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2013

EXECUTIVE BENEFIT SURVEY

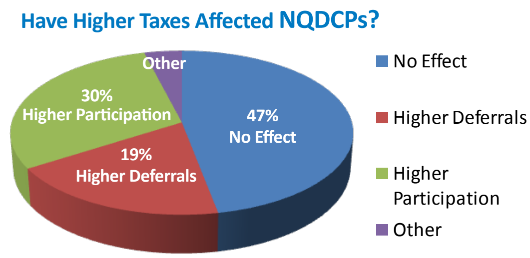
Summary of Results: Published March 2014

*Our Specialty – Your Success*SM

INTRODUCTION

Last year, it was anticipated that the introduction of new and increased taxes as a result of The American Taxpayer Relief Act of 2012 would affect nonqualified deferred compensation plan (NQDCP) participation and deferral rates. Feeling the sting of higher taxes and less take-home pay, we expected to see more eligible employees elect to join an NQDCP to boost their pre-tax deferral opportunities, and increase deferral amounts to help lower their taxable income. Add in a persistent low interest rate environment making deferring compensation into a nonqualified plan even more attractive for those highly compensated employees looking to meet short- and long-term financial planning goals, and what did the survey say?

Interestingly, the overall plan participation rate reported in the 8th annual MullinTBG/PLANSPONSOR Magazine Executive Benefits Survey didn't move the needle much from last year (from 43.9% in 2012 to 46% in 2013). Even close to half (47%) of our survey webinar registrants reported having seen no effect, though it is worth noting that 30% did observe higher participation and 19% higher deferral amounts.

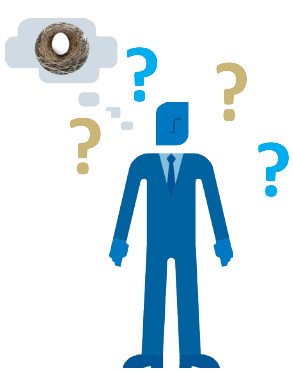


Regardless of how higher taxes did or did not impact NQDCP utility among participants, at least among plan sponsors, these executive benefits continue to be highly prevalent, at a reported 95% of 2013 respondent companies. As indicated above, however, simply offering a benefit widely considered to be an essential part of a competitive compensation package for executive talent is not enough to ensure high participation and deferral rates.

Take, for example, the survey question that asked how the NQDCP was at accomplishing its purpose. About 70% of plan sponsors rated their plan as either "effective" or "extremely effective". What about the other 30%? We know that employers continue to regard NQDCPs as a highly valued recruitment, retention and financial planning tool, but with 40% of higher-income workers at risk of being unable to maintain their standard of living in retirement*, what can be done to elevate NQDCP design and utility to more effectively meet both company and participant objectives?

More specifically, how can plan sponsors leverage behavioral science to influence participant engagement strategies that help increase plan effectiveness, produce better outcomes, and help participants meet their retirement readiness goals? The results of the 2013 MullinTBG/PLANSPONSOR Executive Benefits Survey provide important insights into how NQDCPs and other programs are being utilized today, and what changes can be considered to encourage positive financial planning behaviors that can help maximize results over the long term for both plan sponsors and their valued participants.

***Boston College Center for Retirement Research, 2014**



95%

Offer NQDCPs

- **Top NQDCP Eligibility Criteria**
  - Title
  - Job grade

46%

Participation Rate

- **Still below the 50% rate seen in 2009 and years prior, average participation rates remained effectively flat in 2013**

77.8%

Retirement Savings Vehicle

- **Respondents reported that their NQDCP was offered primarily to "provide a vehicle for retirement savings"**

40%

Provide Match

- **Primary Deferral Sources**
  - Base salary
  - Annual bonuses

57%

Informally Fund

- **70% use third-party recordkeepers**
- **Top NQDCP provider attributes**
  - Quality of service team
  - Consultative in NQDCP/409A
  - Online user experience
- **45% offer financial planning benefit**

RESPONDENT DEMOGRAPHICS / RESEARCH OVERVIEW

The number of usable responses to the MullinTBG-PLANSPONSOR survey was over 13% lower than last year – 265 respondents in 2013 versus 306 in 2012. There was a decrease in responses from large companies (revenues greater than $1 billion), from 62.7% in 2012 to 57.7% in 2013 year, which we would expect to impact trends. The ratio of publicly traded to private companies shifted slightly again in 2013, with a decrease in public-firm responses (58.5% vs. 68.3% in 2012). Overall, respondents continue to represent a wide range of industries, and most are publicly traded, tax-paying C-Corps.

