2014/2015 EDITION

Executive Benefits:

A Survey of Current Trends

THE NEWPORT® GROUP

30 Years of Vision

Contents

About The Newport Group

Founded in 1984, The Newport Group is a leading financial services firm—specializing in the creative design and administration of retirement and executive benefit plans, as well as investment and fiduciary consulting services. Through its innovative and customized solutions, Newport is uniquely positioned to satisfy the distinct financial needs of employers and employees, and has done so for hundreds of the country's largest and best-known companies.

INTRODUCTION

A Broader Vision

The success of retirement plans, both qualified and non-qualified, is measured over the long term. Since our founding 30 years ago, The Newport Group has been designing, communicating, and administering these plans in a variety of changing regulatory and economic climates.

We believe our value lies in our ability to bring a broader vision of retirement services to our clients, to examine current trends in light of our clients' overall experiences, and to assess whether they indicate a temporary adjustment or larger, more significant changes.

That longer view is the context for the 2014/2015 edition of ***Executive Benefits: A Survey of Current Trends.*** This is the sixteenth edition of this well-established survey, and the second to be conducted and published by Newport.

The results of this survey provide a comprehensive look at the ways in which corporate America is providing executive benefits, particularly non-qualified deferred compensation (NQDC) and supplemental executive retirement plans (SERPs), and how these plans are commonly structured, funded and administered.

Data was gathered from the largest companies in the country, with annual revenues of $1 billion or more—including plan prevalence, plan eligibility requirements, company contributions, distribution and payment options, funding vehicles, and other factors.

Importantly, this report also offers marketplace insights from Newport's non-qualified plan consultants. Their expert commentary provides analysis to enable plan sponsors and their advisors to better understand the meaning of specific survey findings. Together with extensive non-qualified plan research gathered from the public filings of *Fortune* 1000 companies, this report is the most broadly comprehensive view of non-qualified plans available.

We hope you find this edition of 2014/2015 edition of ***Executive Benefits: A Survey of Current Trends*** useful and thought-provoking as you evaluate your own company's compensation and benefits programs.

The Current Environment

We live in a world of constant legislative and regulatory activity. During the past several years, this has complicated the design, administration and compliance risk of NQDC plans. Some key issues Newport has addressed in recent years are:

- the enactment of Dodd-Frank, which stimulated the use of deferred compensation plans to provide incentive compensation for executives of banks and financial institutions
- the enhancement of existing plan features and the elimination of obsolete or under-utilized plan features, within allowable exceptions to the anti-acceleration rules contained in IRC §409A
- the adoption of formalized policies on benefits such as domestic relations orders (simple DRO's or QDRO's) and unforeseeable emergency withdrawals
- the increasingly sophisticated planning required to address key issues in mergers and acquisitions
- enabling the deferral of restricted stock, or allowing compensation to be invested in stock units, reflecting the increase in these forms of stock compensation and the shift away from stock options

This changing environment has continued to foster change in non-qualified plans. Therefore, we developed the questions for our survey with a view toward learning more about how these changes are impacting companies, their executives, and their plans.

Key Survey Findings

What we learned from the survey, and directly from our clients, is that employers are increasingly looking for ways to strategically use non-qualified plans to better align corporate objectives with the retirement goals of their management teams.

As a result, executive benefit plan sponsors are giving increasing attention to:

- leveraging a greater variety of deferrable compensation sources
- increasing flexibility regarding distribution payments through innovative plan features
- responding to heightened participant demand for tools to help manage their accounts
- benchmarking plan features against sponsor peer groups and enhancing plan designs accordingly
- integrating longer term performance incentives with a flexible and attractive NQDC
- retaining key executives through attractive plan features

This year's survey results show that:

- the prevalence and perceived value of non-qualified executive benefit plans continues to be strong
- sponsors rate these plans as an important component of an effective compensation and benefits program

Major drivers of participation in these plans include:

- high-quality investment choices
- employer matching contributions
- robust communication and education
- ease of account access

Summary

Sponsors report that they would like to see participation levels in these plans increase, because they view these plans as a critical part of their executives' retirement readiness. Consequently, plan sponsors are continuing to expand eligibility—and sponsors expect this to continue.

The survey also indicates that plan sponsors are less satisfied with both their own and their participants' understanding of non-qualified plans and their features. In response to this, they indicate they will be increasing their focus on more effective communication and education. This represents an opportunity for plan sponsors and their financial advisors to facilitate and increase participation in these plans and their participants' satisfaction with them.

Finally, plan sponsors are increasingly outsourcing the management of these plans due to administrative complexity and compliance risk, and are selecting service providers that can provide a full range of critical services, including: "best practices" consulting, regulatory compliance and risk management, investment menu construction and monitoring, "high-touch" customized education to the executive population, and leading-edge online services for themselves and their participants.

Methodology

These results are based on answers to our questionnaire, which was sent to human resources executives and chief financial officers at companies with annual revenues of $1 billion or more. The survey was conducted and compiled by Greenwald & Associates, a leading market research firm. The compiled data was analyzed by Newport's professional executive benefit consultants.

The survey questionnaire contained over 145 questions about non-qualified retirement and executive benefit plans. The margin of error relative to the *Fortune* 1000 (at the 95% confidence level) for the total population in this report would be 5–10 percentage points.

The survey data is supplemented with public data of the *Fortune* 1000 to provide a broadly comprehensive view of non-qualified plan design elements. Any *Fortune* 1000 data provided in the sample study reflects the public filings of these companies, and is compiled from their Proxy disclosures as well as their 10K's, 11K's and plan documents.

Fortune 1000 data was supplied by Main Data Group, a leading executive benefits benchmarking firm with whom Newport has a proprietary data sharing arrangement.

For more information on the survey, please contact thenewportgroup@newportgroup.com.

About Greenwald & Associates

Founded in 1985, Greenwald & Associates is a full-service market research firm with unique industry expertise in financial services, employee benefits & healthcare. We take pride in our reputation for extensive research knowledge, industry expertise, and commitment to serving the needs of our clients.

www.greenwaldresearch.com

About Main Data Group

Main Data Group is a provider of high-resolution executive compensation benchmarking and corporate governance analytics. Our mission is to empower executive compensation professionals by providing comprehensive total rewards and corporate governance information in an affordable, easy-to-use online service.

www.maindatagroup.com

GOALS AND SATISFACTION

Why Employers Value NQDC Plans

NQDC Plans Are Critical to an Executive Compensation Strategy

Survey responses indicate that non-qualified plans continue to be critical to a competitive executive compensation strategy. Employers state that they are important for recruiting, retention, and incentivizing key employees.

Respondents report overall satisfaction with their non-qualified plans, including key areas such as:

- investment choices
- website experience/tools
- impact on employees' retirement readiness

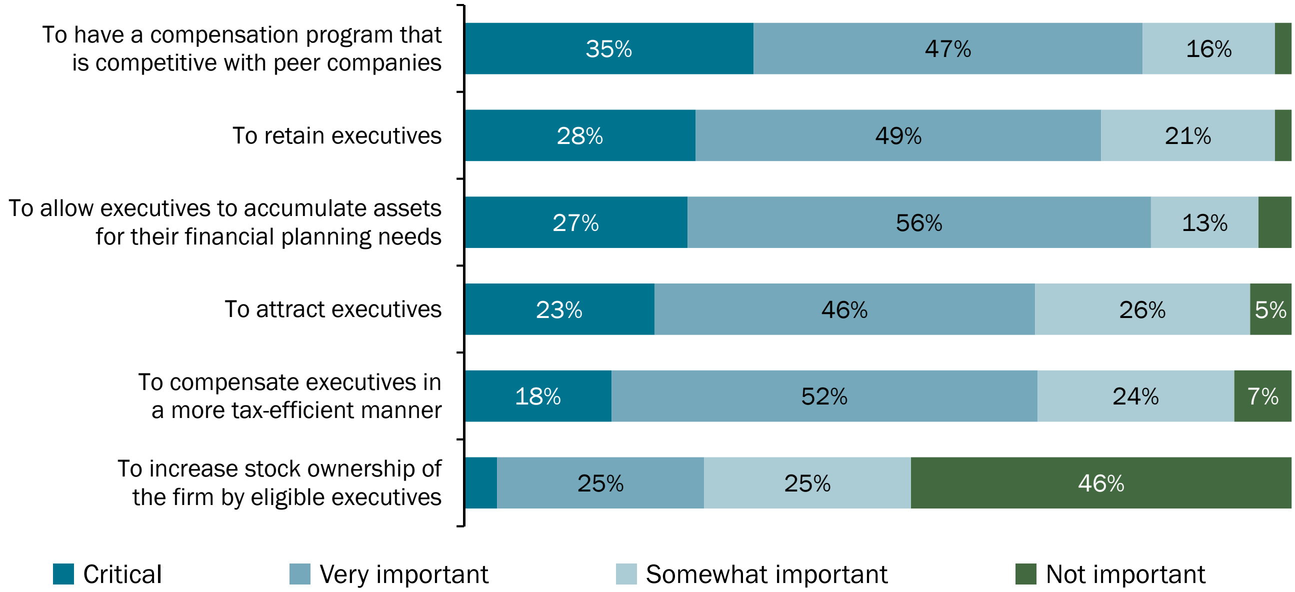
Respondents were less satisfied with:

- participation levels
- participants' understanding of the plan

Consequently, respondents expressed their intention to put greater focus on communication and education in the future.

Goals for the Plan

How important are each of the following goals for your overall non-qualified benefits programs?



Survey Findings
Respondents saw all named goals as important, with the exception of increasing stock ownership of eligible executives.

The most critical goals for a non-qualified program among respondents are to have a compensation program competitive with their peers (35% critical), to retain executives (28% critical), to allow executives to accumulate assets (27% critical) and to attract executives (23% critical).

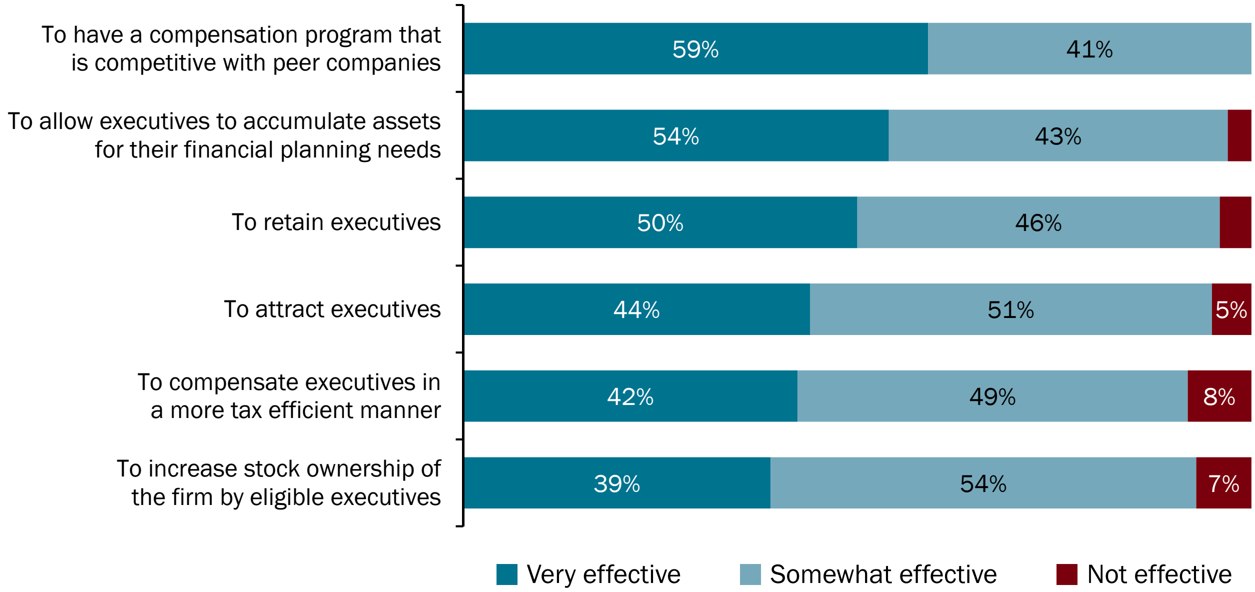
Only 54% of respondents felt that increasing stock ownership is also an important goal for non-qualified plans, and only 4% saw this as critical.

