G W FINANCIAL

ADVANCED MARKETS INSIGHT

Non-Qualified Deferred Compensation: Elective Deferral Plan

M Financial Group's Advanced Markets Insights are designed to help clients understand sophisticated planning strategies and their applications.

M Financial Group continues to lead the industry in insurance due care and client advocacy, providing valuable insight and analysis that delivers significant value to clients.

Overview of Non-Qualified Deferred Compensation Plans

A non-qualified plan can provide tax deferral for the employee, as well as meet employer and employee compensation objectives.

A deferred compensation plan that is "non-qualified" is one that falls largely outside the provisions and purview of the Employee Retirement Income Security Act (ERISA). Non-qualified plans do not receive some of the tax benefits and creditor-protection rights associated with ERISA-conforming "qualified" plans.

The primary difference between a qualified and a non-qualified plan is that non-qualified plans do not generate an income tax deduction for the employer during the employee's working years. Instead, the employer must wait until the year in which the deferred compensation is distributed to its employee to take its deduction.

What is an Elective Deferral Plan?

An elective deferral plan is a plan joined voluntarily by the executive to enhance long-term income and retirement accumulation. The plan is funded by the employee's own income; funds deferred for payment at retirement. The employer may choose to match the employee's deferral, up to certain limits, similar to a 401(k) plan. There exist strict rules governing the timing of both the employee's deferral election and the distribution of benefits.

Under a properly designed plan, no income taxes are incurred by the participant until the money is received. Life insurance policies are often used by the employer as an informal vehicle for holding and growing the deferred funds.

Comparison to a Supplemental Executive Retirement Plan (SERP)

A Supplemental Executive Retirement Plan (SERP) is a form of non-qualified deferred compensation for a select group of executives. In a SERP, the employer and the executives enter into an agreement in which the employer promises to pay future retirement benefits. In doing so, a deferred compensation liability is created which the employer will account for annually. Benefits are supported solely by employer funds; the employee does not defer any income today.

M Financial Group™
Member Firm