QUALIFIED AND NONQUALIFIED PLANS

Prevalence of Nonqualified Benefits

Offered by 94.7% of survey respondents, voluntary NQDCPs remain a relevant and integral component of the modern executive benefits package. Consistent with years past, larger companies (96.1%) are more likely to offer NQDCPs than firms with revenues of less than $1 billion (92.7%), although the gap continues to close.

Because NQDCPs have become a staple in the overall benefits package of highly valued executive talent, they continue to be relevant and well-regarded. The higher tax rate environment of 2013 has been particularly pertinent to driving renewed interest in NQDCPs, as they are an efficient and valuable way to provide executives with the opportunity to defer additional pre-tax compensation for retirement planning and lower their current taxable income.

SERPs

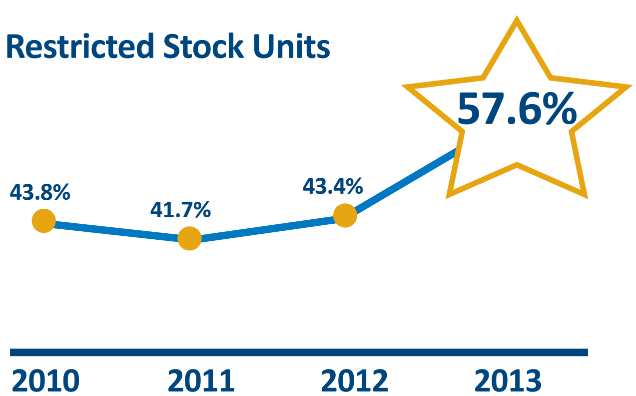
- Offered by **44%** of respondents
- More common in larger companies

Other Executive Benefits

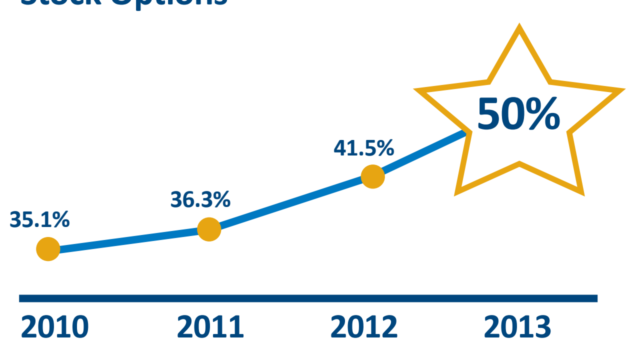
- Incentive programs - **31.8%**
- After-tax benefit plans (162 Bonus, etc.) - **6.1%**

There was a significant uptick in the use of stock options as an executive benefit in 2013 – to **50%**. And although typically favored by larger, public and taxpaying companies, restricted stock units inside NQDCPs experienced a noticeable rebound as well, to **57.6%** as compared to prior years.

