



## Take their word for it — this benefit remains a big deal in the business world

**Summary** | With the economy and job market heating up, the race to recruit and retain key employees is important to every organization. The annual **nonqualified deferred compensation plan** study from Principal® looks at how employers use this benefit to help keep top talent for the long term.

Whether comparing the experiences of your deferred comp plan to others or learning more about this benefit, results from the 2016 study provide timely information. It's an inside look at employers' and key employees' experiences and viewpoints with a deferred comp plan from Principal.

### What's changed from the prior study?

While deferred comp is still considered a valuable benefit to employers and their key employees, several changes took place in 2016:

Among employers sponsoring a deferred comp plan, the results showed a significant increase in:

- Plan sponsors who agreed that it's very important to offer the plan, so participants can save more than they can in a qualified plan.
- Two most likely changes to plans:
  - › Offering different investment options.
  - › Simplifying the design to reduce costs.

Among key employees participating in a deferred comp plan, the results showed a significant increase in:

- The use of the following top resources to improve the plan experience:
  - › Tools to determine income-distribution strategies.
  - › Face-to-face meetings about the plan.
- Participants planning to increase their annual contributions said that managing their current income-tax rates was a more important reason.

Also, for those key employees choosing not to participate in the plan, they reported an increased concern of not being able to afford to defer money into the plan — but still saw value in the plan.

### Table of contents

What you really need to know.....	2
Why employers are big on this plan.....	3
Why key employees want to participate in this plan .....	5
It all boils down to this.....	7
Behind the scenes — the survey .....	8

# What you really need to know

Employers continue to value the deferred comp benefits they provide to selected key employees. They find these plans especially important in keeping top talent and helping those employees plan for retirement. Employers also use these benefits to help set themselves apart from the competition.

And key employees who participate in the deferred comp plans agree. While saving for retirement remains the primary reason key employees choose to participate in the plan, they note the importance of these plans in attracting them to a company's open position.



## Top reasons **employers** value the plans

- 1 | Retirement savings is the key benefit.** While concerns for recruiting and retaining top talent remained important in 2016, the main reason employers offer a deferred comp plan is to help key employees save more for retirement than they're able to in a qualified plan, such as a 401(k) or 403(b).  
  
Two-thirds of employers report some level of concern about key employees having sufficient income during retirement.
- 2 | Employer contributions are important, though optional.** Retaining key employees and restoring the company's qualified-plan match are the leading reasons why employers choose to make contributions.  
  
Over half (55%) of employers choose to make contributions to key employees' plans.
- 3 | Decision-making resources are valued.** Information about investment performance and plan options are what employers find most valuable in helping key employees make plan decisions. Over the next year, employers say their most likely plan change will be to offer different investment options.
- 4 | Plan design matters.** Most employers annually review design elements to help ensure the benefit is still meeting organizational needs.



## Top reasons **key employees** value the plans

- 1 | It's still about retirement.** The ability of deferred comp plans to help key employees save for retirement continues to be the most important role of the plan and a main reason for participating.
- 2 | Participants put on a brave retirement face.** Most key employees who participate have confidence in their retirement readiness, with more than one in three feeling "very confident."  
  
Participation in deferred comp plans may play a role in this retirement confidence, as 30% anticipate the plan will provide 10% to 24% of their retirement income. Another 19% anticipate 25% or more of retirement income will come from the plan.
- 3 | Deciding how much to defer.** The top factors key employees consider when determining an annual compensation amount to defer into the plan are progress toward saving goals, personal tax rates and current income needs.
- 4 | Contributions from employers drive behavior.** In 2016, participants noted a significant increase in employers making optional contributions. And more than eight in 10 participants with an employer-match contribute enough to get the maximum match.

