

2015 NQDC/457(f) BUYER'S GUIDE

For companies that want to offer additional savings opportunities to certain participants who may be unable to save enough within the limits of their qualified retirement plans, a nonqualified deferred compensation (NQDC) plan may be an option.

Through these plans, companies or nonprofit entities may offer participants the opportunity to defer receiving and paying taxes on more of their salary and/or bonus than the Internal Revenue Service (IRS) guidelines permit in qualified defined contribution (DC) plans such as 401(k) or 403(b) plans.

NQDC can be an opportunity to boost participant savings for retirement or any long-term financial goal. As the plans are nonqualified, they are intended to be offered to a subset of participants, not to the entire qualified plan population. Because they are not subject to the qualified plan rules or testing, the plans allow for myriad design and funding options that plan sponsors may consider.

The various types of plans include mirror 401(k)s, which may exist alongside current qualified 401(k)s and 457(f) plans available to nonprofit entities. However, those are not to be confused with 457 retirement or pension plans that provide benefits to government employees and employees of tax-exempt organizations, for example.

In addition to offering multiple plan design options, nonqualified plans may also be paid for in several ways. They may be funded with assets held in trust or may be “unfunded,” whereby the employer incurs only a liability to the employee for the amount of income deferred, retaining use of the capital that would have otherwise been paid as salary. —PS

METHODOLOGY: The 2015 PLANSPONSOR Nonqualified Deferred Compensation (NQDC)/457(f) Buyer's Guide questionnaire was completed in May by providers of NQDC plan administrative services. All data are as of December 31, 2014. References to NQDC plans/liabilities/participants include only corporate plans subject to Section 409A, Section 457(f) plans, and nongovernmental Section 457(b) plans—i.e., ineligible plans. Service providers for state/local governmental 457(b) NQDC plans—i.e., eligible plans—will be profiled in our August issue. Profiles are meant to be representative of provider experience/capabilities. More extensive data is available for purchase or by contacting providers directly. For information on full survey results, email Brian O’Keefe at bokeefe@assetinternational.com.

NQDC INDUSTRY SNAPSHOT

Total NQDC plans	18,313
Total NQDC participants	1,354,125
Total NQDC liabilities	\$162,146MM

NQDC BUNDLED STATS

Single NQDC plan clients	42%
Multiple NQDC plan clients	19%
NQDC + DC clients	23%
NQ + DB + DC clients	6%
Other NQDC bundles	10%

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NQDC PLANS BY ASSET SIZE	\$457(f)*	\$409A
<\$1M	4,582	6,186
\$1MM – \$5MM	1,022	3,183
>\$5MM – \$25MM	317	1,978
>\$25MM	78	981

NQDC PLANS BY PARTICIPANT SIZE	\$457(f)*	\$409A
<5 participants	5,826	4,421
5 – 25 participants	3,023	4,160
26 – 100 participants	884	2,302
>100 participants	361	1,444

NQDC PARTICIPANTS BY PLAN TYPE

401(k) mirror plans (subject to §409A)	124,186
Deferred compensation plans	671,045
DB restoration programs/SERPs	210,503
Long-term incentive programs	34,991
\$457(f) and nongovernmental §457(b)	293,813
Other §409A plans	33,933

PERCENT OF §409A PLANS BY VALUATION METHOD

Daily valuation	92%
Non-daily valuation	8%

HOW NQDC PLANS WORK

A nonqualified deferred compensation (NQDC) plan defers a portion of an executive's compensation—salary, bonuses, commissions or other earnings—to a future date, and the deferrals can be up to 50% of total compensation. The funds are typically paid out when the employee leaves the company, becomes disabled or dies. Because the funds are deferred, so are the taxes. This can be beneficial to an executive at retirement as he will be in a lower tax bracket. As it is non-qualified, an NQDC plan is not subject to the Employee Retirement Income Security Act (ERISA) and its nondiscrimination testing limitations.

An NQDC plan can either be elective,

whereby it is optional for the executive to participate and to determine the amount of salary he wants to defer, or a supplemental employee retirement plan (SERP), whereby the company enters a legally binding agreement to pay the executive supplemental income on top of his salary and bonuses. The deferrals can be placed into an account paying a set interest, or they can be invested.