Marketplace Insights
These statistics show that non-qualified programs continue to be a critical component of a competitive executive compensation strategy. Providing tax efficient wealth accumulation benefits to executives is also very important to respondents.

For plan sponsors, the most critical goal for a non-qualified plan is to have a competitive compensation program.

Effectiveness of Plans

Based on the goals that you stated, how effective has your benefits program for highly compensated employees been in accomplishing these goals?



Survey Findings

Plan sponsors are generally satisfied with their NQDC plan's effectiveness in three key areas:

- having a compensation program that is competitive with peer companies
- allowing executives to accumulate assets for their financial planning needs
- executive retention

Sponsors see potential for improvement in their plan's effectiveness in:

- attracting executives
- compensating executives in a more tax-efficient manner
- increasing stock ownership among eligible executives

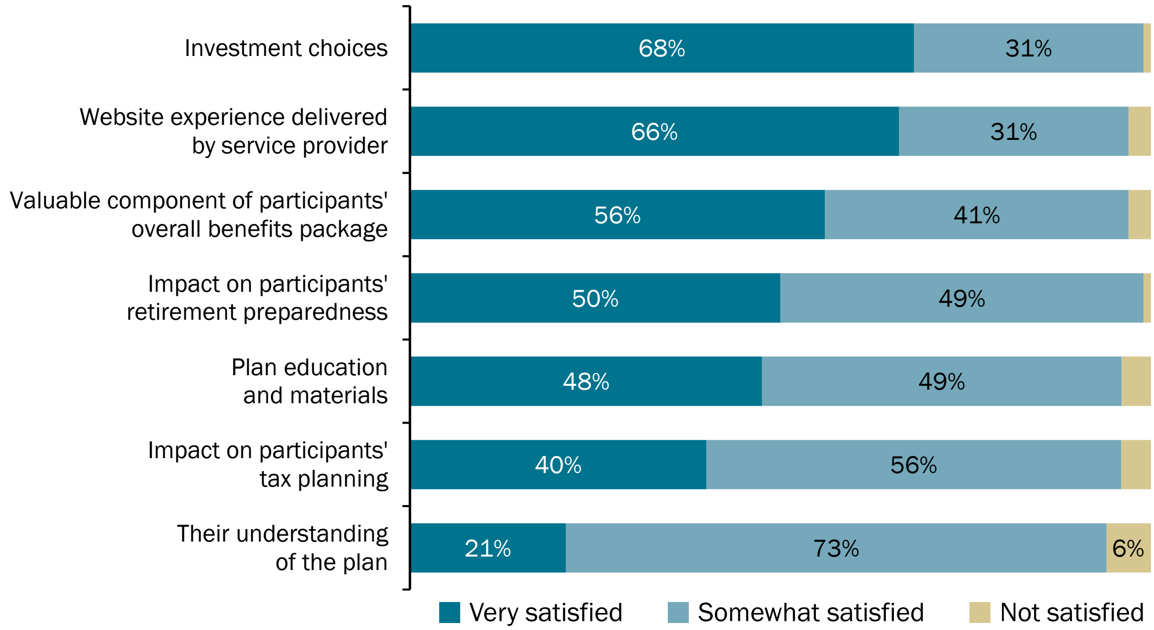
Marketplace Insights

Over the past 30 years, NQDC plans have become an integral part of companies' executive compensation programs. The flexible design of NQDC plans allows plan sponsors to incorporate the plan effectively with their overall compensation and benefit strategy, but a significant percentage of plan sponsors feel their plans could be more effective in utilizing key aspects of this opportunity.

Generally, respondents feel their NQDC plan is helping their compensation plans to be competitive.

Participant Satisfaction

How satisfied do you think PARTICIPANTS are with the following aspects of your NQDC plan?



Survey Findings

Plan sponsors report that participants are generally satisfied with four key aspects of their NQDC plan:

- investment choices
- website experience
- the plan as a valuable component of their overall benefits package
- the impact on participant's retirement readiness

Sponsors report the lowest score for participant understanding of the plan, with only 21% believing their participants are "very satisfied" in this regard.

Marketplace Insights

High participant satisfaction with key participant drivers such as investment choices, website ease of use, and robust communication and education all correlate to high participation.

On the other hand, lower understanding of the plan correlates to lower participation. Plan sponsors seem to be recognizing this by responding that plan communication and education will be a priority over the next two years.

Lower understanding of the plan correlates to lower participation, and sponsors plan to address this issue.

NON-QUALIFIED DEFERRED COMPENSATION PLANS

Results for Key NQDC Features

Prevalence, Eligibility and Participation

NQDC plans are widely adopted in corporate America, offered by a large majority of survey respondents. Additionally, half of those who do not currently offer a plan are considering offering one in the next two years.

Half of survey respondents with NQDC plans make a **company contribution** to their plan. Of those, about 80% provide a matching contribution. Regardless of the type of contribution, the majority require some form of vesting. Vesting based on years of service is common for matching and discretionary company contributions, while rolling or class-year vesting is common for company stock.

Eligibility is most often based on position, usually senior executives at the Vice President level and above—or based on compensation, most often beginning at levels between $115 and $150K. Roughly half of respondents report that the number of eligible employees has increased over the past two years, and a third indicate they expect the number of eligible participants to increase over the next two years.

Deferral sources are predominantly base salary and annual bonus. A majority of respondents allow 100% deferral of annual bonus, and maximum base salary deferrals of at least 75%.

Participation rates have remained reasonably steady since 2006—averaging approximately 46%. There is evidence that participation is influenced by executives' perceptions of economic conditions, company performance, and whether their compensation will be impacted by those factors.

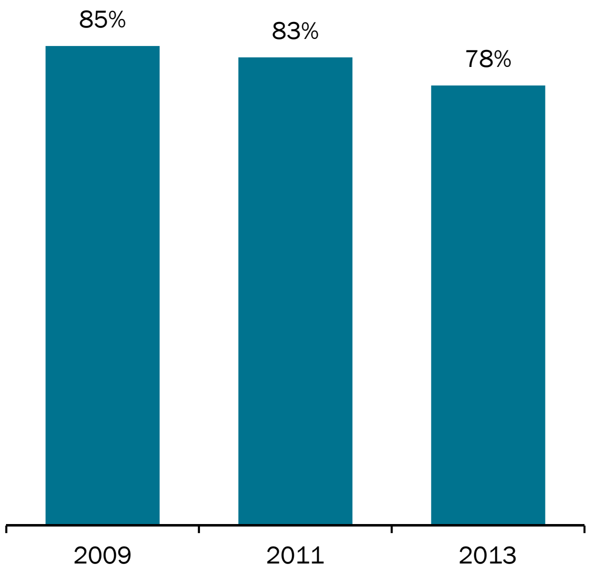
Investments and Distributions

Participant-directed investment menus are most common in NQDC plans. These investment menus typically consist of a wide offering of asset classes comprised of "best in class" mutual funds, or are chosen to correlate with the informal funding vehicles. Approximately 75% of respondents indicate that their NQDC plan investment options differ from those offered in their 401(k) plan.

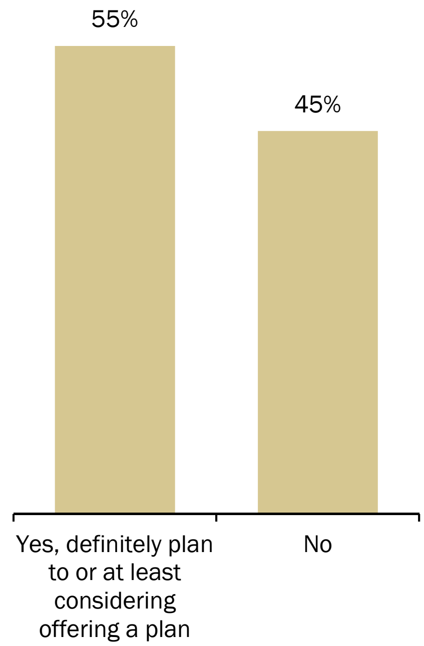
Life events are a key distribution trigger, and the majority of plans include them for retirement, death, and disability. A key plan design element is granting the participant the ability to plan for distributions, with an increasing focus on permitting participants to schedule distributions while actively at work, allowing them to address financial planning goals such as children's education. Distributions are most typically lump sum or installments, with payment periods usually limited to a maximum of 10 years.

NQDC Plan Offering

Do you offer an NQDC plan?



Do you plan to offer an NQDC plan in the next 24 months?
Among those who do not offer an NQDC plan



Survey Findings

78% of survey respondents offer an NQDC plan, which is in line with the number of *Fortune* 1000 companies (72%) that offer a plan.

Over half of those who do not offer an NQDC plan (55%) are considering offering one in the next two years.

Marketplace Insights

Deferred compensation plans continue to be a very popular benefit among plan sponsors, with four out of five respondents offering a plan, and over half of those without a plan considering adding one within the next two years.

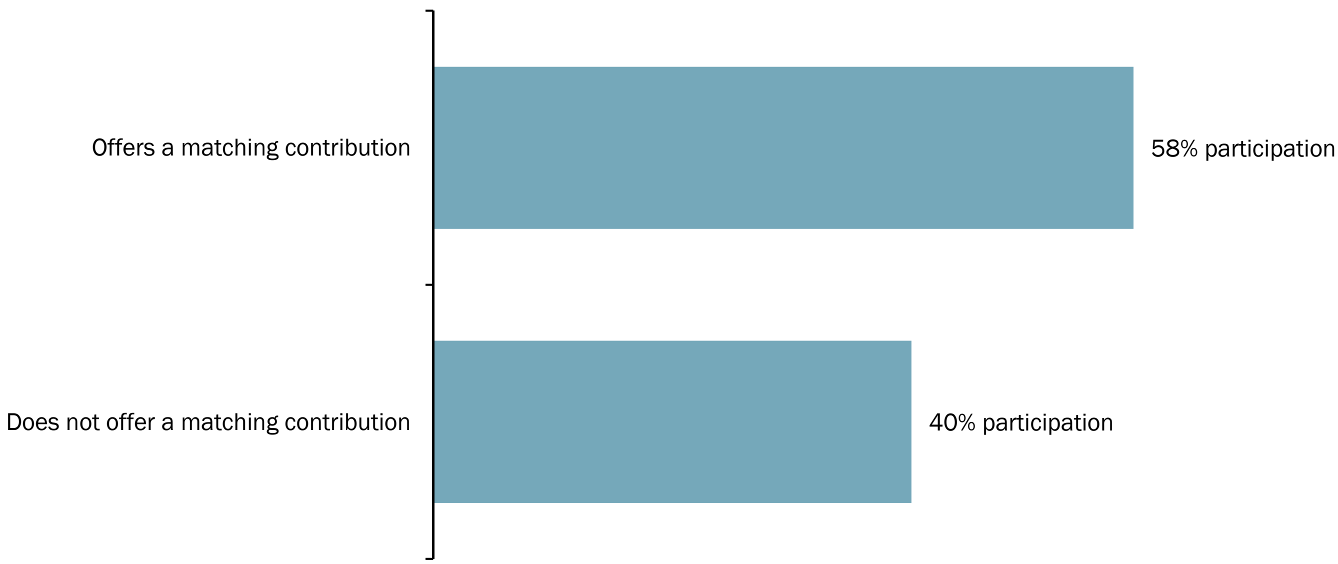
The apparent slight decline in NQDC prevalence may be due to a limited number of companies having reacted to the challenging economic circumstances of the past few years by curtailing their deferred compensation arrangements, or it may simply be due to a random statistical variation between surveys.