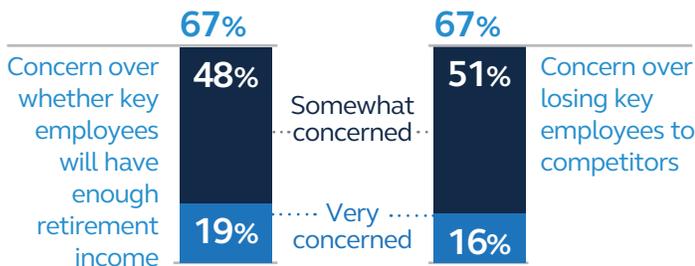
# Why employers are big on this plan

**Profile** | Employers who sponsor deferred comp plans:

Median number of employees	400
Median number of employees eligible to participate in the plan	14
Median number of years offering the plan	8
Provide a company contribution	55%
Likely to offer different investment options in the future	50%

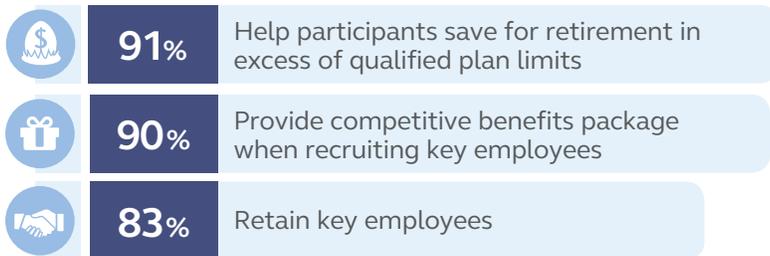
**Support remains strong.**

Employers show strong support for maintaining their deferred comp plans.



**Important for retirement and retention.** Employers are aware of their key employees' retirement-planning needs.

- › Two-thirds had some level of concern about their organization's top talent having enough income during retirement.
- › Two-thirds had some level of concern over losing organizational leaders to competitors.



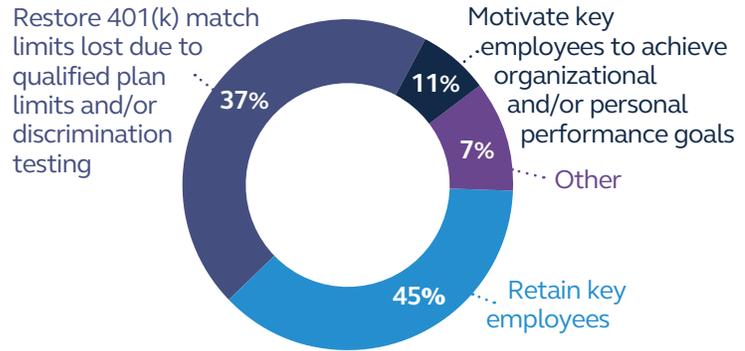
**Primary resource.** Employers view deferred comp plans as a primary resource to help selected key employees plan for retirement. Here are the top reasons (viewed as "very important" or "important") why employers provide a nonqualified plan.

**Potential enhancements to plan.** Employers consider ongoing enhancements to their deferred comp plans. The first and third changes shown represent significant increases when compared to 2015 survey results.



**Choose to contribute to plan.** In addition to providing deferred comp plans, employers make use of optional contributions into the plan.

- > 55% of employers reported this in 2016.
- > When asked to identify the reasons for making optional contributions to the plan, the top two included retaining key employees and restoring company qualified plan matches not allowed due to testing issues.



**Valuable resources for key employees.**

Employers rate the following resources as “very valuable” in helping their key employees make decisions about a deferred comp plan.

45%	Information regarding employers’ current deferrals and investment elections
44%	Information about options available in the plan
44%	Investment performance information
42%	Tools and calculators to help determine how much to defer
38%	General education about deferred comp plans
38%	Face-to-face meetings with someone knowledgeable about the plan

Employers view deferred comp benefits as part of their larger organizational strategy to help recruit, retain and reward top talent.