There are some downsides to NQDC plans for both employees and employers. The benefits may be forfeited under circumstances including: if the employee leaves before the vesting date or before normal retirement age; if the person enters into competition with the employer; or if he is terminated for cause.

In addition, the funds are unsecured, which means they are not protected from the claims of general creditors of the company. Also, Internal Revenue Code (IRC) Section 409A says that an executive who chooses to defer compensation may not change that during the year, and once a date is set for when the participant wants to receive the money—say, to coincide with a tuition payment—it cannot be accelerated.

For the employer, unlike with qualified plans, contributions to an NQDC plan may not be deducted until they are paid out. In addition, the employer must pay taxes on any investment earnings, dividends or realized gains. —LB

2015 TOP NQDC PROVIDERS

TOTAL NQDC PLANS		TOTAL NQDC LIABILITIES (\$MM)			
1	Principal Financial Group	2,551	1 Fidelity Investments	\$33,554	
2	CUNA Mutual Retirement Solutions	2,337	2	The Newport Group	\$18,366
3	The Pangburn Group	2,319	3	MullinTBG, a Prudential Financial company	\$14,684
4	Fidelity Investments	1,695	4	NFP	\$11,989
5	NFP	1,594	5	ADP	\$8,739
6	Voya Financial	1,494	6	Pen-Cal Administrators	\$8,695
7	The Newport Group	987	7	Wells Fargo	\$7,885
8	Pen-Cal Administrators	765	8	Vanguard	\$7,580
9	MullinTBG, a Prudential Financial company	616	9	Voya Financial	\$6,321
10	Wells Fargo	440	10	Benefit Finance Partners	\$6,087

TOTAL §409A NONQUALIFIED PARTICIPANTS		TOTAL NONGOVERNMENTAL 457 PLAN PARTICIPANTS*			
1	Fidelity Investments	280,194	1	Fidelity Investments	173,417
2	John Hancock Retirement Plan Services	120,999	2	Voya Financial	42,587
3	Wells Fargo	87,088	3	Transamerica Retirement Solutions	14,390
4	The Newport Group	74,747	4	Lincoln Financial Group	12,051
5	MullinTBG, a Prudential Financial company	72,426	5	Vanguard	9,458

% OF BUNDLED §409A + QUALIFIED DC CLIENTS		TOTAL RABBI TRUSTS SERVICED			
1	T. Rowe Price	92%	1	Wells Fargo	1,262
1	Charles Schwab	92%	2	Fidelity Investments	1,207
3	John Hancock Retirement Plan Services	89%	3	Principal Financial Group	713
4	Fidelity Investments	85%	4	Bank of America Merrill Lynch	434
5	Mercer	79%	5	Lincoln Financial Group	378