In either case, this slight decline does not appear to be a trend, given the significant percentage (55%) of companies which are considering or definitely planning on offering a plan during the next two years.

Four in five respondents offer an NQDC plan; over half of those who do not are considering offering one.

The Impact of a Company Match on Participation

Average plan participation rate when there is/is not a matching contribution



Survey Findings

Survey responses show that a matching contribution has a very significant impact on plan participation. Participation averages only 40% when plan sponsors do not offer a matching contribution, but participation increases significantly to 58% when matching contributions are used.

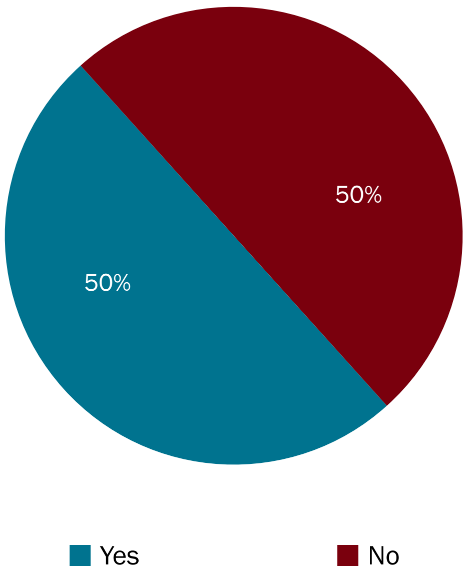
Marketplace Insights

Matching contributions are increasingly prevalent as 401(k) matches are being reinstated by plan sponsors, particularly the "make-up" contribution to the deferred compensation plan when participant deferrals cause a decrease to the match in the 401(k).

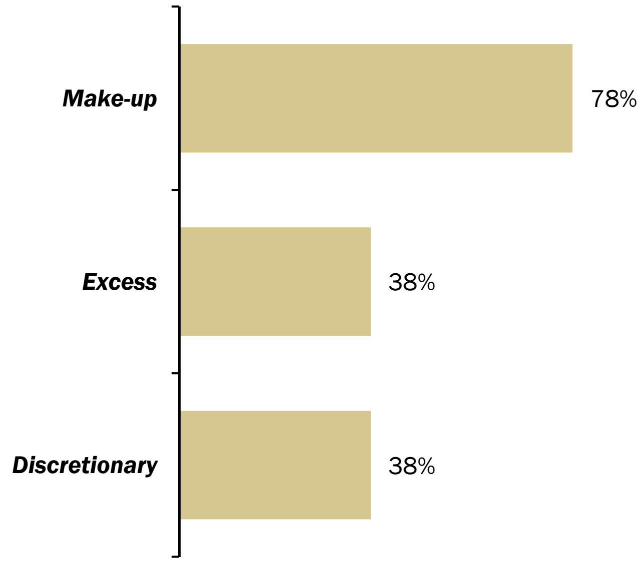
Matching contributions have a significant impact on plan participation.

Types of Company Contributions

Do you provide any type of company contribution to your NQDC plan?



What types of company contribution do you provide?



Survey Findings

Survey responses show that 50% of plan sponsors make a company contribution to their NQDC plan. Of those companies, 78% provide a make-up contribution, with 38% offering some form of discretionary contribution and 38% providing excess contributions lost due to qualified plan limits.

Marketplace Insights

Matching contributions are increasingly prevalent as 401(k) matches are being reinstated by plan sponsors.

Make-up contributions are a common element of contemporary NQDC plan design which ensure a participant's combined 401(k) and NQDC plan matching contributions are equivalent to the match had they contributed to the 401(k) only.

Excess contributions restore any 401(k) plan match "lost" due to qualified plan regulatory limits, with a company contribution to the NQDC plan.

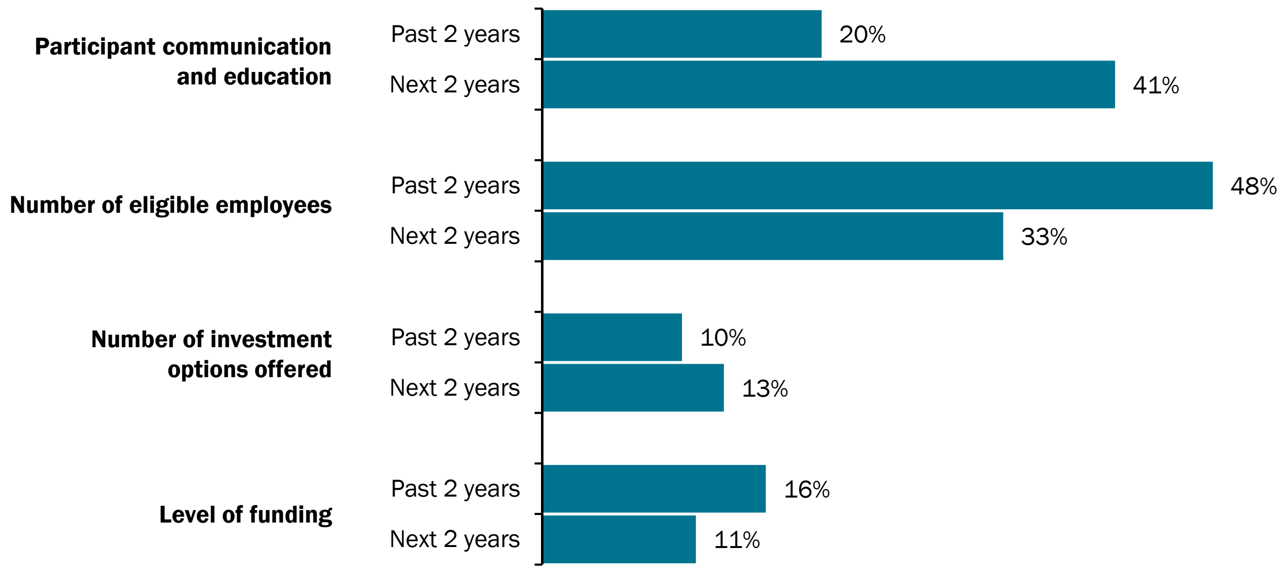
Discretionary contributions allow sponsors options such as replacing discontinued qualified defined benefit plans or SERPs , or offering non-recurring compensation incentives (spot bonuses, hiring bonuses, retention awards) to select participants to encourage retention and reward performance.

Matching contributions are highly correlated to participation rates and larger account balances in elective plans. This likely reflects not only greater levels of participation, but also more consistent participation in the plan. NQDC plans should be designed to allow sponsors sufficient flexibility to adjust company contributions consistent with their compensation strategy.

Matching contributions are increasingly prevalent in NQDC plans.

Trends

In the past 24 months, have the following increased?
In the next 24 months, do you anticipate the following to increase?



Survey Findings
Sponsors have made little change—and foresee little change—with respect to the number of investment options offered or the amount of informal funding.

Meanwhile, one-third of respondents expect to increase the number of plan eligible employees in the coming two years. This follows two years where nearly half of plan sponsors reported an increase in their eligible employees.

Prospectively, participant communication and education will receive increased focus from twice as many respondents as over the past two years (41% prospectively vs. 20% over the past two years).

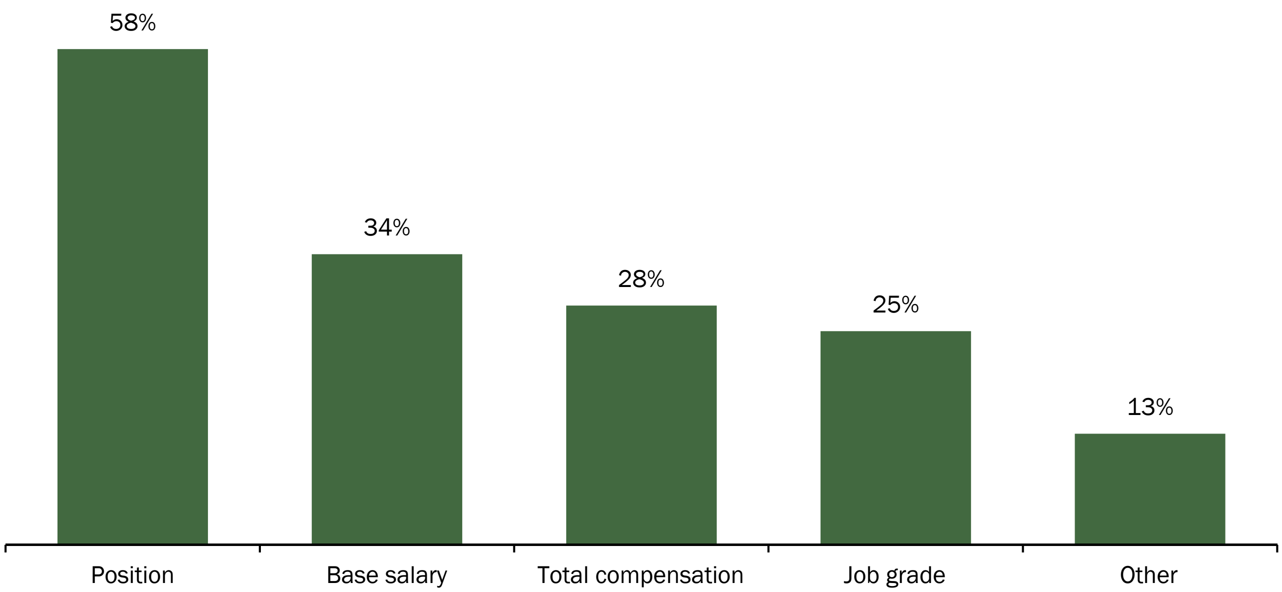
Marketplace Insights
Respondents are generally satisfied with their funding levels and the number of investment options offered, as indicated by the relatively few respondents making increases over the past two and the next two years.

However, recent and anticipated increases both in the eligible employee group, and in the amount of communication and education, indicate that respondents are less satisfied in those areas. Respondents see a need to expand the eligible employee group, and also a need to help employees to better understand the plan through communication and education.

Respondents see a need to expand the eligible employee group, and also to help employees better understand the plan through communication and education.

Eligibility Determinants

How do you determine who is eligible to participate in your NQDC plan?



Survey Findings

The most common method of determining eligibility for an NQDC plan is by position, e.g. job title (58%). One-third of survey respondents report using base salary, and approximately one-quarter each use total compensation or job grade as a determinant of eligibility.

