



M Benefit Solutions®

The single source for your total executive benefit needs

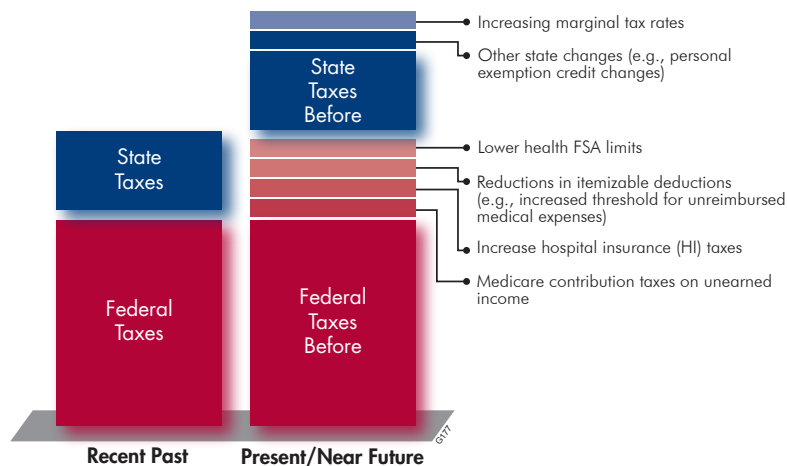
Second Quarter 2010

INCOME TAX “CREEP” AND THE VALUE OF DEFERRED COMPENSATION PLANS

As income tax “creep” continues to increase our effective tax rates, Nonqualified Deferred Compensation Plans (NDCPs) provide an excellent opportunity to mitigate tax burdens and bolster long-term savings.

Recent economic turmoil coincident with surging federal deficits has lead to a myriad of tax law changes:

- Medicare contribution taxes on unearned income
- Increased hospital insurance tax
- Lower Health FSA limits
- Increases to earned and investment income tax for filers over \$250,000 household, \$200,000 single:
 - Top two tiers will see marginal rate increases from 35% and 33% to 39.6% and 36%, respectively
 - Medicare tax extension to unearned income



NOTE: Not to scale.

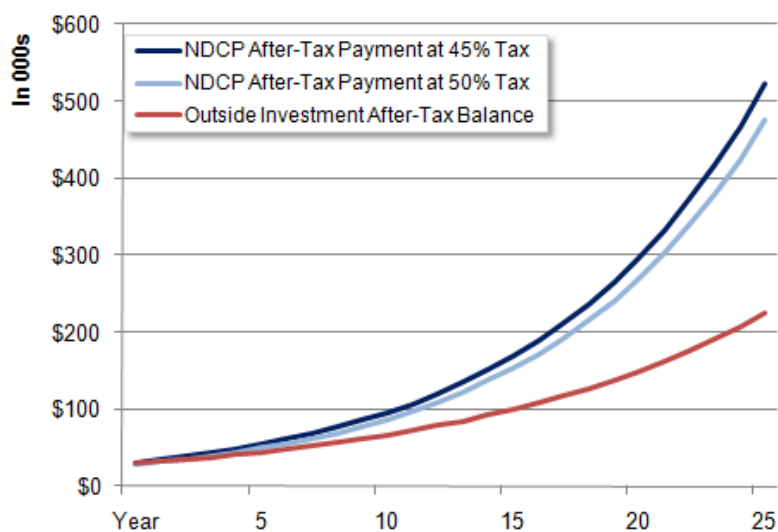
(Continued on next page)

Securities offered through M Holdings Securities, Inc., a registered Broker/Dealer, member FINRA/SIPC. M Financial Group is the parent company of M Benefit Solutions and M Holdings Securities, Inc.