Restricted Stock Units

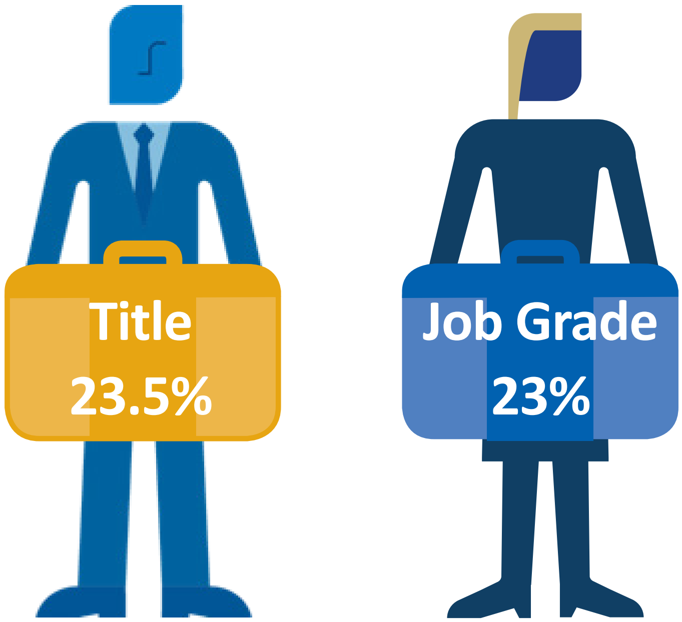


Stock Options

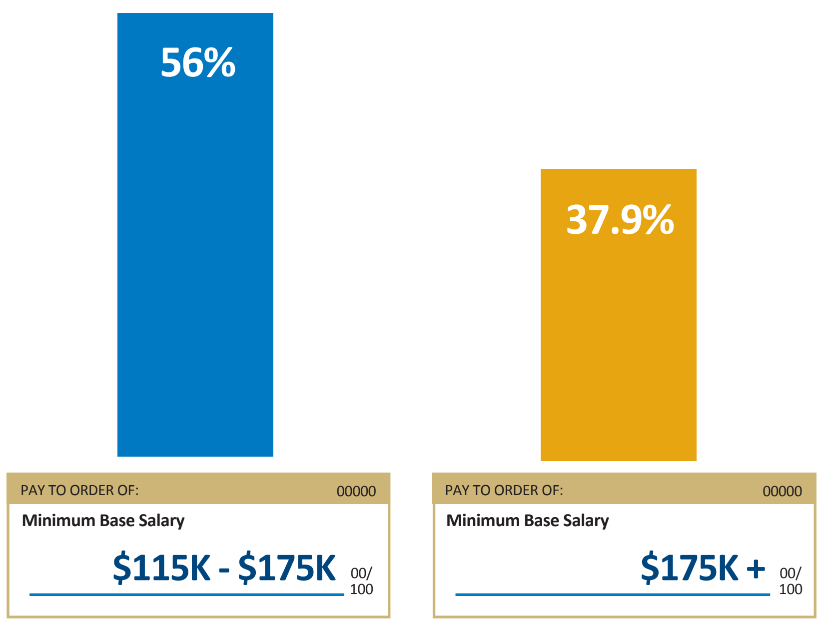


CRITERIA FOR ELIGIBILITY

Results varied among the categories, with title and job grade being the most prevalent.

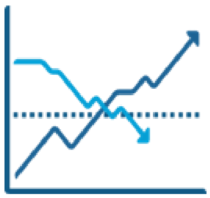


56% of all respondents cited a minimum base salary requirement of between $115,000 and $174,999. Almost **38%** of survey respondents cited a minimum salary in the range of $175,000 and above per year to participate in the NQDCP.



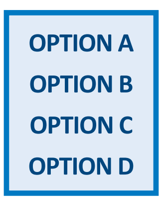
IMPROVEMENTS TO NQDCP

Although nearly 83% of respondents don't plan on making any changes to their NQDCPs, among those that are, the majority cited additions or enhancements to:



Investment options (45.2%)

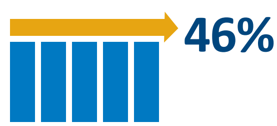
Plan education and communication programs (41.9%)



Enhance or add distribution options (29%)

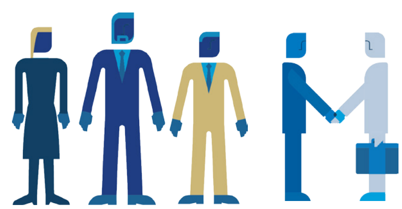
PARTICIPATION

Average participation rates were effectively flat.



Participation rates were significantly higher in plans offering matching contributions.

56%

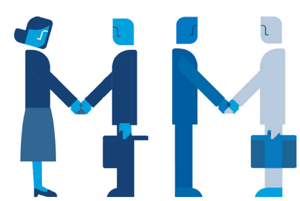


Informal funding also impacted participation rates in funded plans as compared to plans without informal funding.