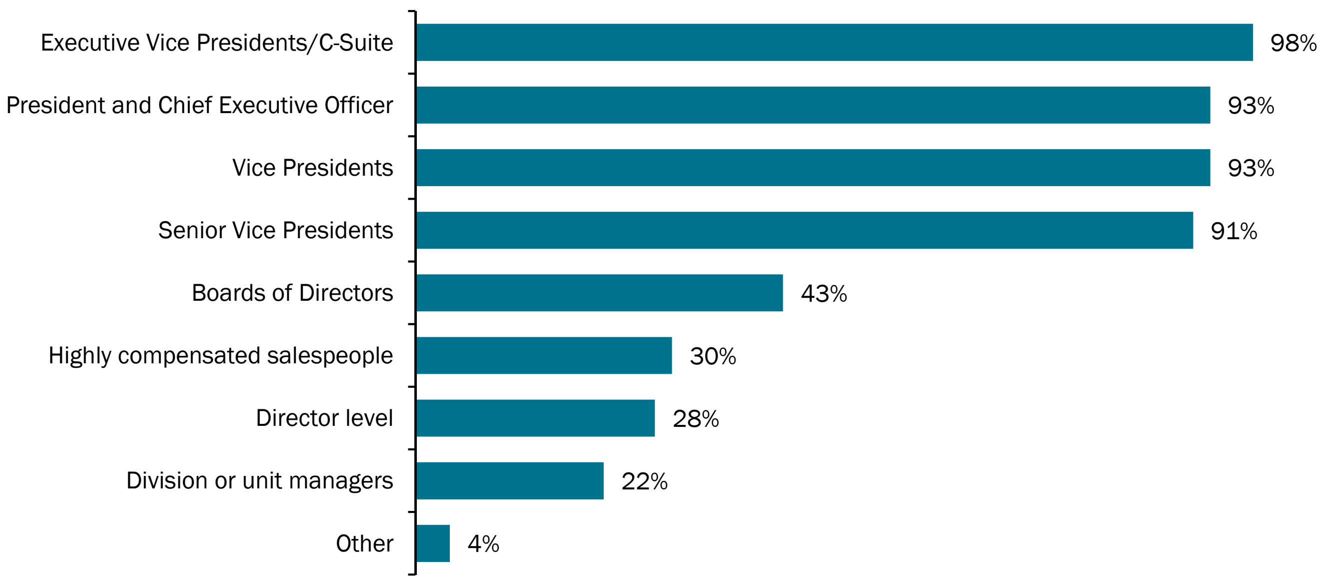
Marketplace Insights

Determining eligibility for NQDC plans is an important consideration for plan sponsors. Often there are competing objectives: the desire to provide an effective benefit to a broad group of employees versus a need to narrow the group in order to more easily manage compliance and administrative considerations. As a result, companies frequently make a determination based on objective factors such as base salary, total compensation, or job grade.

Eligibility is often determined by factors such as job grade, base salary, total compensation, or most often, position at the firm.

Eligibility Determined by Position

What specific positions are eligible to participate in the plan?
Among those who determine eligibility by position



Survey Findings
Of respondents who determine eligibility by position, at least 91% include the CEO, Executive VPs, Senior VPs and VPs.

Marketplace Insights
Our experience is that plans that use position in combination with compensation to determine eligibility frequently produce higher participation and higher deferral rates; this combination of eligibility criteria typically includes those executives most able to utilize the plan effectively.

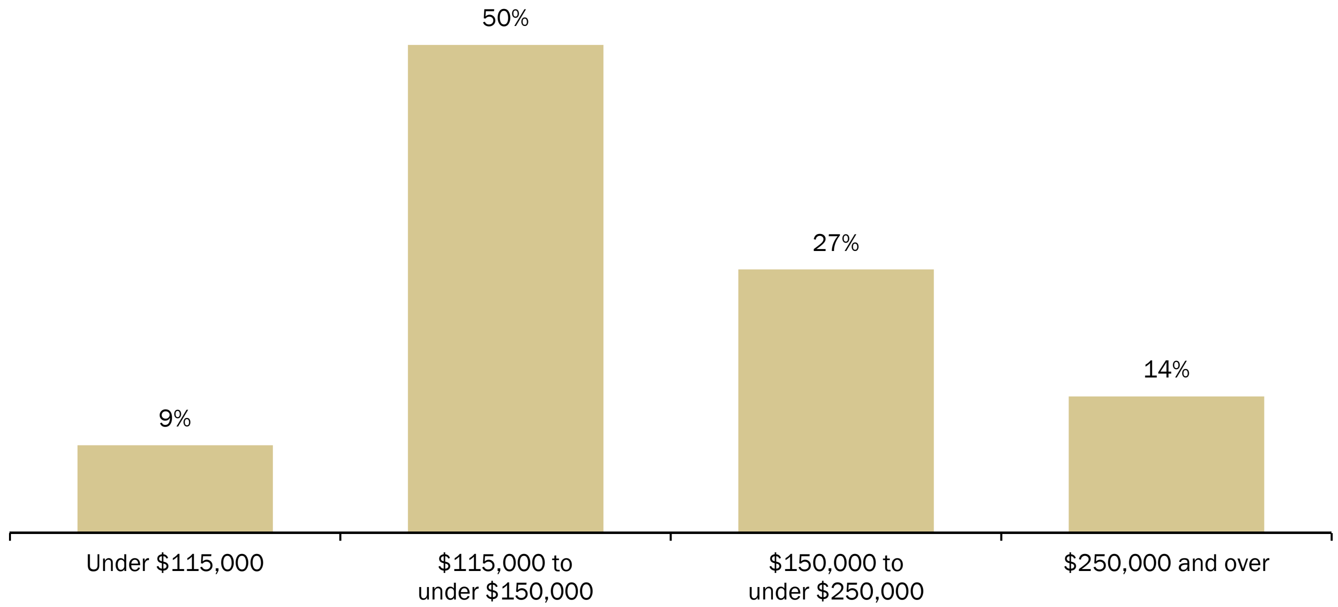
The survey confirms our experience that highly compensated salespeople are under-represented in plan eligibility. It is also our experience that NQDC plans can provide a valuable benefit to highly compensated salespeople and can be designed as an effective retention tool.

Although survey respondents indicated that fewer than half of their board members were eligible to participate, this result is up from 24% in the previous edition of this survey. The results appear to reflect the general trend to enhance compensation packages for board members to reflect the heightened importance and risk associated with board membership.

Of respondents who determine eligibility by position, at least nine in 10 include the CEO, Executive VPs, Senior VPs and VPs.

Eligibility Determined by Level of Total Compensation

What is the approximate minimum total compensation among those eligible for the plan?
Among those who base eligibility on total compensation



Survey Findings

Of those who determine eligibility by total compensation, half (50%) indicate their minimum compensation for participation is in the $115,000 to $150,000 range. 14% require at least $250,000 of total compensation.

$115,000 is a common eligibility determinant, as that is currently the amount that defines a Highly Compensated Employee (HCE) under Internal Revenue Code Section 414(q)(1)(B). $115,000 was the HCE definition for both 2012 and 2013, and remains unchanged for 2014.

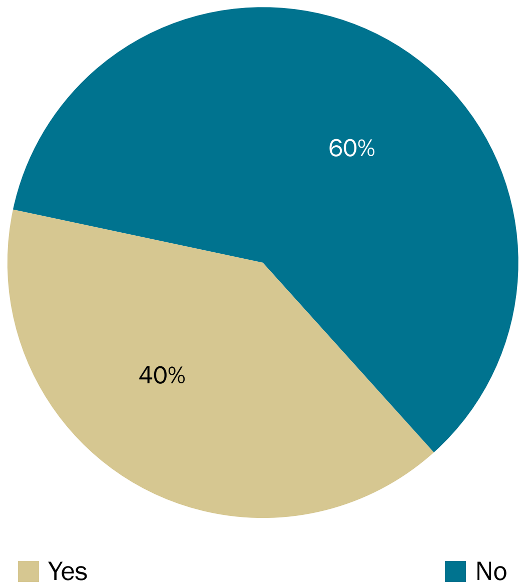
Marketplace Insights

NQDC plans are appealing for employees with compensation at the lower end of the executive compensation scale, as NQDC plans can have more flexibility than a 401(k) plan, particularly to address planning goals such as college education—though these employees tend to have less discretionary income available for deferrals.

Most companies extend plan eligibility to some or all of their highly compensated employees.

Discrimination Testing

Has qualified plan discrimination testing ever resulted in refunds to highly compensated employees?



Survey Findings
40% of NQDC plan sponsors say that qualified plan discrimination testing has resulted in refunds to its HCEs.

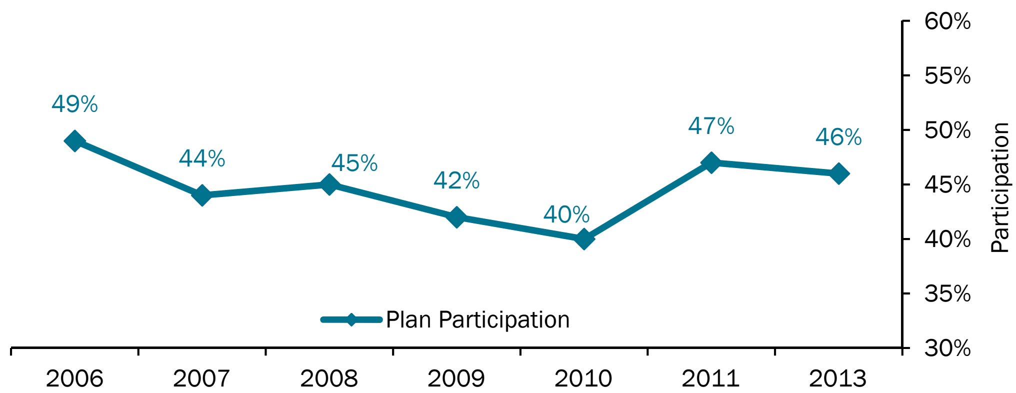
Marketplace Insights
For those plan sponsors whose qualified plans have refunds due to plan discrimination testing, NQDC plans can be designed to allow a participant to make an election to defer compensation in an amount equal to their refund.

However, survey data indicates that few plan sponsors have plan provisions that allow participants to make NQDC deferral elections to offset those otherwise taxable refunds—which could be an important design consideration.

While 40% of plan sponsors report that discrimination testing results in qualified plan refunds to HCEs, few have structured their non-qualified plan to address the issue.

Participation Among Those Eligible

Approximately what percentage of eligible employees participate in your plan (i.e., currently deferring)?



Survey Findings

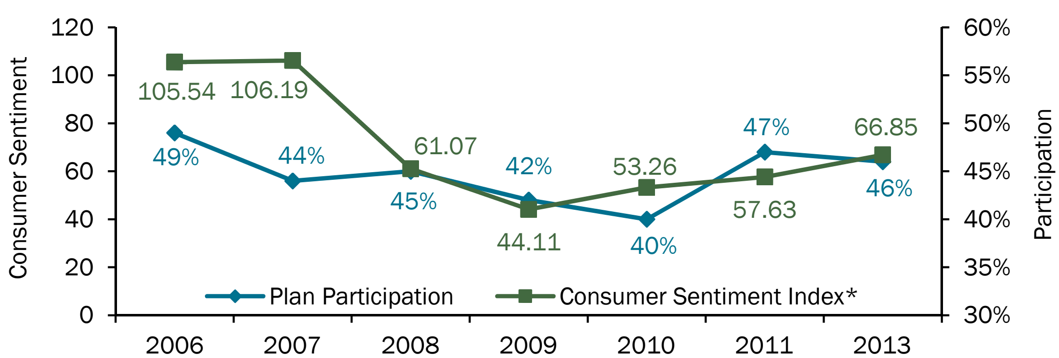
Participation rates have declined and risen within a fairly narrow range since 2006, reflecting changes in the economy. During that time, participation has averaged approximately 46% of eligible employees enrolling in their company's plan.

- Company contributions are a primary driver of plan participation. 55% of companies who contribute to their plan have greater than 50% participation rates, but only 20% of companies without company contributions exceed that same 50% participation rate.

Marketplace Insights

Company contributions, flexible design, attractive investment choices and clear, robust communications all drive participation rates higher. However, participation is also driven by executives' perceptions of economic conditions, company performance, and whether their compensation will be impacted by those factors. As the chart below illustrates, the trend of participation has correlated closely with consumer confidence in the economy overall.

