



# NON-QUALIFIED DEFERRED COMPENSATION OPTIONS

## Retaining Key Employees & Maintaining Shareholder Value

	PHANTOM STOCK	NQDC & SERP	EXECUTIVE BONUS	SPLIT-DOLLAR
	The Employer provides phantom shares, tied to the value of the business, that are redeemed upon death, disability, retirement, or other events.	The Employer promises to pay a future benefit to Key Employees either in a lump-sum or a series of payments upon death, disability, retirement, or other pre-determined date.	The Employer pays bonuses in the form of premium payments to a cash value life insurance policy for survivor and tax-free retirement income benefits.	The Employer lends amounts equal to premium payments to a cash value life insurance policy for survivor and tax-free retirement income benefits.
<b>BENEFITS</b>	<b>Employer:</b> <ul style="list-style-type: none"> <li>Provide equity-like incentive without making new shareholders.</li> <li>Utilization of vesting schedules provides "golden handcuff."</li> </ul>	<b>Employer:</b> <ul style="list-style-type: none"> <li>Retain key employees without paying current cash bonuses.</li> <li>Ability to tie benefits to performance benchmarks.</li> <li>Utilization of vesting schedules provides "golden handcuff."</li> </ul>	<b>Employer:</b> <ul style="list-style-type: none"> <li>Current income tax deductions.</li> <li>Simplest plan design.</li> <li>Limited to no plan administration or reporting.</li> <li>Ability to add restrictions or repayment obligations to create a "golden handcuff."</li> </ul>	<b>Employer:</b> <ul style="list-style-type: none"> <li>Loan is a receivable on the company balance sheet.</li> <li>Loan arrangement creates a risk of losing benefits if employee terminates early.</li> <li>Loan forgiveness can imitate a "deferred bonus," similar to a phantom stock plan.</li> </ul>
	<b>Employee:</b> <ul style="list-style-type: none"> <li>Obtain "stock" without purchasing shares.</li> <li>Direct participation in growing enterprise value.</li> <li>Deferred income tax on shares.</li> </ul>	<b>Employee:</b> <ul style="list-style-type: none"> <li>Deferred income tax on plan balance.</li> <li>Can defer pre-tax amounts in excess of qualified plan limits.</li> <li>Supplemental retirement income.</li> </ul>	<b>Employee:</b> <ul style="list-style-type: none"> <li>Meaningful reward for continued loyalty &amp; performance.</li> <li>Life insurance protection &amp; tax-free retirement income.</li> <li>Policy cash values are not subject to Employer's creditors.</li> </ul>	<b>Employee:</b> <ul style="list-style-type: none"> <li>Life insurance protection and tax-free retirement income.</li> <li>Policy cash values are not subject to Employer's creditors.</li> </ul>
<b>CONSIDERATIONS</b>	<b>Employer:</b> <ul style="list-style-type: none"> <li>Annual business valuations.</li> <li>Required liquidity.</li> <li>Significant reporting &amp; administration.</li> <li>No current income tax deduction.</li> </ul>	<b>Employer:</b> <ul style="list-style-type: none"> <li>Plan administration is required.</li> <li>Required liquidity.</li> <li>Timing and amount of payments are fixed.</li> <li>No current income tax deduction.</li> </ul>	<b>Employer:</b> <ul style="list-style-type: none"> <li>Bonus amounts are no longer an asset on the company balance-sheet.</li> <li>Most plans implement a "double bonus" to provide premium payments net-of-tax.</li> </ul>	<b>Employer:</b> <ul style="list-style-type: none"> <li>Plan administration is required.</li> <li>Policy performance impacts ability to recover the full loan amount.</li> <li>No current income tax deduction.</li> </ul>
	<b>Employee:</b> <ul style="list-style-type: none"> <li>Tax planning for the future redemption.</li> <li>The employer may not have sufficient liquidity to redeem the shares.</li> <li>Funds the employer plans to use to pay the future bonus are subject to the employer's creditors.</li> </ul>	<b>Employee:</b> <ul style="list-style-type: none"> <li>Tax planning for benefit payments.</li> <li>The employer may not have sufficient liquidity to make payments.</li> <li>Funds the employer plans to use to pay the future bonus are subject to the employer's creditors.</li> </ul>	<b>Employee:</b> <ul style="list-style-type: none"> <li>Tax planning for increased bonus, unless employer pays a "double bonus."</li> <li>If the employee does not meet participation requirements, policy cash values may be required to be paid back to the Employer.</li> </ul>	<b>Employee:</b> <ul style="list-style-type: none"> <li>Interest payments may be required.</li> <li>Policy performance may impact the ability to repay the full loan balance.</li> <li>Loan forgiveness creates a large taxable event. The tax liability may be paid from policy cash values.</li> </ul>
<b>ADMINISTRATION &amp; REPORTING</b>	<ul style="list-style-type: none"> <li>Payroll taxes</li> <li>Complex accounting &amp; bookkeeping</li> <li>Not subject to ERISA though a notification must be filed</li> </ul>	<ul style="list-style-type: none"> <li>Payroll taxes</li> <li>Complex accounting &amp; bookkeeping</li> <li>409A compliance required.</li> <li>Subject to ERISA "top-hat" limitations</li> </ul>	<ul style="list-style-type: none"> <li>No additional ERISA, payroll tax, or administration requirements.</li> </ul>	<ul style="list-style-type: none"> <li>Plan administration is required.</li> <li>Not subject to ERISA though a notification must be filed.</li> </ul>