

BUSINESS PLANNING

Nonqualified Deferred Compensation

CONCEPT APPLIED:

A nonqualified deferred compensation arrangement allows an employer to provide retirement income and, in many cases, death and disability benefits to key employees, often with benefits in excess of those permitted under qualified plans.

HOW IT WORKS:

True deferred compensation plans offer future income in exchange for current salary reduction. Customarily, however, employers use “salary continuation” arrangements that promise future compensation without reducing current compensation.

Deferred compensation arrangements must be unfunded to ensure current income tax deferral for employees. Employers may not set up a specific reserve fund in which a participant has a vested right. A life insurance policy is uniquely suited to informally finance a nonqualified deferred compensation plan.

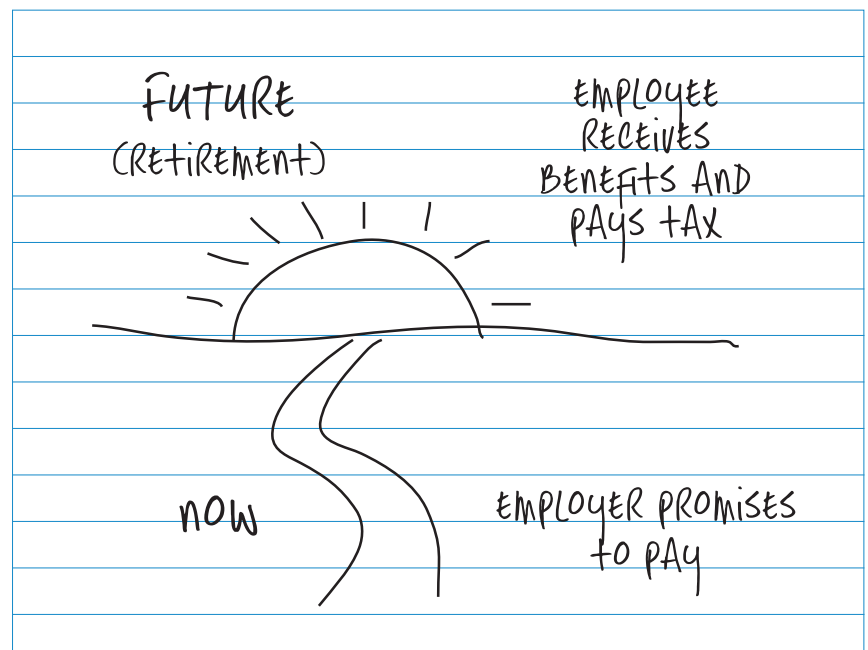
WHY IS IT USEFUL?

Nonqualified deferred compensation arrangements can be designed to reward and retain valuable, highly compensated employees. Life insurance is useful in that it can ensure that funds will be available to pay promised benefits.

50 WORDS OR LESS

Deferred compensation is a contract between an employer and employee that specifies future compensation. A nonqualified deferred compensation arrangement:

- Is exempt from ERISA’s regulatory requirements
- Can attract and retain valued and highly compensated employees
- May provide different benefits to individual employees
- Does not require IRS approval



The tax-deferred feature of a life insurance policy is not necessary for a tax-qualified plan. In such instances, you should consider whether other features, such as the death benefit and optional riders make the policy appropriate for your needs. Before purchasing a policy, you should obtain competent tax advice both as to the tax treatment of the policy and the suitability of the product.

PGI Partners, Inc. is an independent third-party company and is not affiliated with Midland National® Life Insurance Company.

While the primary use of life insurance is death benefit protection, you may also have other needs that can be met through life insurance. Please note that Midland National does not require its agents to use any of these sales concepts.

Neither Midland National nor its agents give tax or legal advice. Consumers are advised to consult with and rely on a qualified legal or tax advisor before entering into or paying additional premiums with respect to such arrangements. Estate and business planning is a complex legal process and should be done in collaboration with an attorney, accountant, and trust officers, etc. Trusts should be drafted only by an attorney familiar with such matters.

Sammons Financial® is the marketing name for Sammons® Financial Group, Inc.'s member companies, including Midland National® Life Insurance Company. Annuities and life insurance are issued by, and product guarantees are solely the responsibility of, Midland National® Life Insurance Company.