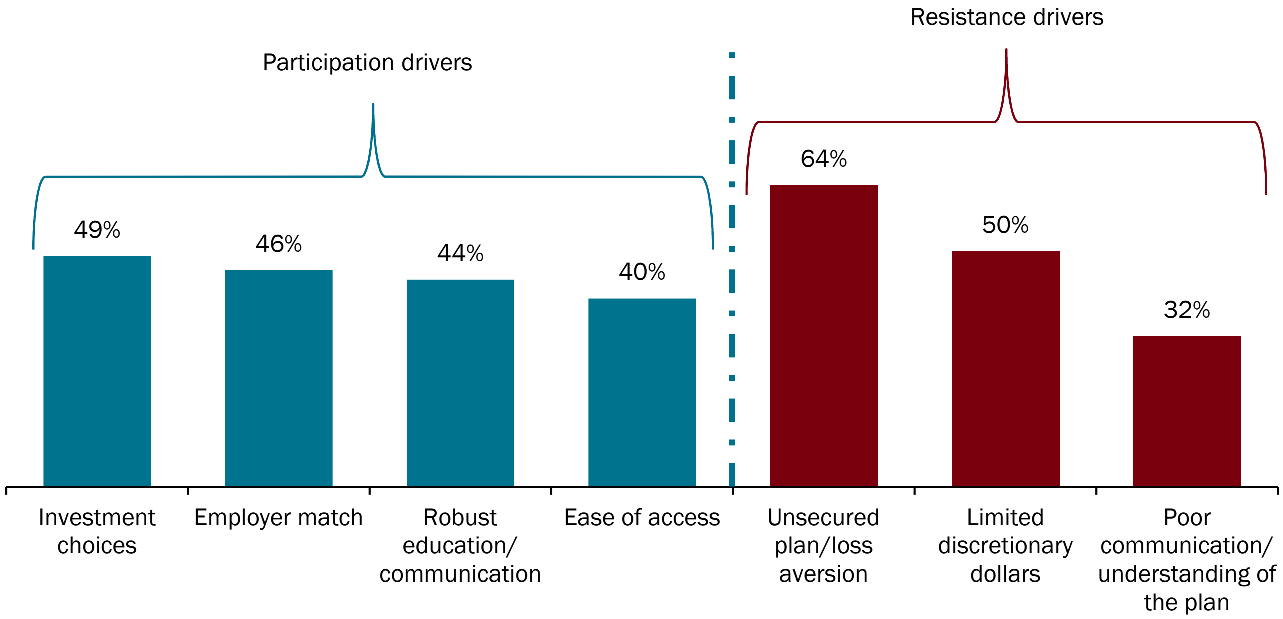
NQDC plan participation rates have correlated closely with consumer confidence in the economy overall.



**University of Michigan Survey of Consumer Sentiment Index. Consumer sentiment is a widely used measure of consumer attitudes toward economic conditions.*

Drivers and Deterrents of Participation

What do you consider the most important factors/features in driving participation in the plan?
What reason(s) are most attributed to resistance in participation?



Survey Findings
The four key participation drivers (investment choices, employer match, robust education/communication and ease of access) are reported as nearly equal in their importance in driving participation.

- However, respondents who provide a company contribution cite an employer match as a more important driver of participation (60%) than those without a match (33%).

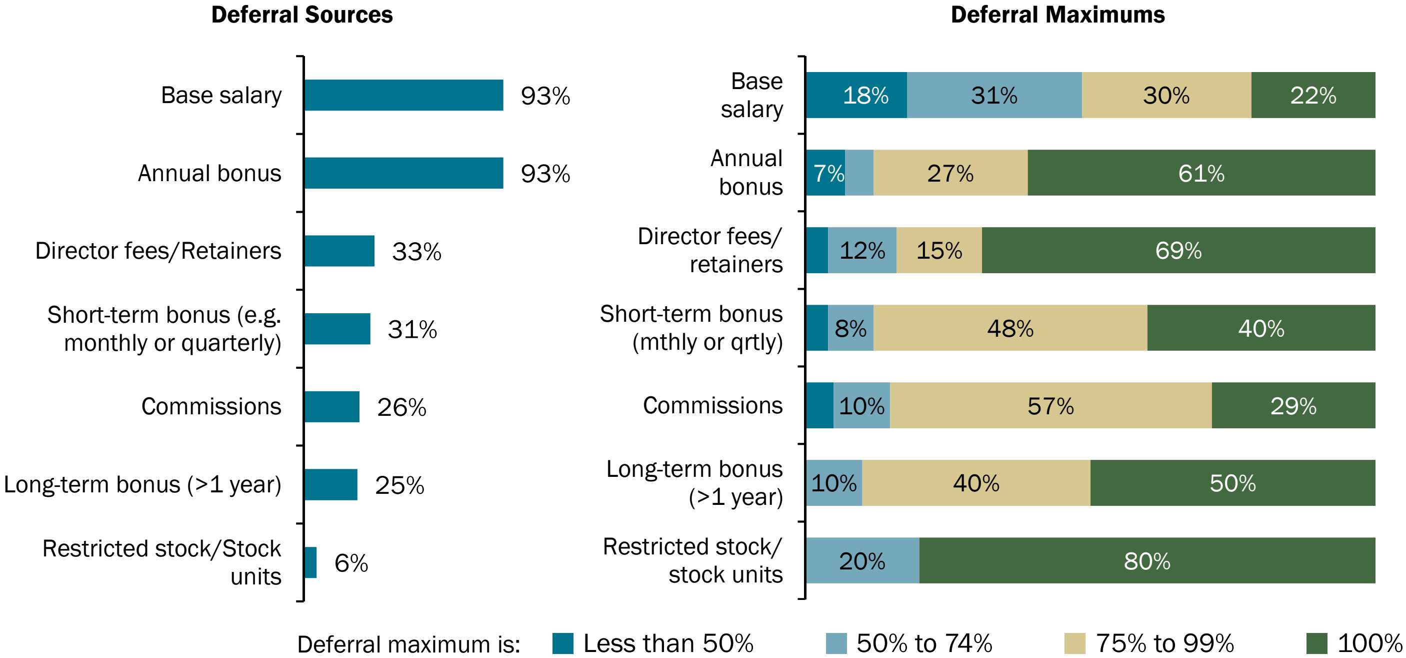
Marketplace Insights
By far the two most common reasons employees don't participate are the unsecured nature of these plans and limited discretionary dollars.

In many instances, these factors may be the result of the employee not fully understanding the nature of the risk or the importance of the retirement savings opportunity afforded by these plans. Robust plan design and increased communication and education are ways to address and mitigate these issues to increase employee participation rates.

Participation in NQDC plans is driven by investment choices, employer match, and robust education.

Types of Compensation Eligible for Deferral/Deferral Rate

What types of compensation may participants elect to defer? What is the maximum electable percentage?



Survey Findings

Nearly all respondents indicate that base salary and annual bonuses are eligible for deferral. Slightly over half of respondents allow maximum base salary deferrals of at least 75%. A majority of respondents allow 100% deferral of annual bonus, director fees/retainers, long-term bonus and restricted stock/restricted stock units.

Marketplace Insights

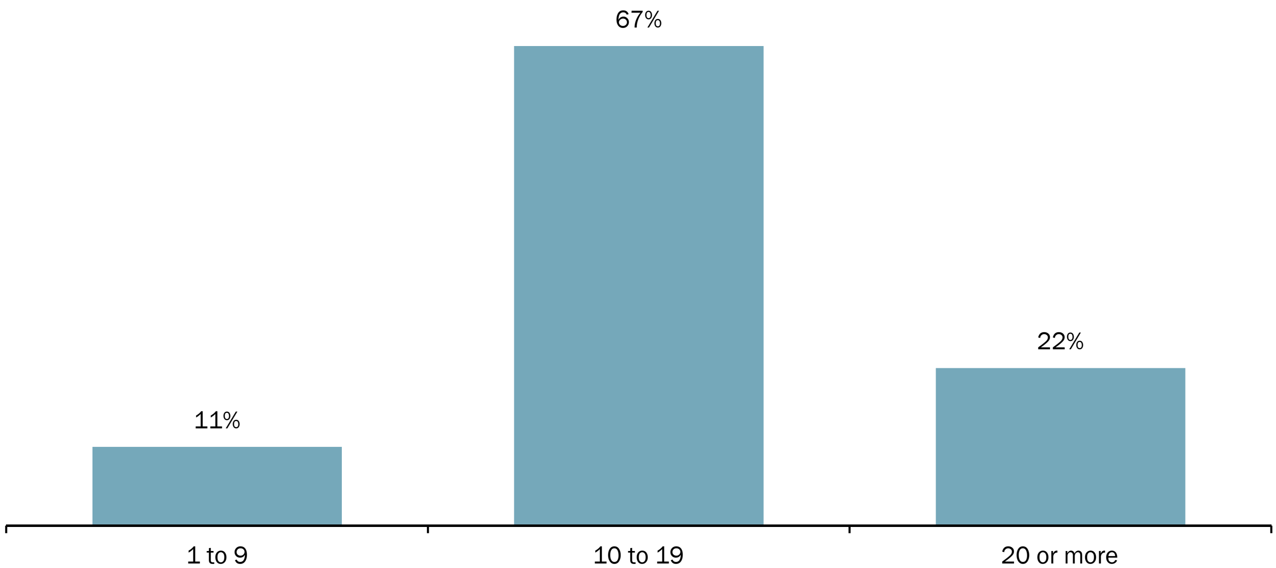
Our experience is that plan sponsors are broadening the amounts and types of compensation eligible to be deferred with NQDC plans.

Additionally, sponsors are providing participants with more control over retirement planning by increasing the plans' maximum deferral percentages.

Plan sponsors continue to broaden the amounts and types of compensation that may be deferred.

Number of Investment Options

How many investment options are included in your plan?



Survey Findings
Two-thirds of respondents who use mutual funds as a crediting rate offer 10–19 investment options.

Marketplace Insights
NQDC plans are similar to 401(k) plans in that they offer a variety of funds that represent major asset classes. This supports the participant's ability to use asset allocation in a manner consistent with their risk tolerance and time horizon.

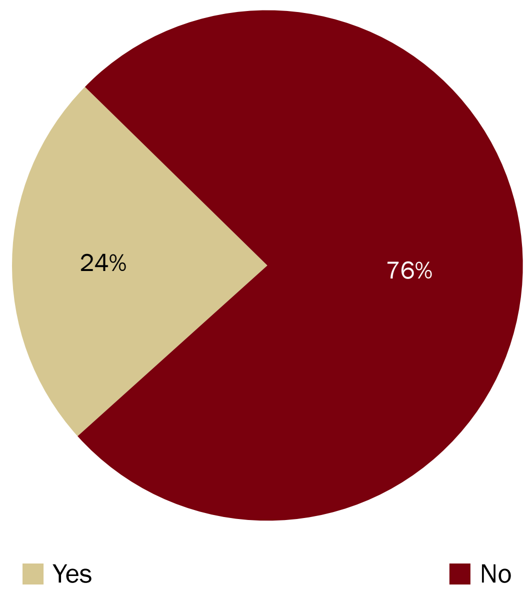
As with qualified plans, we see an important trend to provide participants enhanced investment education and asset allocation tools. Most important among these tools are pre-constructed model portfolios, which provide participants the means to manage their non-qualified portfolios to a target "risk" (where the equity/fixed income allocations correspond to a participant's appetite for risk) or a target "date" (where the equity/fixed income allocations correspond to a participant's age/retirement date).

Providing these model portfolios allows participants the ability to have a professionally managed asset allocation based on their risk tolerance, which simplifies participant investment decisions and enhances investment returns over time.

Model portfolios provide participants a way to manage their NQDC portfolios to a target "risk" or a target "date."

NQDC Plan vs. 401(k) Plan Investment Options

Are your NQDC plan investment options the same as those offered in your 401(k) plan?



Survey Findings

Three-quarters of respondents indicate that their NQDC plan investment options differ from those offered in their 401(k) plan.