48%

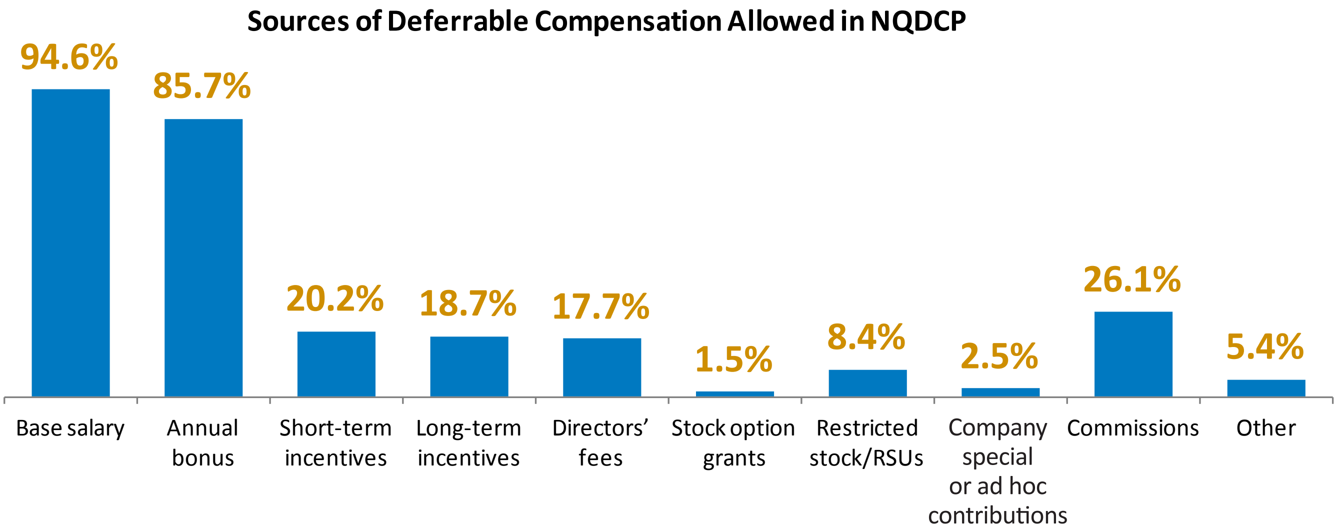
Plans that offered a match and informally funded the plan experienced notably strong participation as well.

55%



DEFERRAL SOURCES & COMPANY MATCHING CONTRIBUTIONS

Base salary was cited by almost all respondents **(94.6%)** as a deferral source, with annual bonuses **(85.7%)** not far behind. These results remained consistent across company size and classification. As in years past, public and larger companies tended to permit restricted stock/RSU deferrals.



Company matches are most prevalent at organizations with revenues greater than $1 billion (43%) and public companies (46.7%), although the practice seems to have lost ground overall in 2013 (down from 47% in 2012).

40.2% offer a company match

How are company match contributions predominately calculated?

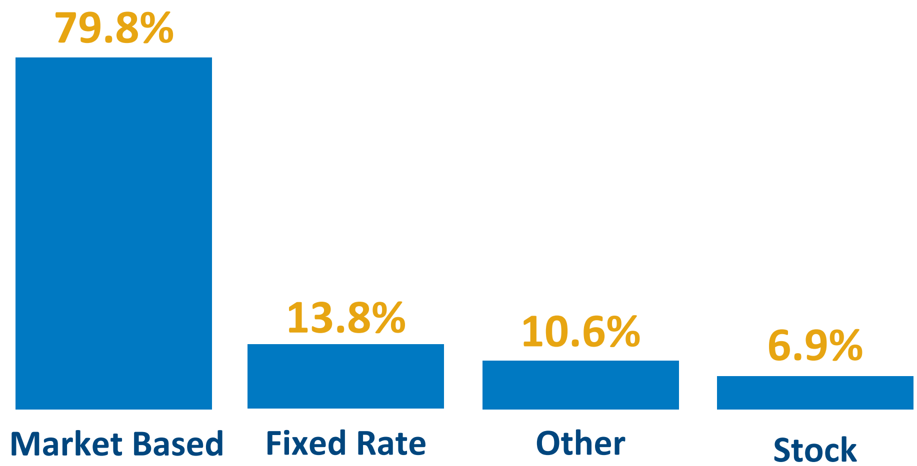
- According to a fixed percent **(58.5%)**
- Replace a lost 401(k) match **(46.3%)**

What are the most common vesting requirements?

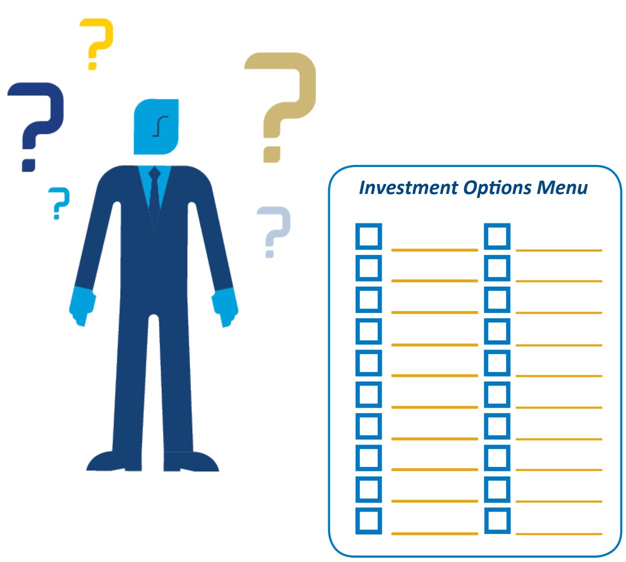
- Immediate **(39%)**
- Mirror the company's 401(k) **(34.1%)**