*Includes §457(f) and nongovernmental §457(b) plans

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	NQDC PROFILE AS OF 12/31/2014				NUMBER OF NQDC PLANS – BY SIZE				
	Total liabilities (\$mm)	Total plans	Total participants	No. of rabbi trusts serviced	<5 Participants	5 – 25 Participants	26 – 50 Participants	51 – 100 Participants	>100 Participants
ADP	\$8,739	142	23,000	0	9	35	21	20	57
Aon Hewitt	\$5,289	296	64,579	0	51	106	35	30	74
Bank of America Merrill Lynch	\$5,866	219	26,827	434	38	83	37	32	29
Benefit Finance Partners	\$6,087	106	34,879	0	38	23	7	8	30
Charles Schwab	\$3,071	118	8,061	NR	12	54	18	18	16
Correll Co.	\$4	14	236	0	0	14	0	0	0
CUNA Mutual Retirement Solutions	\$1,145	2,337	4,234	14	2,192	139	4	2	0
Fidelity Investments	\$33,554	1,695	453,611	1,207	138	580	244	208	525
John Hancock Retirement Plan Svcs	\$4,479	129	121,376	NR	15	40	17	11	46
Lincoln Financial Group	\$889	255	12,348	378	98	77	29	26	25
MassMutual	\$459	365	6,734	0	173	143	25	14	10
Mercer	\$1,562	88	10,627	21	22	14	15	11	26
Mesirow Financial	\$546	80	6,304	0	2	16	26	14	22
MullinTBG, a Prudential Financial co.	\$14,684	616	75,601	0	94	231	79	79	133
The Newport Group	\$18,366	987	77,332	0	241	336	138	103	166
NFP	\$11,989	1,594	61,598	0	3,460	1,639	375	131	100
Nolan Financial	\$5,373	264	24,200	0	18	97	61	51	37
The Pangburn Group	\$2,412	2,319	20,277	0	1,167	991	98	41	22
Pen-Cal Administrators	\$8,695	765	40,079	NR	141	352	149	71	52
Principal Financial Group	\$5,776	2,551	40,752	713	1,265	1,042	143	43	58
Transamerica Retirement Solutions	\$2,037	433	17,587	0	135	165	61	29	43
T. Rowe Price	\$2,358	180	10,374	0	36	60	33	24	27
USI Consulting Group	\$293	342	3,827	180	117	87	98	34	6
Vanguard	\$7,580	435	45,520	271	67	153	66	58	91
Voya Financial	\$6,321	1,494	64,286	39	641	525	134	101	93
Wells Fargo	\$7,885	440	90,942	1,262	66	172	65	38	99
Xerox HR Solutions, LLC	\$2,068	49	8,964	0	11	9	7	4	18

	NUMBER OF NQDC PLANS – BY TYPE*					SPECIALTY FINANCING VEHICLES SUPPORTED								OTHER SERVICES				
	401(k) mirror plans	Deferred compensation	DB programs/SERPs	Long-term incentive	\$457(f) and nongovernmental \$457(b)	Separate account life insurance	General account life insurance	Company stock	Institutional investments	Alternative investments	Letters of credit	Annuities	ETFs	Hybrid financing	Supports phantom stock	Supports restricted stock units	Offers in-house attorneys	
	18	82	3	33	NR	✓	✓							✓	✓		4	
	13	87	34	1	158	✓	✓	✓	✓	✓	✓	✓	✓			✓	33	
	NR	219	NR	NR	NR	✓	✓	✓				✓	✓	✓	✓		8	
	10	56	2	38	0	✓	✓	✓	✓	✓		✓	✓	✓	✓		4	
	118	++	++	++	NR	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		NR	
	0	0	0	0	14			✓				✓		✓	✓	✓	0	
	32	51	0	258	1,555	✓	✓	✓	✓	✓		✓	✓				1	
	76	908	90	13	564	✓	✓	✓	✓				✓	✓	✓	✓	Varies	
	32	51	31	1	14	✓	✓	✓	✓		✓		✓	✓		✓	12	
	0	7	0	2	243	✓	✓	✓	✓	✓						✓	15	
	1	87	7	1	268	✓	✓	✓	✓	✓		✓	✓		✓	✓	5	
	10	64	12	2	0			✓	✓			✓				✓	0	
	10	43	24	2	0	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		2	
	++	574	++	++	42	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	7	
	73	883	3	2	26	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	56	
	395	531	400	33	125	✓	✓	✓	✓	✓		✓	✓	✓	✓	✓	14	
	29	78	74	16	67	✓		✓	✓	✓		✓		✓	✓		2	
	43	903	1,187	42	144	✓	✓	✓	✓			✓	✓	✓	✓	✓	10	
	368	241	68	26	8	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	5	
	++	1,552	186	50	763	✓	✓	✓				✓		✓	✓		17	
	0	112	0	0	321	✓		✓					✓			✓	0	
	0	0	0	0	13			✓	✓								0	
	88	111	15	8	106	✓	✓	✓	✓	✓	✓	✓	✓	✓		✓	12	
	32	301	21	4	77			✓	✓				✓	✓	✓	✓	31	
	18	37	8	4	1,424	✓	✓	✓	✓			✓	✓	✓			3 – 4	
	48	273	63	2	54	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	79	
	9	30	3	3	NR	✓	✓	✓	✓				✓	✓	✓	✓	3	

NR = Not reported. ++ = Included in other plan counts.

*Excludes "other" NQDC plan types. Totals will not sum to provider's total reported NQDC plans.

BB11202-01