# Why key employees want to participate in this plan

**Profile** | Key employees who participate in deferred comp plans:

<b>Annual employee income</b>	<b>35%</b> Less than \$150,000		<b>47%</b> \$150,000 to \$299,999	
<b>2016 actual plan balances*</b>	<b>35%</b> Less than \$25,000	<b>34%</b> \$25,000 to \$100,000	<b>17%</b> \$100,000 to \$250,000	<b>14%</b> \$250,000 or more
<b>2016 actual plan contributions**</b>	<b>31%</b> Less than \$10,000	<b>36%</b> \$10,000 to \$25,000	<b>17%</b> \$25,000 to \$50,000	<b>16%</b> \$50,000 or more

Deferred comp plans remain a valuable benefit, particularly among middle managers and senior leaders. With 69% of participants having a balance of less than \$100,000 in their plan, these benefits are part of their overall retirement-planning goals.

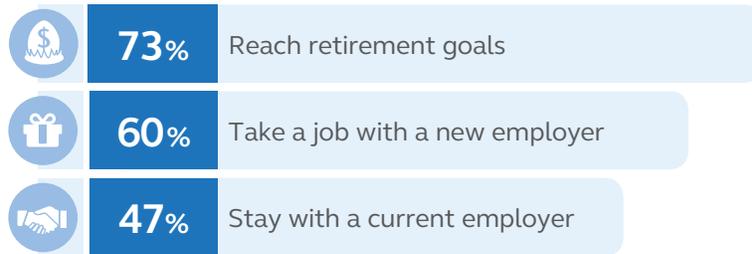
\*As of August 1, 2016

\*\*As of December 31, 2016

## Important in reaching retirement goals.

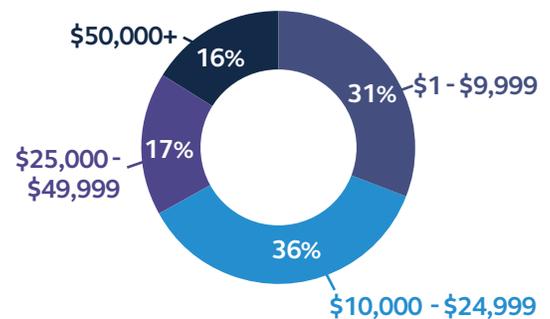
Over seven in 10 key employees say deferred comp plans are important in reaching their retirement goals. These plans also help them make decisions about accepting job offers or staying at their current company.

Deferred comp plans are important in key employees' decisions to:

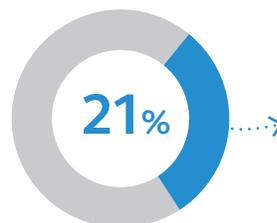


**Maintaining a commitment to contributions.** This chart shows the 2016 plan contributions for key employees participating in a deferred comp plan.

Key employees' desire to achieve their goals is also reflected by their future contribution plans: Over seven in 10 (74%) expect to keep contributions level, while 21% plan to increase deferrals.



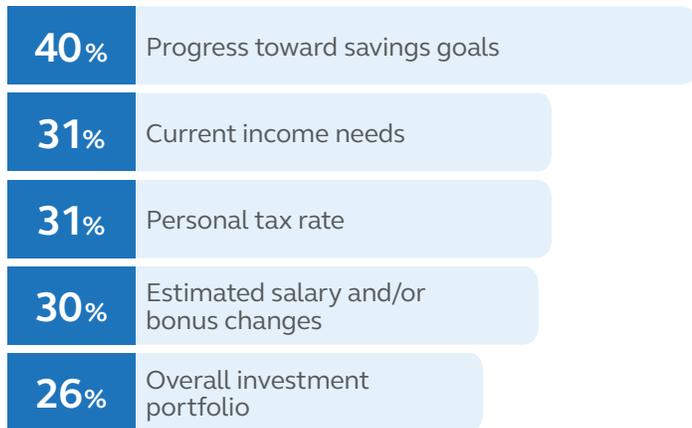
This chart lists the major reasons why key employees want to increase their deferred comp plan contributions in the next year. Note that using increased contributions to manage current income-tax rates showed a significant increase over 2015 results.



