



## **Non-Qualified Deferred Compensation and Life Insurance**

Non-Qualified Deferred Compensation (NQDC) is an executive benefit plan that a business uses to recruit, retain and reward key employees and owners. NQDC plans often supplement qualified plans. When employers follow a few simple rules, they are not subject to ERISA non-discrimination, reporting, vesting or funding requirements. Life insurance cash value and death benefit provides “informal” funding of the benefits promised to the employee or owner.

### **Target Client Profile**

- Businesses with key executives seeking to supplement retirement income benefits
- Businesses wanting to offer additional benefits to **select** employees or expand the talent pool
- Business owners seeking to defer income while creating tax-efficient liquidity
- Employee qualifies both medically and financially for a life insurance

### **Advantages**

For employers:

- Control over who participates, contributions, plan design and timing of benefit delivery
- “Golden handcuffs” for key employees
- No formal funding requirement
- Income tax deduction on future benefits when paid to an employee
- Informal sinking funding with life insurance for promised benefits, including long term care
  - Balance sheet asset for business
  - Tax-deferral on cash value accumulation; Death benefit protection
  - Favorable income tax treatment of loans or withdrawals from life insurance cash values

For employees:

- Income tax deferred on employee compensation deferrals
- Income tax deferred on promised employer supplemental income
- Source of additional retirement income
- Can provide supplemental death benefit

### **Highlights**

- Employer purchases life insurance policies on the lives of the policy participants
- Flexibility in design of contribution and benefit limits
- Must be “informally funded” (i.e. unfunded) in order to avoid ERISA regulations and reporting requirements
- Cash value life insurance policy will offset negative impact of the benefit accounting

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