



Situation

Highly-compensated executives (those earning \$100K and above) often face limitations on 401(k) plan contributions. Following discrimination testing, they may then face unwanted – and taxable – distributions from the plan, dramatically reducing net savings.

Possible Solution: Integrated Nonqualified Deferred Compensation Plan

Instead of making separate contributions into both a nonqualified and a qualified plan, participants make a single election for the total desired deferral amount for the year into a wrap plan, as allowed under IRC § 409(A).

How it Works

1. The participant decides on an annual deferral amount, which is invested in a nonqualified deferred compensation plan.
2. After annual discrimination testing, the maximum allowable contribution is transferred into the 401(k) plan. The difference remains in the nonqualified account.



CASE STUDY Example—BOB JONES

Participant: Bob Jones

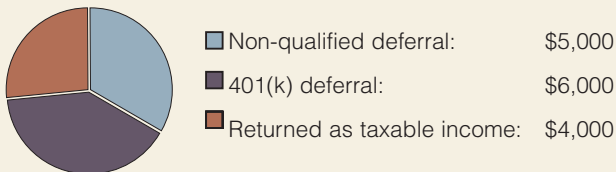
Total compensation: \$100,000

Desired total deferral: 15%

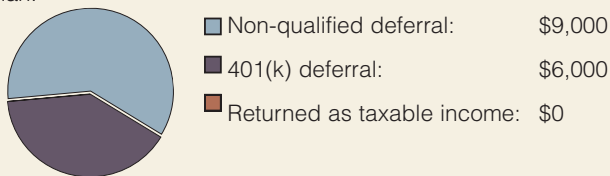
Allowable 401(k) contribution: 6%

Possible Solutions/Outcomes*:

1. Make Two Separate Deferral Elections: Elect to contribute 10% to 401(k), 5% to nonqualified plan. After discrimination testing, 4% is returned to Bob, in a taxable, lump sum payment.



2. Use an Integrated Nonqualified Deferred Compensation Plan: Elect to defer the full 15% into the nonqualified plan. After discrimination testing, 6% is automatically transferred to Bob's 401(k). A full 9% remains in his nonqualified plan.



*Assumes full pre-tax contribution and deferred earnings.

Benefits

Using an integrated nonqualified deferred compensation plan

- Eliminates taxable refunds
- Simplifies deferral process
- Maximizes 401(k) contribution as permitted by law

Risks/Considerations

This strategy is not appropriate for companies that offer a safe harbor plan, where all participants receive an equal match.

For Further Information

Please contact:

Gregory P. Giles

President and Senior Managing Director
Compensation and
Executive Benefit Strategies
Direct-847.444.2660
Fax-847.444.2665
ggiles@mesirowfinancial.com

About Compensation and Executive Benefit Strategies

Mesirow Financial Compensation and Executive Benefit Strategies professionals have a long track record of success in designing creative executive compensation and benefits solutions that help companies recruit, retain, motivate and reward key employees. Tailored programs provide a balance between the needs of the executive and the resources of the employer.

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