The basic tenet of NDCPs is to provide a means of tax deferred investment and accumulation without regard to qualified plan limits. These twin features put more money to work and generate greater earnings than in a similar outside, taxable investment. The greater the effective tax rate, the more pronounced the advantage:

\$50K INVESTMENT (IN 000S)			6% EARNINGS RATE	
TAX RATE	OUTSIDE INVESTMENT EQUIVALENT	DEFERRAL PLAN ADVANTAGE	OUTSIDE INVESTMENT EQUIVALENT	DEFERRAL PLAN ADVANTAGE
40%	\$30.00	\$20.00	3.6%	2.4%
45%	\$27.50	\$22.50	3.3%	2.7%
50%	\$25.00	\$25.00	3.0%	3.0%

Time enhances the effect. But what about the impact of income tax at distribution? NDCP balances are taxable at ordinary income rates when they become payable. Assuming the same \$50,000 pretax investment into an NDCP and a comparable outside taxable investment, the following graph compares the after-tax distribution amount from the NDCP and a fully taxed outside investment balance:



ASSUMPTIONS:

- Pretax Investment \$50,000
- Tax Rate at Investment.....45%
- Pretax Earnings Rate.....6%
- Outside Investment Annual Turnover 100%
- Capital Gains Rate..... 15%
- NDCP Form of Payment Lump Sum

The top, dark blue, line shows the after-tax lump sum value of the NDCP account as if the executive’s tax rate did not change from 45% during accumulation through the point of distribution. Even if effective tax rates are higher at payout, the advantage persists. The second, light blue, line shows the impact to the after-tax NDCP distribution amount of a 50% tax rate at distribution.

CONCLUSION

As rising taxes and a turbulent economic environment continue to erode executives’ ability to invest and save, the tax-deferred nature of NDCPs provide a powerful wealth accumulation tool.



FINANCIAL REFORM—EXECUTIVE COMPENSATION PROVISIONS

Dodd-Frank Wall Street Reform and Consumer Protection Act.

In late June 2010, a conference committee of the House and Senate agreed to comprehensive financial services regulatory reform legislation called the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Act”). The legislation is subject to a vote of both the Senate and House. If it is passed in its present, or a slightly modified, form, there are a number provisions that will affect how companies deal with the compensation of their executives.

Shareholder Advisory Votes. Not less frequently than once every three years, a proxy or consent or authorization for an annual or other meeting of shareholders for which the SEC’s proxy rules require compensation disclosure, must include a separate resolution for shareholders to approve the company’s compensation of its executives, as disclosed under SEC rules.

Not less frequently than once every six years, there shall be a vote by shareholders to determine whether the shareholder vote on compensation must be held every one, two, or three years.

In addition, golden parachute payments (present, deferred, or contingent) that may be made to named executive officers in connection with an acquisition, merger, consolidation, or proposed sale or other disposition of all or substantially all the assets of a company must be disclosed and subject to a shareholder vote unless such compensation was previously approved by shareholders.

The shareholder votes on compensation shall not be binding, nor may they be construed:

- As overruling any decision of the Board or company,
- To create or imply any change to the fiduciary duties of the Board or company,
- To create or imply any additional fiduciary duties for the Board or company, or
- To restrict or limit the ability of shareholders to make proposals for inclusion in proxy materials related to executive compensation.

Institutional investment managers must report at least annually how they voted on these advisory votes.

Effective Date. Shareholder advisory votes must be provided for in proxies or consents for a meeting to be held after the end of the six-month period beginning on the date of enactment of the Act.

Compensation Committee Independence. The SEC shall direct by rule issued within 360 days of the enactment of the Act that the national securities exchanges and associations prohibit the listing of any equity security of an issuer, other than an issuer that is a “controlled company” (see below), limited partnership, company in bankruptcy proceedings, open-ended management investment company that is registered under the Investment Company Act of 1940, or a foreign private issuer that provides annual disclosures to shareholders of the reasons that the foreign private issuer does not have an independent compensation committee, that does not comply with the following compensation committee independence rules.

- **Independence.** Each member of a company’s compensation committee must be a member of the Board and must be independent.

(Continued on next page)

To determine independence national securities exchanges and associations shall consider relevant factors including:

- The compensation committee member's source of compensation, including consulting, advisory, or other compensatory fee paid by the company to the member, and
- Whether a member is affiliated with the company, subsidiary, or any affiliate.

The national securities exchanges and associations may provide for exemptions from this requirement based on consideration of the size of a company and any other relevant factor.