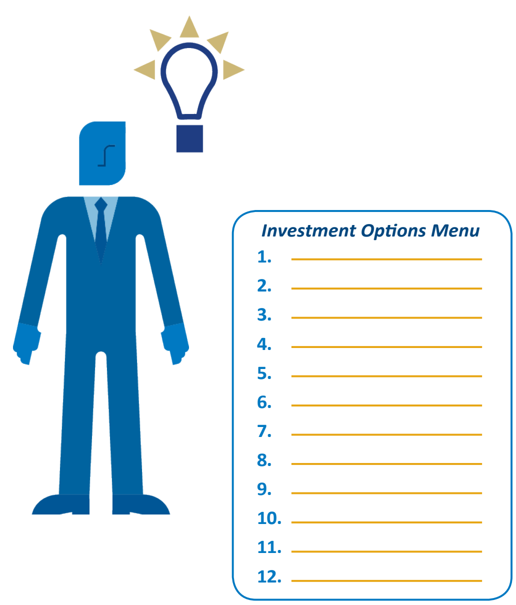
PARTICIPANT INVESTMENT OPTIONS

Once again, market-based investments were used by most companies as deemed investment options for NQDCP participants. Less prevalent, but a steady fixture in NQDCPs, fixed rates have long been a viable addition to investment menus to help diversify investment options and risks with a stable alternative.



Survey results show that companies desire to keep the number of investment options at a diverse but reasonable level. The majority of respondents (82.4%) offered up to 20 investment options in their NQDCPs. As in previous years, **more than half of respondents favored providing participants between 11 and 20 choices**.





BENEFIT DISTRIBUTIONS & EVENTS

Most plan sponsors continue to provide participants with flexible options for scheduling and receiving plan payments by offering a **range of distribution options** that are permitted under 409A.

WHEN?

- **Separation from Service (93.3%)**
- **Death (82.1%)**
- **Scheduled In-Service (63.7%)**

HOW? → **83% offer both Lump Sum and Installment Options**

WHAT ABOUT GUARANTEED RETIREMENT INCOME OPTIONS?

As the retirement industry continues to focus on providing its participants with a lifetime income option, some employers have chosen to offer annuities as a distribution option in their qualified retirement plans. When asked if they were interested in and/or actively considering offering a guaranteed lifetime income option as part of their NQDCP in 2013, 15.5% of plan sponsors surveyed responded positively, down slightly from 16.7% in 2012 but consistent with the 15.6% recorded in 2011. This indicates a consistent interest in guaranteed income options and also highlights that efforts to educate plan sponsors and participants about these types of products is having an impact.

It is worthy to note that when survey webinar registrants were asked the same question, a resounding majority (66%) responded that they were interested in and/or actively considering guaranteed lifetime income options in NQDCPs. With a broader audience including plan sponsors as well as financial advisors and benefits consultants, it is evident that general industry awareness and interest is on the rise.

INFORMAL FUNDING

57.2% of companies informally fund their NQDCP

WHY?

1. Manage asset/liability ratio
2. Improve employee benefit security
3. Mitigate P&L impact

HOW?

1. COLI - 46.2%
2. Taxable securities - 44.7%
3. Cash - 20.5%

HOW MUCH?

1. 50+% of liabilities = 91.8%
2. 100% of liabilities = 56.4%

The majority of companies (75.5%) continued to target funding based on pre-tax liabilities in 2013.

75% of companies that fund at least 50% utilized COLI to fund 75% or more of these liabilities.

- **62% have a security vehicle for their NQDCP**
- **97% of security vehicles utilized are Rabbi Trusts**

WHY DON'T COMPANIES INFORMALLY FUND?

- **Corporate philosophy of "pay as you go" (43.2%)**
- **Plan liability was so small as to be immaterial (21.6%)**
- **Unsure (26.1%)***

*Why "unsure"? This statistic may indicate that there could be room for improvement in terms of communicating the benefits of informal funding to plan sponsors, such as increased participation rates and overall satisfaction for participants. Informally funding executive benefits help secure the incentive value of the plan to attract and retain key executives, and preserves the value of the benefit as a financial planning tool.

Informal funding can also offer advantages to companies. Unfunded plans can cause volatility to the income statement, as well as a negative drag on earnings. Companies set aside assets for future distribution with the intention of having available cash to pay on benefit liabilities when they eventually come due.