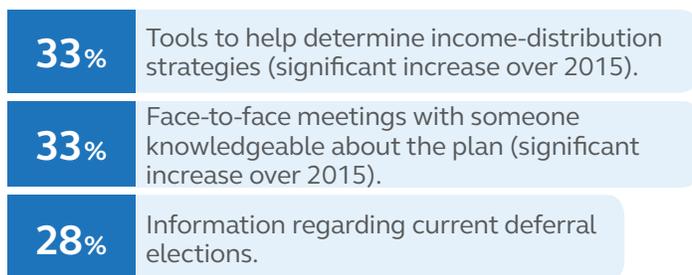
- 77%** - Desire to save for retirement goals
- 59%** - Can afford to defer more
- 54%** - Can't save enough in a qualified retirement plan
- 42%** - Help manage current income tax rate

**Employer match.** More than one-third of participants (36%) report their employer makes discretionary contributions, and another 19% of participants receive employer-matching contributions (with 82% contributing to get the maximum match).

**Deciding what amount to defer.** The chart below lists the “very important” factors that key employees use to determine the amount of compensation to defer into this plan.



**Most valuable resources** to improve plan experience are:



### **Confidence in retirement preparations.**

Key employees were asked, based upon their current amount of retirement savings from all sources, their level of confidence in being ready at retirement age.

- › Over eight in 10 (84%) report some level of confidence, with 35% saying they are very confident.

When asked what percentage of their retirement income was expected to be provided by a deferred comp plan:

- › 30% reported between 10% - 24%.
- › 19% reported 25% or more.

In addition, when key employees were asked about having a written financial plan that includes their goals and sources of retirement income, slightly less than half (48%) have one.

**Non-participants.** The top reasons eligible employees choose not to participate (and have no account balance) in a deferred comp plan include:

- › Can't afford to defer – 31% (significant increase over 2015).
- › Already have enough tax-deferred savings – 15%.

Two-thirds of participants would recommend participating in the plan to other eligible employees.

# It all boils down to this

The 2016 findings point out key trends and shifts in the nonqualified deferred compensation market. Here's a recap of what employers and key employees are saying about deferred comp plans.



## What employers say

Employers continue to see the value in deferred comp plans serving multiple needs. The primary goal for these benefits continues to be helping their key employees save for retirement beyond qualified plan limits – with two-thirds of employers showing some level of concern for employee income in retirement.

They also recognize that scarce talent and competition for leaders with critical skills is becoming an increasing challenge. Because of this, deferred comp is valued in helping to attract, reward and keep key employees with the right skill sets. In fact, the demographics of the plan sponsors responding to the 2016 survey skew towards smaller and mid-sized employers. This suggests that these size employers are looking for ways to compete for talent against bigger companies in a competitive job market.

Employers are trying to maintain deferred comp plans that are simple and cost efficient. Reflecting the important role these benefits play, they are paying attention to how their plans are designed. They're frequently reviewing the elements of their plan – such as investments, financing,

distributions, employer contributions and participant contributions – to ensure it continues to meet their organizational needs.

Having the flexibility to enhance the plan as needed is a key benefit recognized by employers. Likely changes to their deferred comp plans are to:

- Expand the types of available investment options (significant increase over 2014 and 2015).
- Increase the number of eligible employees.
- Change the plan design to reduce administrative costs (significant increase over 2014 and 2015).
- Allow key employees to defer more compensation.

Educating key employees about deferred comp and the value it can provide is important to employers. They want to provide the right information at the right time. While employers believe most resources are equally valuable in doing this, they're open to any and all types of information to help participants make decisions about the plan.