■ **Selection of Compensation Consultants and Other Committee Advisors.**

The compensation committee may only select a compensation consultant, legal counsel, or other advisor after taking into account factors identified by the SEC. Such factors shall be competitively neutral among categories of consultants, legal counsel, or other advisers and preserve the ability of compensation committees to retain the services of members of any such category. Factors shall include:

- The provision of other services to the company by the person that employs the consultant, counsel, or other advisor (Advisor's Employer)
- The amount of fees received from the company by the Advisor's Employer as a percentage of the total revenue of the Advisor's Employer
- The policies and procedures of the Advisor's Employer designed to prevent conflicts of interest
- Any business or personal relationship of the compensation consultant, legal counsel, or other advisor with a member of the compensation committee
- Any stock of the company owned by the compensation consultant, legal counsel, or other advisor

■ **Compensation Committee Authority to Retain Compensation Consultant.** The compensation committee:

- May, in its sole discretion, retain a compensation consultant,
- Must retain direct responsibility for the selection, compensation, and oversight of the work of a compensation consultant,
- May not be required to act consistently with the advice or recommendations of the compensation consultant, and
- Shall retain its ability and/or its obligation to exercise its own judgment in fulfillment of its duties.

In addition, in accordance with regulations to be issued by the SEC, in their proxy for their annual meeting (and any special meeting in lieu of an annual meeting), companies must disclose whether:

- The compensation committee retained or obtained the advice of a compensation consultant, and
- The work of the compensation committee has raised any conflict of interest and, if so, the nature of the conflict and how it was addressed.

■ **Compensation Committee Authority to Retain Legal Counsel and Other Advice.** The compensation committee:

- May, in its sole discretion, retain independent legal counsel and other advisors,
- Must retain direct responsibility for the selection, compensation, and oversight of the work of independent legal counsel and other advisors,
- May not be required to act consistently with the advice or recommendations of independent legal counsel and other advisors, and

(Continued on next page)

- Shall retain its ability and/or its obligation to exercise its own judgment in fulfillment of its duties.

- **Compensation of Compensation Consultants, Independent Legal Counsel, and Other Advisors.** Each company must provide for appropriate funding, as determined by the compensation committee, for payment of reasonable compensation to compensation consultants, independent legal counsel and other advisors.

Controlled Company. For purposes of this section, the term “controlled company” means an issuer that:

- Is listed on a national securities exchange or by a national securities association; and
- Holds an election for the board of directors of the issuer in which more than 50% of the voting power is held by an individual, a group, or another issuer.

Study and Report. The SEC shall conduct a study and review of the use of compensation consultants and the effects of such use. Not later than two years after the date of the enactment of the Act, the SEC shall submit a report to Congress on the results of the study and review.

Executive Compensation Disclosures. The SEC must by rule require that each company disclose in its annual proxy statement executive compensation, including information that shows the relationship between executive compensation actually paid and the financial performance of the company. In addition, the SEC must require that a company disclose the median annual total compensation of all employees, except the CEO, the annual total compensation of the CEO, and the ratio of these two amounts.

Recovery of Erroneously Awarded Compensation (“Clawback” Provisions). The SEC shall

direct by rule that the national securities exchanges and associations prohibit the listing of any security of an issuer that does not comply with the following recovery rules.

Under the SEC rule, each company shall develop and implement a policy:

- For disclosure of its policy on incentive-based compensation based on financial information required to be reported under the securities laws, and
- In the event the company is required to prepare an accounting restatement due to material noncompliance of the company with any financial reporting requirement under the securities laws, the company must recover from any current or former executive officer who received incentive-based compensation (including stock options rewarded as compensation) during the three-year period preceding the date on which the company is required to prepare an accounting restatement, based on erroneous data, in excess of what would have been paid to the executive officer under the accounting restatement.

Disclosure Regarding Employee and Director Hedging. The SEC must by rule require that each company disclose in its annual proxy statement whether any employee or Board member, or any designee of an employee or Board member, is permitted to purchase financial instruments designed to hedge or offset any decrease in the market value of equity securities granted as compensation to, or held, directly or indirectly, by the employee or Board member.

Enhanced Disclosure and Reporting of Compensation Arrangements. Not later than nine months after the date of enactment, the appropriate Federal regulators jointly shall prescribe regulations or guidelines to require each “covered financial institution” to disclose to the appropriate Federal

(Continued on next page)

regulator the structures of all incentive-based compensation arrangements offered by such covered financial institutions sufficient to determine whether the compensation structure:

- Provides an executive officer, employee, director, or principal shareholder of the covered financial institution with excessive compensation, fees, or benefits; or
- Could lead to material financial loss to the covered financial institution.

