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The Single Source For Your Total Executive Benefit Needs

A PRIMER ON 457(F) PLANS

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Disclosure Information

A PRIMER ON 457(f) PLANS

OVERVIEW

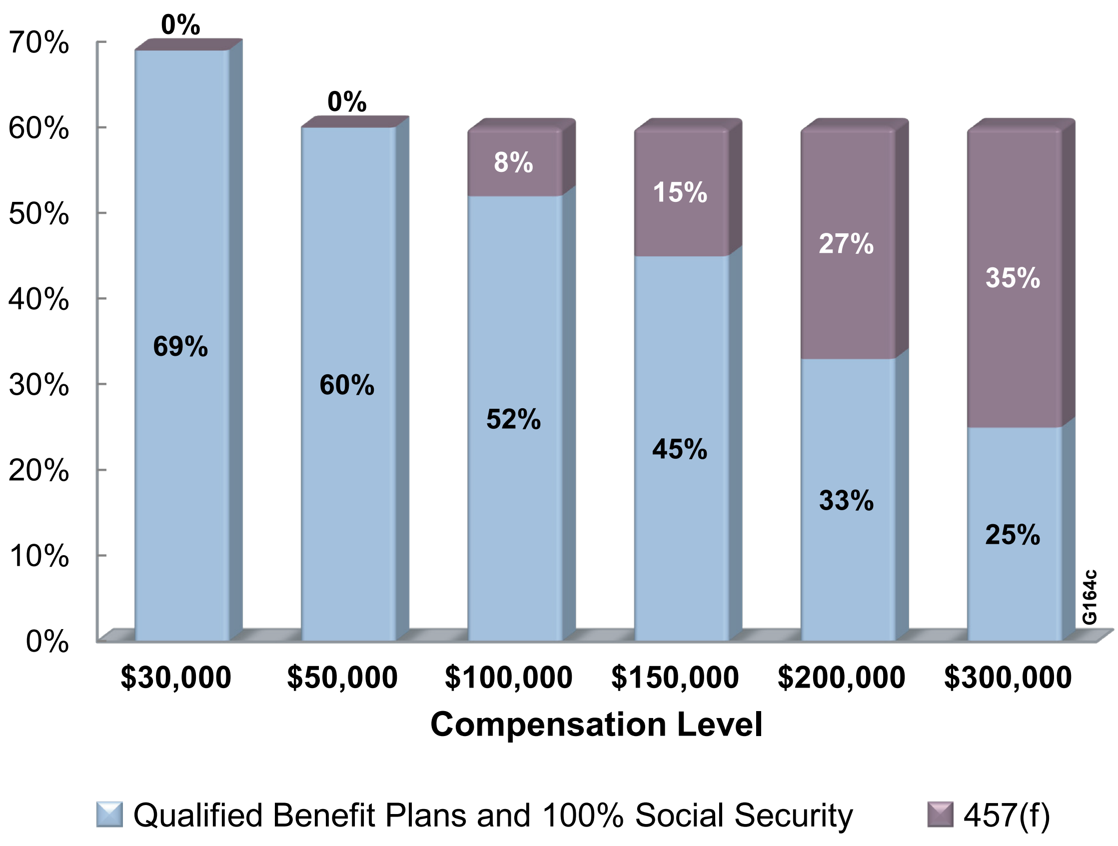
- 457(f) plans allow tax-exempt organizations to provide key employees with nonqualified, deferred compensation benefits to supplement tax-favored retirement benefits
  - 457(f) ("ineligible") plans are not subject to the same benefit limitations and distribution requirements as qualified plans (403(b), 401(k) and 457(b) ("eligible") plans)
  - So long as 457(f) plan benefits are considered "reasonable compensation," there are no limits on the benefits that can be provided
- Benefits paid can be a function of contributions made or a target benefit amount
- 457(f) plan benefits are taxable to the employee when they vest
  - For that reason, lump-sum payment usually is scheduled to occur upon vesting, either at a predefined date or upon Retirement
  - Vesting/payment dates can be laddered to spread tax impact over a period of time, or
  - Partial payment can be made to provide a source of funds to cover income taxes due at benefit vesting
- Employer may "gross-up" vested benefit payments to:
  - Compensate for "lost" tax deferral due to inability to efficiently pay installments
  - Offset the participant's tax burden on lump-sum payments
- Benefits under 457(f) plans are unsecured promises to pay by the employer
  - An employer may informally fund such a plan, holding assets itself or within a trust, to increase the quality of the promise

REASONS TO IMPLEMENT A 457(f) PLAN

- To attract, retain, and reward key executives
- To provide a benefit to specific, targeted employees
- To motivate the executive's job performance
- To help key employees replace retirement compensation lost as a result of limitations placed on qualified plans:
  - 401(k), 403(b), and 457(b) contribution limits
  - Discrimination testing restrictions on 401(k) and 403(b) plans