Marketplace Insights

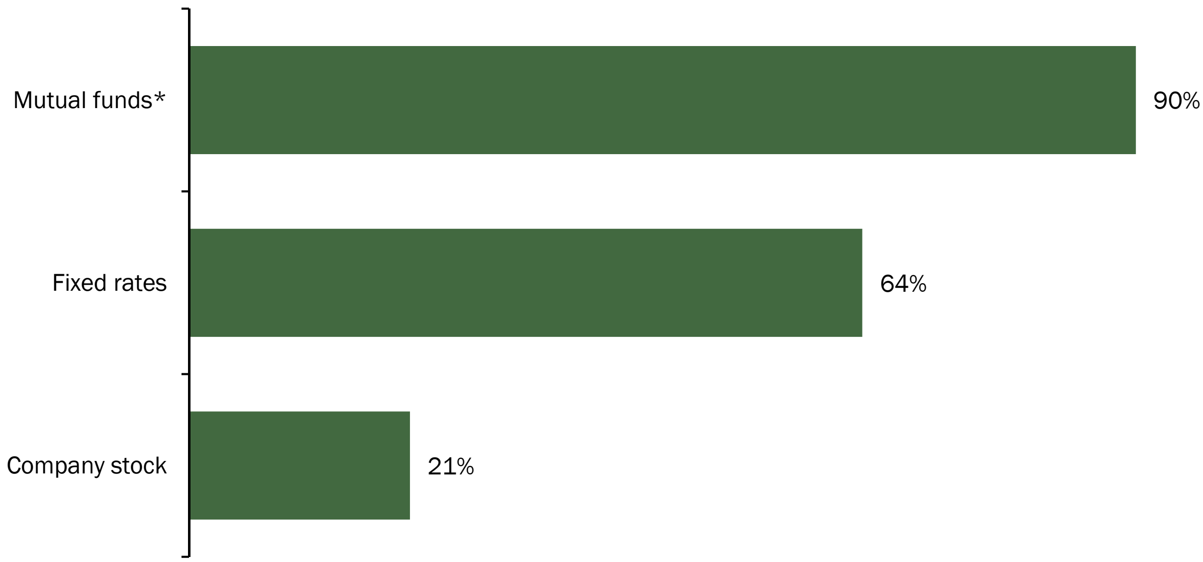
We typically see NQDC investment options differ from those in the 401(k):

- Deferred compensation plan participants typically seek a more robust array of investment options to afford them broader investment opportunities and diversification.
- The “menu” is chosen to better correlate with the informal funding strategy.
- Differing menus provide a distinction between the qualified and non-qualified plans.

NQDC plans typically offer a different investment “menu” than the 401(k) plan.

Type of Investment Options

Please specify the types of investment options you offer.



**Mutual funds or other market-related investment options.*

Survey Findings

90% of respondents use a “menu” of investment options (typically mutual funds or other similar investments) for their NQDC plan. 64% of respondents use at least one fixed rate option within their plans. Note: the fixed rate option is typically offered as an additional, not the sole, investment option.

Marketplace Insights

Continuing with the trend seen in qualified retirement plans, plan sponsors have almost universally adopted participant-directed investment options as the standard for NQDC plans.

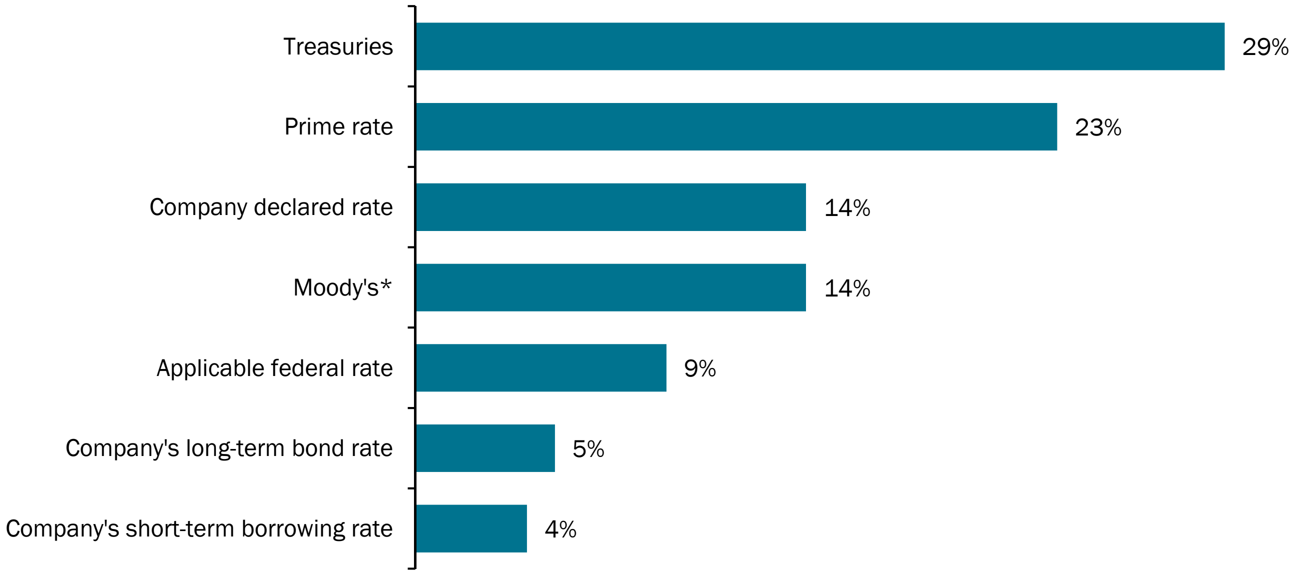
Fixed rate options continue to have strong appeal because they provide participants low investment risk with returns greater than other low risk alternatives, such as money market funds.

Company stock is not as prevalent in investment menus, as plan sponsors often have concerns regarding expense and administrative complexity.

A “menu” of a range of investment options continues to be the most popular, with fixed rate options gaining in popularity.

Fixed Rate Options

Please specify all of the fixed rate options you use in the plan.



**This is frequently Moody's Composite Average of Yields on Corporate Bonds.*

Survey Findings

The most prevalent fixed rate crediting option continues to be Treasuries, followed closely by the prime rate. Company declared rates and Moody's were reported equally at 14%. Note that there is an increasing trend in the use of a declared rate determined by the plan sponsor.

Marketplace Insights

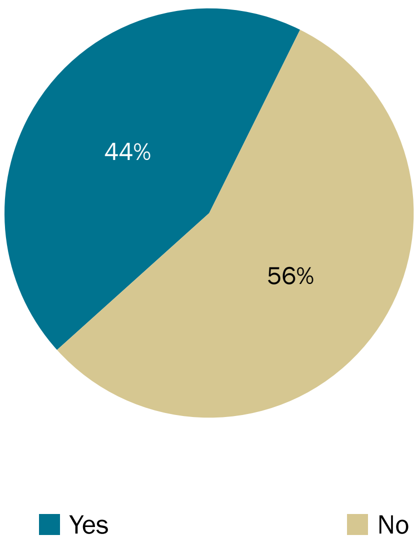
Treasuries continue to be popular fixed rate crediting options because of their inherent transparency and correlation to the broader economic environment, often with lower volatility.

Company declared rates allow plan sponsors the flexibility to adjust those rates from year to year. Declared rates are often correlated to or defined by the underlying funding vehicles used by the plan sponsor.

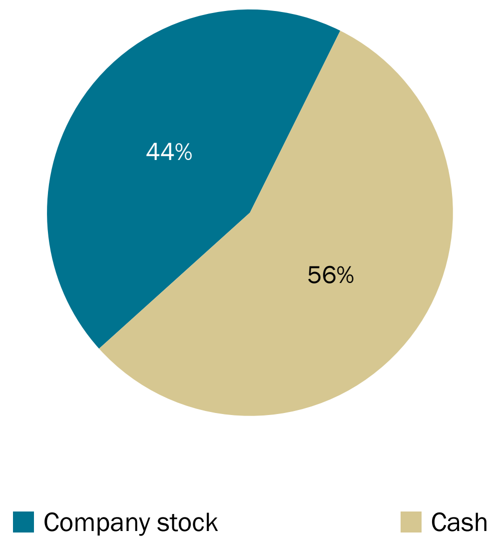
Treasuries and the prime rate account for over half of the fixed rates used by respondents.

Company Stock Allocations

Is the portion of the account allocated to company stock diversifiable to other investment choices?
Among those who use company stock as a crediting rate option



Is the portion of the account allocated to company stock payable in shares of company stock ('in kind') or cash?
Among those who offer use company stock as a crediting rate option



Survey Findings

For respondents whose plans offer company stock as a crediting rate option, slightly less than half allow participants to reallocate balances in their stock accounts to other investments.

A little more than half of respondents' plans provide for distributions in cash for accounts allocated to company stock.

Marketplace Insights

Where company stock is used in an NQDC plan, an increasing number of companies are allowing participants to diversify their stock balances with some limitations. Examples of the types of limitations include: stock ownership targets, a percentage of stock held, stock acquired before or after a point in time, or specified stock accounts in the plan.

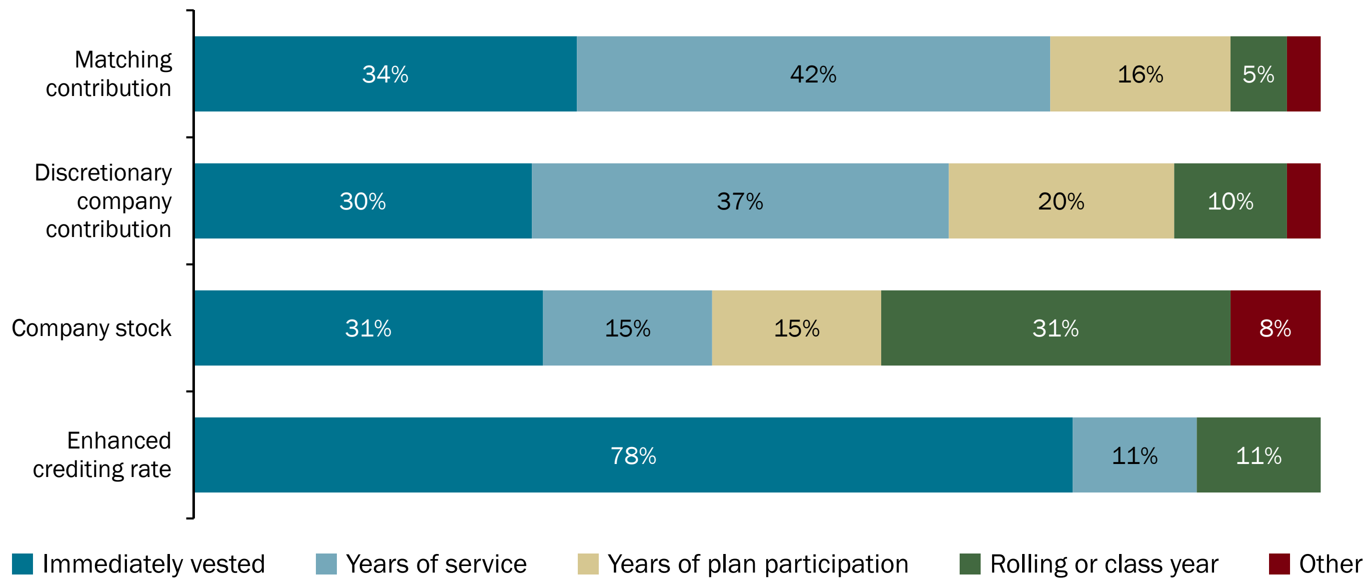
If the plan allows participants to reallocate their stock component or if the stock is settled in cash, then the stock receives variable or "mark-to-market" accounting treatment. If the stock may not be reallocated and is settled in shares, the stock receives fixed accounting treatment, but the participant is then unable to diversify their shares.

Effective plan design is crucial to effectively mitigating the impact associated with variable accounting for the plan sponsor.

Companies are increasingly allowing participants to diversify their NQDC plan company stock holdings.

Vesting Restrictions on Company Contributions

Please indicate which types of vesting restrictions apply to the following features of your plan:



Survey Findings

Irrespective of the type of company contribution, the majority require some form of vesting. Vesting based on years of service is common for matching and discretionary company contributions, while rolling or class-year vesting is common for company stock.