## What key employees say

It's all about retirement for deferred comp plan participants. They consider these plans very important in reaching their retirement goals. About one-fifth of participants are counting on the plan to provide 25% or more of their retirement income.

Progress toward their savings goals is the most important factor for participants in deciding how much to contribute to the plan. Yet, over 50% of participants say that improving employer contributions and/or matching contributions would make the deferred comp plan more appealing. And if employers provide a match, four in five participants say they'd likely contribute more to get the maximum match.

Two-thirds of participants would recommend participating in the plan to other eligible employees. In addition to helping them reach their retirement goals, they see deferred comp plans as important in deciding to take a new job and to stay with a current employer.

The trend we've seen for the last five years continues to hold: Roughly half of participants have a written financial plan that includes goals and sources of retirement income. The other half continues to have a plan written in their "mind." Even so, a significant majority of participants have some level of confidence in their retirement readiness.

For nearly one-third of those eligible key employees who aren't participating in a deferred comp plan, it's not necessarily because they don't see value in the plan. Instead, it's because these employees feel they can't afford to defer money into the plan.

Key employees agree that greater emphasis should be placed on resources that remind them of the value deferred comp can have on their financial well-being. What's essential to increase their engagement in these benefits are:

- Ease of access to key information.
- Improved investment choices.
- Structured education strategies.

## Behind the scenes — the survey

Between August 29 and September 12, 2016, Principal conducted an online survey with employers having existing nonqualified defined contribution plans and key employees who were eligible to participate in a nonqualified plan with Principal. A total of 298 completed surveys were received from employers and 2,420 from key employees.

Key employees were screened based upon whom:

- Were currently participating in a deferred comp plan and, for those who participated in a defined contribution-type of plan design, had a plan balance of at least \$10,000.
- Were at least 35 years old.
- Had an individual income of \$110,000 or more.
- Had an executive job title.
- Were not working for a government agency, school district, community hospital or public university.

## Our leadership strengthens your benefits

You can trust Principal to help you select the nonqualified plan that's right for your organization and key employees. We're the **No. 1 provider** of nonqualified deferred compensation plans<sup>1</sup> and a leading provider of defined contribution plans.<sup>2</sup> We've been providing deferred comp plans for more than 25 years, in addition to over 75 years of retirement plan experience.

A member of the FORTUNE 500<sup>®</sup>, Principal has \$591.6 billion in assets under management<sup>3</sup> and serves 21.9 million customers worldwide<sup>3</sup>. Our employees are passionate about helping clients of all income and portfolio sizes achieve their goals. You can count on us to offer innovative ideas, investment expertise and real-life solutions to help make financial progress possible.

 [Learn more](#) | For more information, visit [principal.com](http://principal.com).



[principal.com](http://principal.com)

Principal National Life Insurance Company and Principal Life Insurance Company, Des Moines, Iowa 50392-0001

Insurance products issued by Principal National Life Insurance Co. (except in NY) and Principal Life Insurance Co. Plan administrative services offered by Principal Life. Securities offered through Principal Securities, Inc., 800-247-1737, Member SIPC, and/or independent broker/dealers. Principal National, Principal Life and Principal Securities are members of the Principal Financial Group<sup>®</sup>, Des Moines, IA 50392.

**Not FDIC or NCUA insured**

**May lose value • Not a deposit • No bank or credit union guarantee  
Not insured by any Federal government agency**

Principal, Principal and symbol design and Principal Financial Group are trademarks and service marks of Principal Financial Services, Inc., a member of the Principal Financial Group.

BB10711-07 | 04/2017 | t17041308ia | ©2017 Principal Financial Services, Inc.

<sup>1</sup> Based on total number of NQDC plans, PLANSPONSOR 2015 NQDC Buyer's Guide.

<sup>2</sup> Based on number of recordkeeping plans, PLANSPONSOR Recordkeeping Survey, June 2016.

<sup>3</sup> As of 12/31/2016.