BENEFIT RESTORATION

Example - Sample Retirement Income Replacement Rations



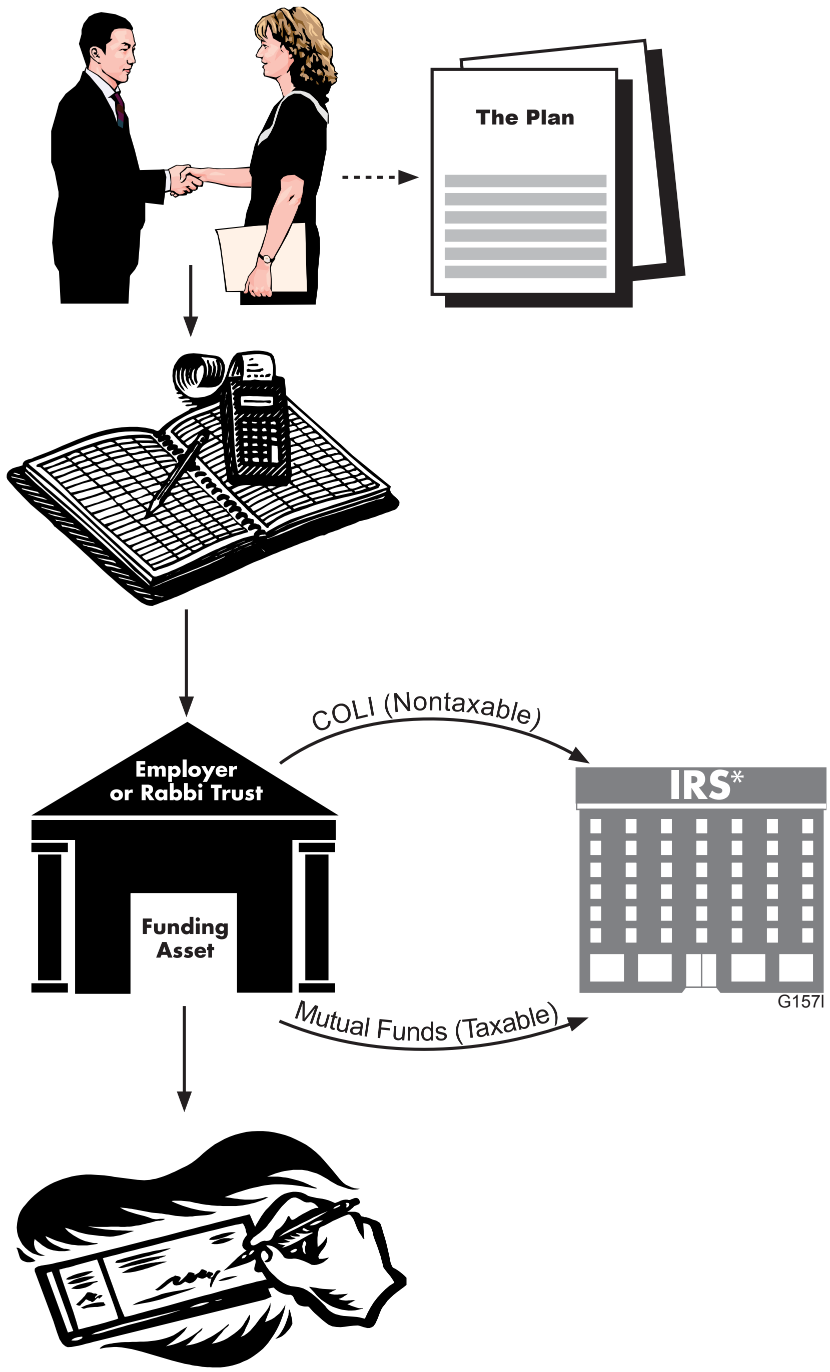
MECHANICS OF A TYPICAL 457(f) PLAN

Employer commits to provide key employee with future benefits contingent upon certain service and/or age requirements.

Employer books expenses and liabilities for its ongoing commitment to pay benefits.

Employer may informally fund plan through purchase of a funding asset. The asset may be held directly by the employer or by a trust whose assets are subject to the creditors of the employer in the event of the employer's insolvency or bankruptcy (commonly called a "rabbi trust").

Benefits are paid from employer's assets. The funding asset may also be used, if necessary/desired. Excess funding assets can revert to employer and can offset plan costs (e.g., COLI death benefits).



DESIGN CONSIDERATIONS

Increasingly, key employees are basing employment decisions on the merits of their curret or prospective employers' retirement programs. Because 457(f) Plans are nonqualified benefit plans, the sponsoring employer has great flexibility in design, allowing each plan to be structured to meet its specific objectives with respect to attracting, retaining, and rewarding key employees. Some of the most common customizable features used to this end:

PLAN OBJECTIVES*	• Attract • Retain • Reward • Replace income
PLAN DESIGN FEATURES	• Eligibility • Defined contribution OR defined benefit design • Contribution and/or benefit levels • Investment control/risk • Vesting and payment schedule • Benefit triggering events • Benefit offsets

**All design features affect income replacement, attraction, reward, and retention to some extent. The extent to which objective is satisfied depends on each design feature and alternatives chosen.*

TAXATION

- Employee is not subject to income tax, FICA or Medicare tax until benefit vests
- Benefits from plan are taxable as ordinary income

BENEFIT FUNDING

Why Do Companies Fund Nonqualified Benefits?

- To create an asset to offset emerging liabilities
- To shift the burden of funding to current management
- To neutralize stakeholders to the financial impact of emerging liabilities
- To provide a level of security that is as close as possible to the security level available to qualified plan participants

ABOUT BOLICOLI.COM

BoliColi.com is an independent firm offering Executive and Director benefit services. Our comprehensive work addresses all facets of nonqualified benefit plans including design, installation, financing, securitization, compliance, and administration.

We work closely with clients and their advisors to define objectives, identify the best products to fit their needs, and manage their portfolios over the long term.

With years of experience working with public and private companies and long-standing relationships with leading life insurance companies, BoliColi.com is uniquely positioned to deliver differentiated solutions consistent with the objectives of our clients.

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