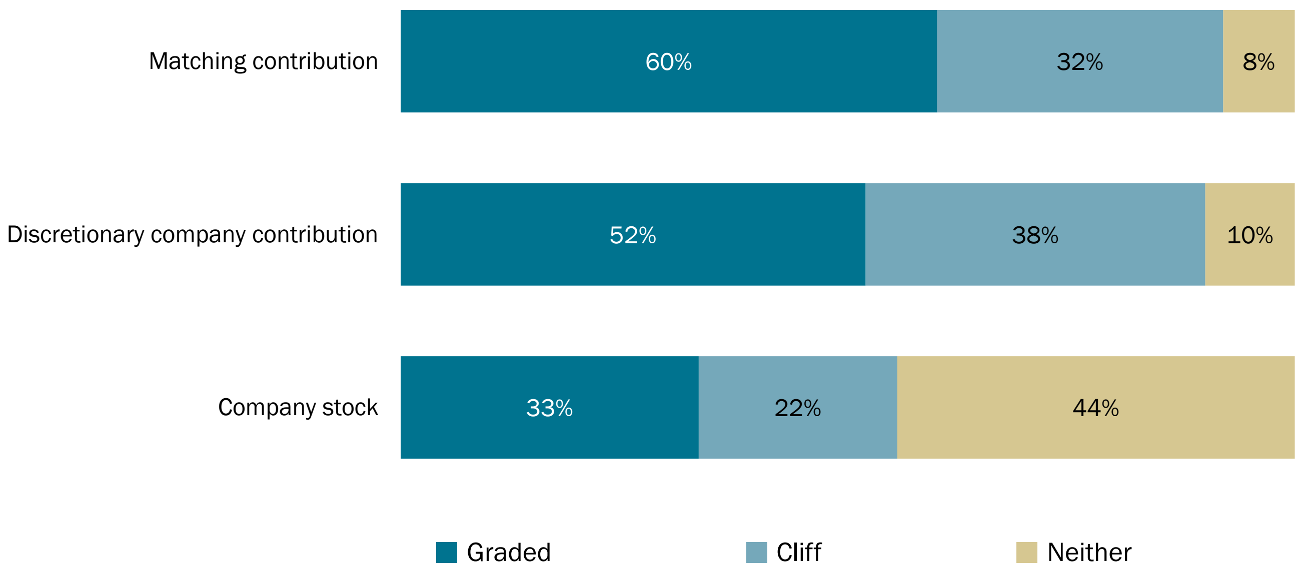
Marketplace Insights

Matching contributions that restore qualified plan matches typically mirror the vesting requirements of the qualified plan. Enhanced crediting rates typically vest either immediately or upon some event—such as retirement, death or disability.

Companies use a range of vesting mechanisms that are designed to reflect the goals for the contribution.

Type of Vesting of Company Contributions

Does your company use graded vesting or cliff vesting for each of the following:



Survey Findings

Graded vesting (where the amount is vested in percentages over time) is used for matching contributions nearly two-thirds of the time, and for discretionary contributions approximately one-half of the time. Cliff vesting, where the amount is 100% vested after a set period of time, is used about one-third of the time for both matching and discretionary contributions.

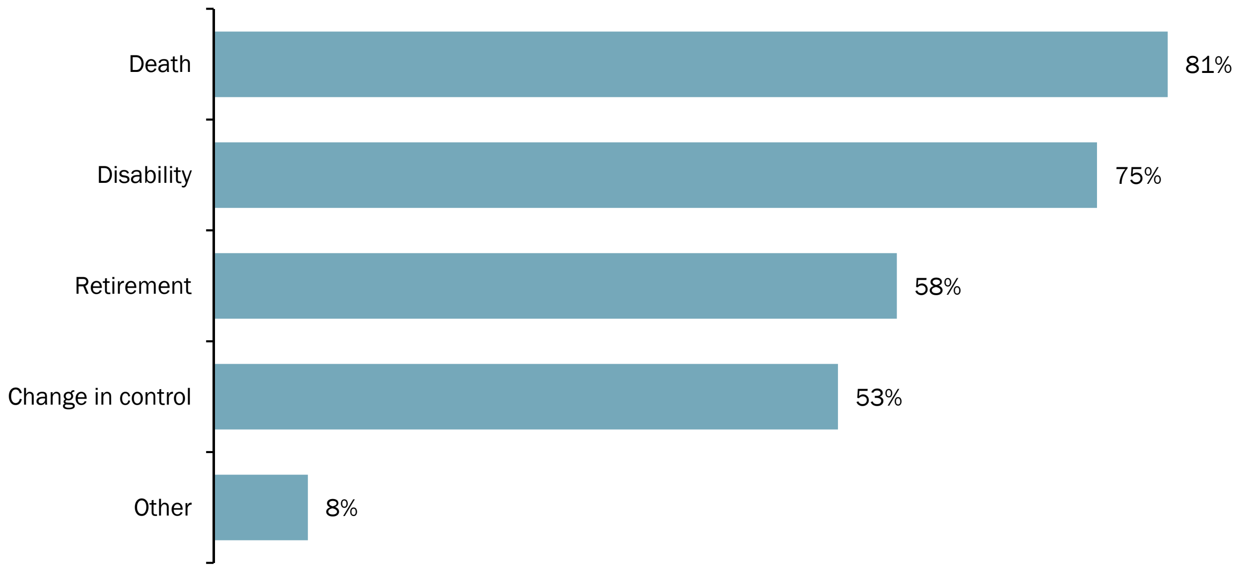
Marketplace Insights

Companies use a range of vesting types, with both graded vesting and cliff vesting being most common. Matching contributions that restore lost 401(k) matches typically have the same vesting as the 401(k) plan (typically graded). Graded vesting may act as a stronger “golden handcuff” since the graded vesting duration is typically longer than the time-frame used for cliff vesting.

Graded vesting is used more often than cliff vesting.

Accelerated Vesting of Company Contributions

Is any of your vesting accelerated by any of the following?



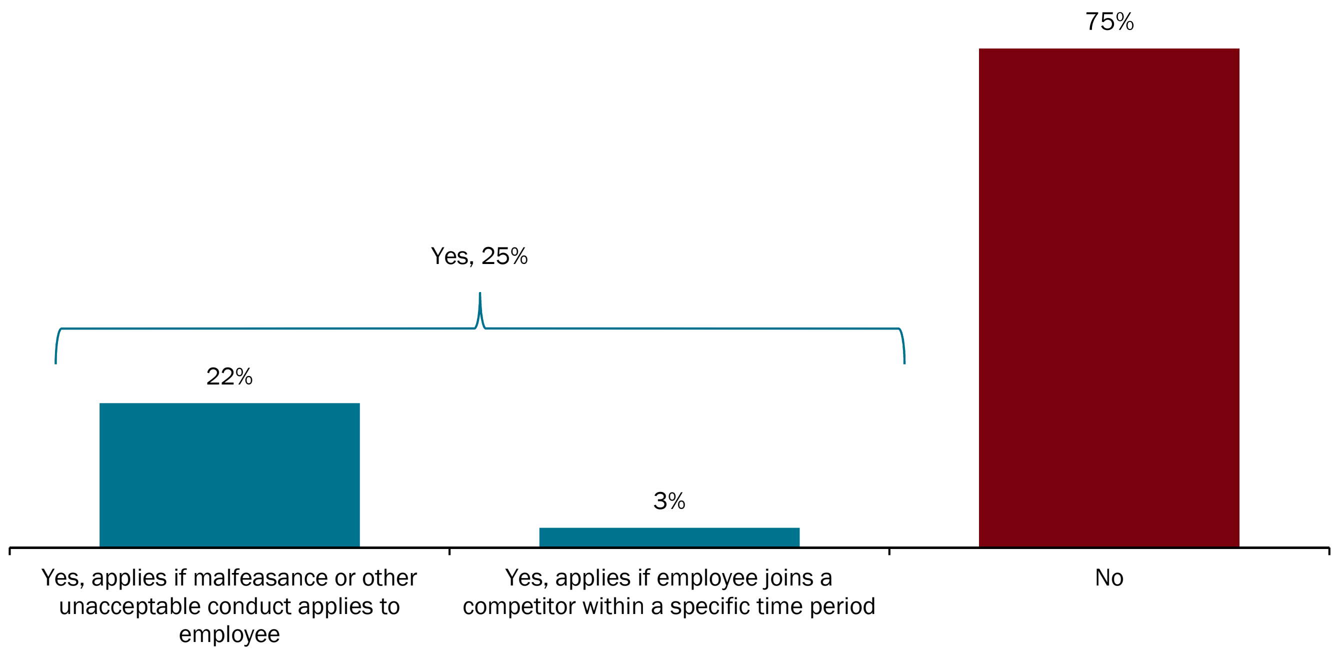
Survey Findings
At least three-quarters of respondents indicate that plan vesting is accelerated by death or disability. Over half report accelerated vesting for cases of retirement or change-in-control.

Marketplace Insights
Accelerated vesting is common for events that are typically beyond a participant's control, such as death and disability. Many plans with an explicit retirement definition also accelerate vesting for retirement. Some plans, however, treat retirement as a "standard" separation from service, which implies that vesting is not accelerated. Plan documents can be drafted to give the plan committee the authority to accelerate vesting at its sole discretion.

Vesting is most often accelerated by death and disability. The plan committee may have authority to accelerate vesting at its sole discretion.

Clawback Provisions

Does the plan contain a clawback provision for company contributions?



Survey Findings

A quarter of respondents have both vesting restrictions and clawback provisions for company contributions. Most clawback provisions (89%) apply in cases of malfeasance or other unacceptable employee conduct. The remaining clawback provisions apply if the employee joins a competitor within a specified time period.

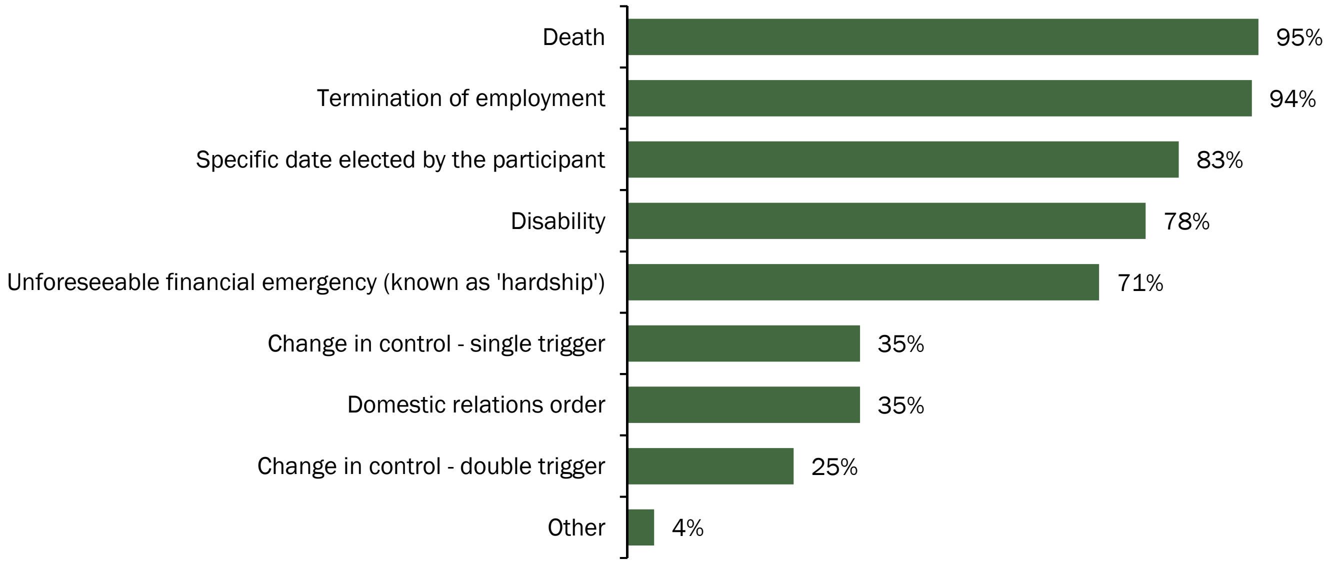
Marketplace Insights

Clawback provisions are required in certain regulated businesses (e.g., regulated financial services companies) and may become more prevalent for other types of businesses (e.g. federal contractors). In addition to encouraging mid-term and long-term accountability, clawbacks also serve as retention incentives.

