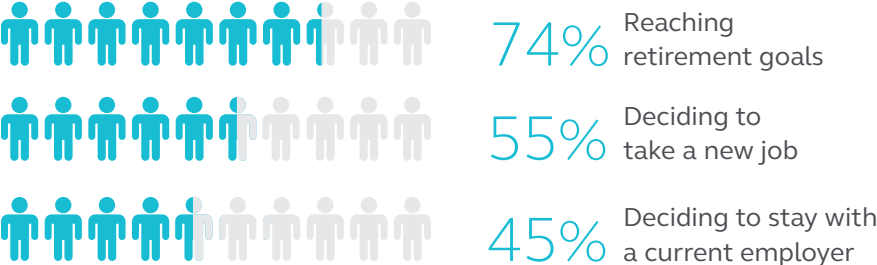


Most valuable resources plan sponsors want to give participants:

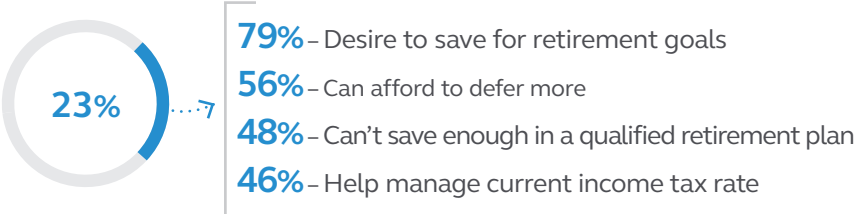


Employees: Statistics and insights

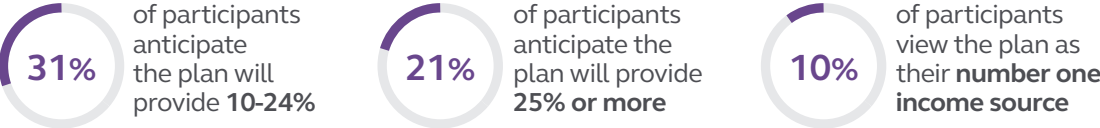
Participants consider a deferred comp plan **most important** in:



Participants are planning to **increase contributions**:



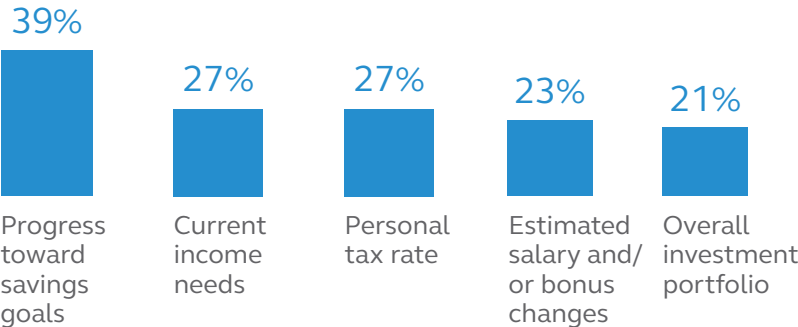
Expected retirement income by deferred comp plan participants:



Main reasons for participating in a deferred comp plan:



Very important factors for participants in determining deferral amounts:



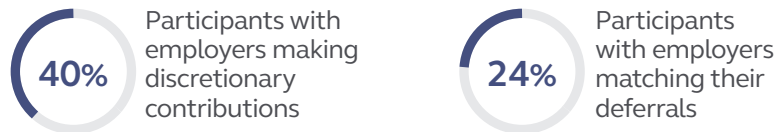
Likelihood of recommendation to participate:



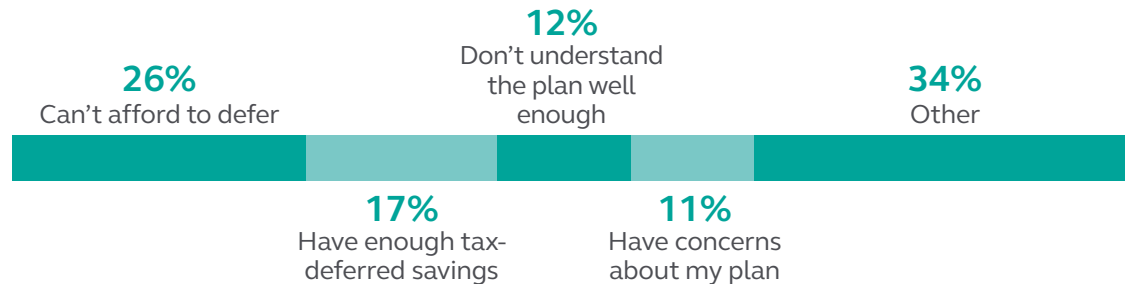
Retirement income spending strategy:



Employer contributions to participant accounts:



Reasons eligible employees don't participate:



I need the nonqualified plan to be able to save any significant amount automatically and tax free.

- Survey participant¹

² Significant increase over 2016 results.

Behind the scenes

Employer profile

Characteristics of plan sponsors who responded to the survey:

Median number of employees	400
Median number of employees eligible to participate in the plan	15
Median number of years offering the plan	10
Provide a company contribution	53%

Characteristics of all plan sponsors of a Principal nonqualified deferred comp plan:

Not-for-profit organization	31%
For profit organization	69%
In business for 25 years or more	62%
Median number of employees	400

Employee profile

Characteristics of participants who responded to the survey:

Size of employer	501 - 1,000 employees
Salary range	\$150K - <\$300K

Characteristics of all participants in a Principal nonqualified deferred comp plan:

Annual employee income	30% <\$150k	48% \$150k - <\$300k	
2017 actual plan balances³	34% <\$25k	32% \$25k - \$100K	19% \$100k - <\$250K
2017 actual plan contributions⁴	33% <\$10k	36% \$10k - <\$25k	17% \$25k - <\$50k

About the survey

Between July 24 and August 14, 2017, Principal conducted an online survey with employers having existing nonqualified defined contribution plans and key employees who were eligible to participate in a nonqualified plan with Principal. A total of 315 completed surveys were received from employers and 2,926 from key employees.

³ As of June 1, 2017

⁴ As of December 31, 2017

Our leadership strengthens your benefits

You can trust our expertise and leadership. In addition to being the No. 1 provider of nonqualified deferred comp plans⁵ and a leading provider of defined contribution plans⁶, we've been providing deferred comp solutions for more than 25 years and have over 75 years of retirement plan experience.

A member of the FORTUNE 500[®], Principal has \$668.6 billion in assets under management⁷ and serves 22 million customers worldwide⁸. Our employees are passionate about helping people and companies build, protect and advance their financial well-being. You can count on us to offer innovative ideas and real-life solutions that help make financial progress possible for clients of all income and portfolio sizes.



⁵ Based on total number of NQDC plans, PLANSPONSOR 2017 NQDC Buyer's Guide.

⁶ Based on recordkeeping plans, PLANSPONSOR Recordkeeping Survey, June 2017

⁷ As of December 31, 2017

⁸ As of September 30, 2017



For complete research results and more information, visit principal.com/nqresearch.



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