RECORDKEEPING AND SERVICE PROVIDERS

A majority of companies continue to work exclusively on a third-party recordkeeper to administer their NQDCP, likely due to the need to rely on an executive benefits specialist for legislative expertise and compliance support in a post-409A environment.

70% of companies rely exclusively on a third-party recordkeeper

Quality of service team topped the rankings once again as the main deciding factor companies use for choosing a recordkeeper.

FINANCIAL PLANNING AND ADVICE

Companies that offered financial planning benefits to participants declined to 2011 levels this year, from 52.7% in 2012 to 44.6% in 2013. However, the overall prevalence of this benefit has increased more than 10 percentage points since 2009 (34.1%), which indicates that plan sponsors recognize the need to support participants and alleviate their concerns about planning for short- and long-term financial goals by providing access to experts who can offer specific investment advice and guidance.

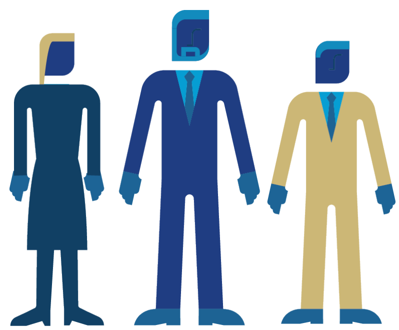
45% offered financial planning benefits to participants

Among those companies offering financial planning services to senior executives, 90.8% used external advisors and the majority (58.2%) offered them at no cost to the executives. The expense was shared by 12.2% of firms. Recipients of financial planning benefits were more likely to be in the C-suite (43.8%), followed by executives (28.6%) and mid-level managers/directors (20.1%).

GROUP AND VOLUNTARY BENEFITS

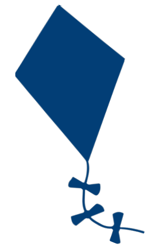
Similar to previous surveys, almost all respondents offered group life (97%) and group disability (92%). There was a small increase in the number of respondents offering their executives disability insurance (24.1% in 2013, up from 20.8% in 2012). Typically, executive disability plans bridge the income gap under group plans that do not cover bonuses or incentive compensation.

Employee-paid offering were slightly less prevalent overall and also declined year-over-year, which may indicate a trend to save on disability benefit expenses overall.



Long-term care offerings declined slightly in 2013 to 27%, down from 33.3% in 2012 and 31% in 2011.

SUMMARY



With NQDCP prevalence as high as ever, there is no doubt that these executive benefits are crucial to recruit and retain high-quality employees, and by and large achieve the objective of providing additional tax-deferral opportunities. Proper design and execution of these plans, however, are vital to help ensure that a company's valued employees are not only motivated to participate in them, but understand how to utilize these deferred compensation vehicles to aim for building a successful financial future. To that end, emphasizing the right incentives to drive better decision-making, increase plan effectiveness and deliver better short-term and retirement planning outcomes is a chief consideration for developing participant engagement strategies.

Communications and education are of paramount importance and an area where key stakeholders – plan sponsors, plan administrators, as well as financial advisors and benefits consultants – should focus on conveying the more meaningful underlying benefits of the NQDCP. Guiding participants through imagining how they will feel if the benefit is realized and their financial goals are met helps make the process of saving more tangible – whether putting their youngest through college (short-term financial goal), or retiring to that comfortable house on the golf course (long-term goal). Investing isn't simply about money; for many, it's motivated by the desire to make sure they and their family members are financially comfortable. Showing the effect of deferring into the NQDCP to lower current taxable income, helping participants model future retirement income to incent specific saving behaviors, and taking the guesswork out of decision-making with plan enhancements that make investment selection easy are but a few examples of the kinds of tools and resources that can positively impact participant engagement and satisfaction.

In-plan offerings designed to support executives' retirement readiness include model or managed portfolios, which are generally risk tolerance-based investment mixes that leave asset allocation decisions to investment professionals. Interest in guaranteed lifetime income options is growing, and these products add a critical element of defined benefit plans—retirement income—inside NQDCPs. Lastly, with financial planning and advice offered by nearly 45% of companies surveyed, the ongoing prevalence of these benefits indicates that plan sponsors are responding to concerns about their employees' need for professional guidance. Providing the expert resources that can help participants validate their plan choices and create a financial plan that targets a comfortable retirement is one way to take some of the guesswork out of decision-making and realize the potential of their executive benefit packages.