Rules of Construction. Nothing in this section should be construed as requiring the reporting of the actual compensation of particular individuals or as requiring a covered financial institution that does not have an incentive-based payment arrangement to make the disclosures required under the section.

Prohibition of Certain Compensation Arrangements. Not later than nine months after the date of enactment, the appropriate Federal regulators shall jointly prescribe regulations or guidelines that prohibit any type of incentive-based payment arrangement, or any feature of any such arrangement, that the regulators determine encourages inappropriate risks by covered financial institutions:

- By providing an executive officer, employee, director, or principal shareholder of the covered financial institution with excessive compensation, fees, or benefits; or
- That could lead to material financial loss to the covered financial institution.

Standards. The appropriate Federal regulators shall ensure that:

- The standards for compensation are comparable to the standards established under the Federal Deposit Insurance Act (12 U.S.C. Section 1831p-1 for insured depository institutions); and

- In establishing such standards, take into consideration the compensation standards described in section 39(c) of the Federal Deposit Insurance Act (12 U.S.C. Section 1831p-1(c)).

DEFINITIONS

“**Appropriate Federal regulator**” means the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency, the Board of Directors of the Federal Deposit Insurance Corporation, the Director of the Office of Thrift Supervision, the National Credit Union Administration Board, the Securities and Exchange Commission, and the Federal Housing Finance Agency.

“**Covered financial institution**” means:

- A depository institution or depository institution holding company, as such terms are defined in Section 3 of the Federal Deposit Insurance Act (12 U.S.C. 1813);
- A broker-dealer registered under section 15 of the Securities Exchange Act of 1934 (15 U.S.C. 78o);
- A credit union, as described in section 19(b)(1)(A)(iv) of the Federal Reserve Act;
- An investment advisor, as such term is defined in Section 202(a)(11) of the Investment Advisers Act of 1940 (15 U.S.C. 80b-2(a)(11));
- The Federal National Mortgage Association; and
- Any other financial institution that the appropriate Federal regulators, jointly, by rule, determine should be treated as a covered financial institution for purposes of this section.

Exemption for Certain Financial Institutions. The requirements of this section will not apply to covered financial institutions with assets of less than \$1,000,000,000.



RATE INFORMATION

Moody's Long-Term Corporate Bond Yields

	5/28/2010	HIGH—PAST 12 MONTHS	LOW—PAST 12 MONTHS	MAY AVERAGE	APRIL AVERAGE
Average—all risk ratings	5.59%	6.52%	5.52%	5.52%	5.80%

U.S. Consumer Price Index

	MAY 2010 INDEX LEVEL	PERCENT CHANGE FROM	
		APRIL 2010	MAY 2009
All items	218.178	0.1	2.0
Core	221.193	—	0.9

Prime Rates (U.S. Effective Date: December 16, 2008)

	LATEST	WEEK AGO	52-WEEK	
			HIGH	LOW
U.S.	3.25	3.25	3.25	3.25

London Interbank Offered Rate, or Libor (June 28, 2010)

	LATEST	WEEK AGO	52-WEEK	
			HIGH	LOW
One month	0.34719	0.34719	0.35406	0.22813
Three month	0.53344	0.53838	0.59688	0.24875
Six month	0.74719	0.74956	1.11750	0.38250
One year	1.17563	1.18375	1.60625	0.83406

Source for CPI, prime rate, and LIBOR: http://online.wsj.com/mdc/public/page/2_3020-moneyrate.html (accessed June 29, 2010).

The information incorporated into this presentation has been taken from sources, which we believe to be reliable, but there is no guarantee as to its accuracy.

This material is intended for informational purposes only and should not be construed as legal or tax advice and is not intended to replace the advice of a qualified attorney, tax advisor or plan provider. Please consult with your attorney or tax advisor as applicable.

Pursuant to IRS Circular 230, M Benefit Solutions notifies you as follows: The information contained in this document is not intended to and cannot be used by anyone to avoid IRS penalties.



M Benefit Solutions®

M Financial Plaza
1125 NW Couch Street, Suite 900
Portland, OR 97209
503.238.1813
fax: 503.238.1815
www.mben.com