

Advantages of the Plan:

For Participants:

- Income tax relief via unlimited pre-tax deferral of salary, bonuses, commissions, etc.
- Tax-deferred earnings on account balances
- A quality menu of diverse investment alternatives
- Enhanced planning flexibility for life-event purposes (college education, etc.), as well as retirement
- Schedule distributions without an early withdrawal penalty [10% in a 401(k)]
- All distributions are taxed as ordinary income to the participant and are tax deductible to the corporation
- Survivor benefits are taxed as ordinary income and are included in the participant's estate and are tax-deductible to the corporation

For Employers:

- Plan sponsor defines and controls eligibility to participate
- Employer controls the amount and vesting of employer contributions
- High-value recognition among HCEs (65%+ participation is the norm)
- Can supplement or replace the qualified retirement plan
- No discrimination testing
- The plan can be cost neutral to the employer

Tax Consequences:

All deferrals are income tax-deferred

- No current tax to the participant
- No current tax deduction to the corporation

FICA is withheld at the time of deferral or vesting

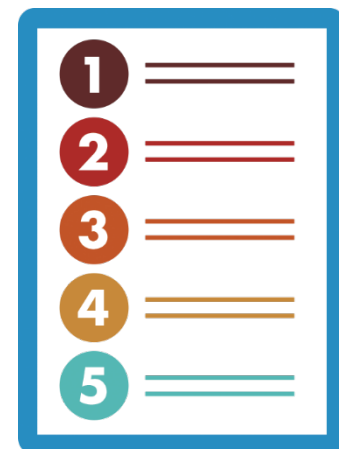
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NQDC Plan Goals:

Top 5 Goals for Offering an NQDC Plan:

1. Remain competitive with peer companies
2. HCEs need additional savings opportunities to assist with their financial planning
3. Retention tool for senior management and other highly compensated employees (sales staff, physicians, etc.)
4. Pre-tax deferrals/tax-deferred growth
5. Attract new senior-level management



Participant Eligibility:

How do companies determine NQDC eligibility?

Over two-thirds of companies determine eligibility by job grade, title or total compensation

- Job Grade – 29%
- Title – 22%
- Total Compensation – 16%

For those that use total compensation

- Over \$250K – 25%
- Over \$150K – 60%
- Over \$120K – 90%



Contemporary Plan Design Features:

Plan Design Overview – Key Decisions

Feature	Suggested Design	Other Considerations
Elective Deferral	<ul style="list-style-type: none"> Salary, up to 75% Annual Cash Bonus and any other types of compensation, up to 100% 	Increasingly common to permit deferral of performance shares
Company Contribution / Employer Match	<p>Company contribution subject to vesting schedule, or Restoration 401(k) match due to participation in non-qualified plan</p> <ul style="list-style-type: none"> This contribution is the same percentage as the 401(k) match, applied to the portion of a Participant's deferrals that reduce compensation under the 401(k) below the limits under Section 401(a)(17). <p>Or, Excess matching contribution - same rate of the match under the 401(k) plan</p> <ul style="list-style-type: none"> This match is applied to the Participant's compensation that exceeds the limitation under Section 401(a)(17) in effect for such Plan Year. 	All Company Contributions are credited at the sole discretion of the Employer and the fact that a Company Contribution is credited in one plan Year shall not obligate the Employer to continue to make contributions in future years.
Vesting	<ul style="list-style-type: none"> Participant deferrals shall be 100% vested at all times Multiple vesting schedules can be used for the company contributions (i.e. graded or cliff vesting). These contributions can be calculated from either date of hire or from when each contribution is credited to a Participant's account. 	

Contemporary Plan Design Features:

Plan Design Overview – Key Decisions

Feature	Suggested Design	Other Considerations
Account Design	<ul style="list-style-type: none">Life event-based accounts<ul style="list-style-type: none">Retirement/Termination Account – distributed at separation from service5 “In-Service” Accounts – distributed at earlier of separation from service or specified date	
Distribution Elections	<ul style="list-style-type: none">Retirement/Termination – Lump sum or annual installments up to 10 or 15 yearsIn-Service Accounts – Lump sum or annual installments up to 5 years	
Investment Menu	<ul style="list-style-type: none">Diversified “executive menu” of 10-15 options representing best-in-class options across major asset classesRisk-Based Models comprised of underlying menu	Plan may mirror investment offerings of 401(k)
Other Distribution Events	<ul style="list-style-type: none">Death - lump sum of remaining balance to beneficiaryChange-in-control and subsequent separation within 24 months – immediate lump sum paymentUnexpected financial emergency - distribution in the event of unforeseen financial hardship	

Contemporary Plan Design Features:

Life Event-Based Account Design

Contemporary plans permit participants to allocate their deferrals to Specified Date Accounts or Separation Accounts

“Specified Date Accounts”

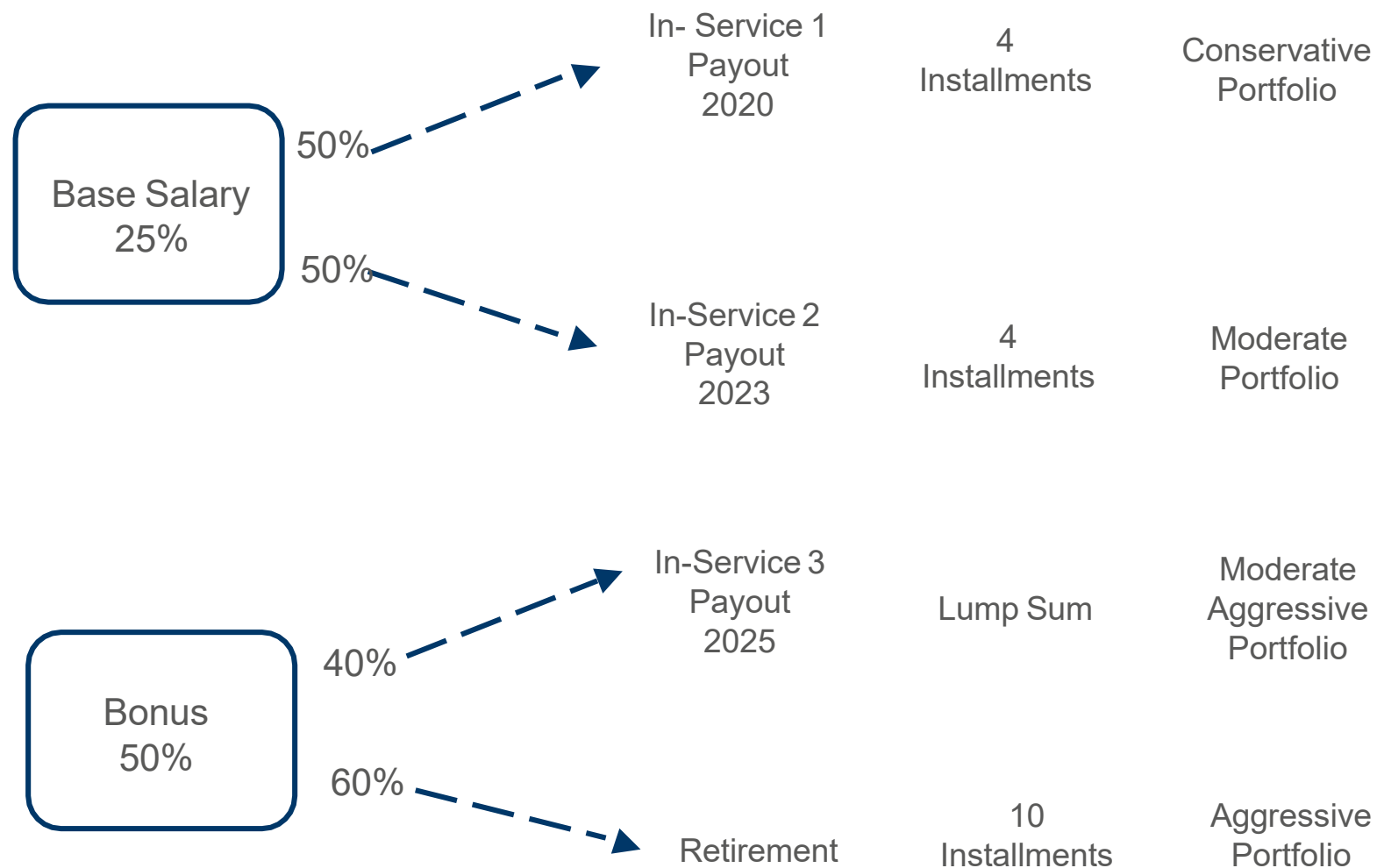
- Financial needs during employment
- Generally a 2 year minimum deferral
- Payment commences in the year elected

“Retirement/Termination Account”

- Financial needs after employment has ended
- Accessible at retirement or when employment ends

Contemporary Plan Design Features

Example of Distribution Account Allocations - Distributions Account Allocations



Contemporary Plan Design Features:

Using Distribution Modification Rules to Enhance Payment Flexibility

Payment modification rules permit changing the time or form of distribution provided that the change is made at least 12 months in advance and the new payment date is five years later than the previous one.

Properly structured, this permits participants maximum flexibility in the short term and the ability to save for goals in the long term.