Clawback provisions are uncommon among NQDC plans.

Distribution Eligibility

Under which of the following circumstances may participants receive distributions from the NQDC plan?



Survey Findings

Life events are a key distribution trigger; the vast majority of plans include them for death, disability, termination of employment and financial hardship. Distributions at a specific date chosen by the participant (including in-service distributions) are also very popular.

Marketplace Insights

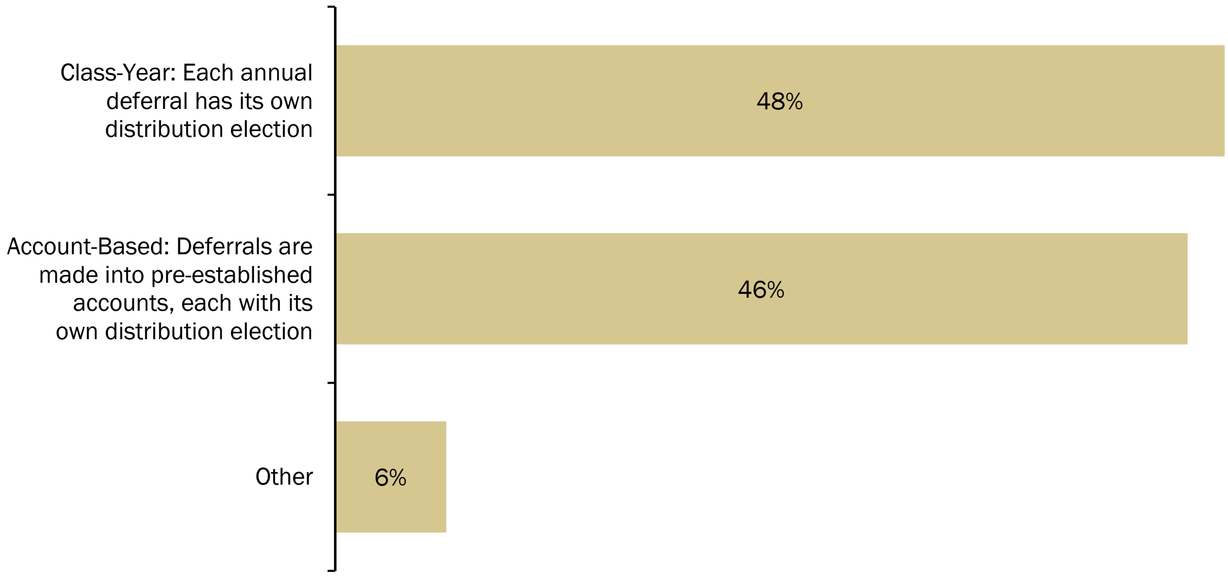
Respondents realize that the participant's ability to plan for distributions is a key design element. Much of this planning has addressed life events, but increasingly respondents also focus on participant financial objectives through a scheduled distribution while actively at work—thus addressing participant goals such as children's education or other important life events.

There are seven permissible distribution events under IRC §409A: (i) separation from service, (ii) specified date, (iii) death, (iv) disability, (v) unforeseeable emergency, (vi) change in control, and (vii) payment of a domestic relations order.

Increasingly, respondents focus on participant goals such as education or important life events.

Account-Based vs. Class-Year Elections/Plan Structure

Does the NQDC plan use a "class-year" structure, or an "account-based" structure?



Survey Findings

Respondents indicate that their plans are evenly divided between class-year and account-based plan structures.

Marketplace Insights

In designing deferred compensation plan distribution options, consideration is given to potential flexibility and administrative complexity for both plan sponsors and participants.

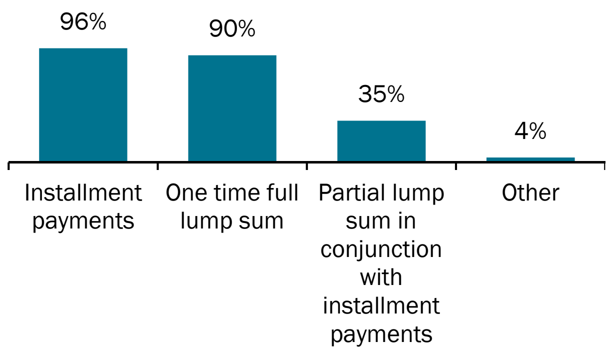
Class-year plans are simultaneously very flexible and highly complex—over time they result in dozens of individual payment elections that must be tracked and managed by the participant and the employer.

Account-based plans offer simple distribution management with significant flexibility where it matters most to participants—at retirement and upon important "in-service"/life event planning needs like college education expenses.

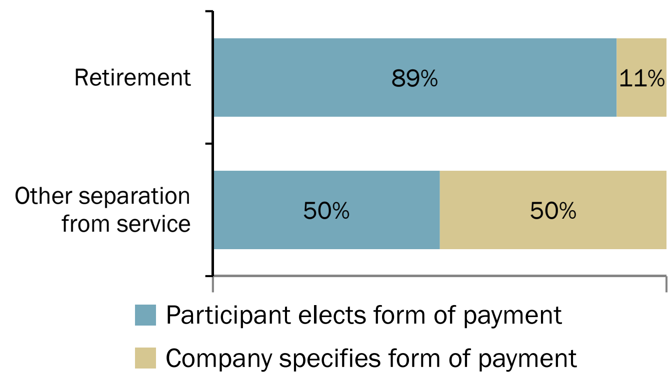
Respondents indicate that their plans are evenly divided between class-year and account-based plan structures.

Distribution Options

How may participants take distributions from the NQDC plan?



Who determines the form of payments triggered by retirement or separation from service?



Survey Findings

Most respondents give plan participants the option of taking their payment in installments or in one lump sum.

89% of respondents indicate participants may make elections in the form of retirement payment. Only half of those who separate from service for other than retirement may elect the form of payment.

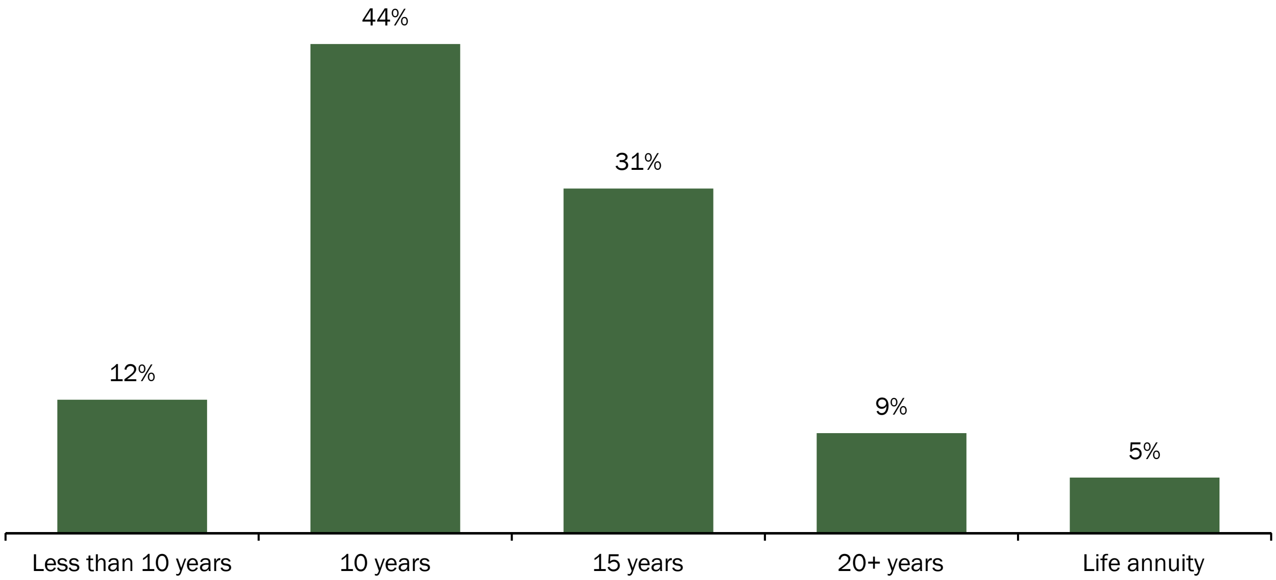
Marketplace Insights

Retirement distribution elections tend to provide for more flexibility and allow longer duration installment payments than other separation-of-service events. The longer duration afforded to retirement distributions (vs. the typical lump sum for a regular termination or shorter-duration scheduled in-service distributions) may also enhance retention.

Installment payments or a lump sum are more typically offered as separate distribution options rather than in combination.

Payment Timeframe

What is the maximum period over which participants may take their payments from the NQDC plan?



Survey Findings

While most plans limit payouts to a maximum of 15 years, a small percentage (5%) offer a life annuity as a distribution option.

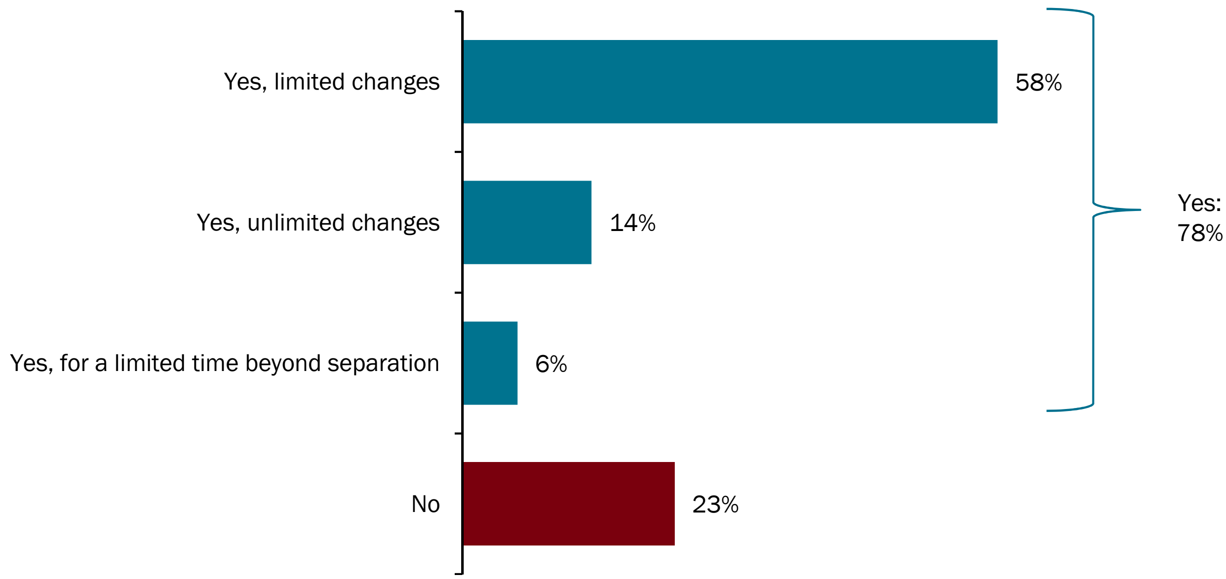
Marketplace Insights

Plans that offer retirement installment distributions typically provide distributions of at least 10 years, as this allows participants to avoid a state source tax.

Maximum payout periods tend to be less than 15 years.

Changes to Payment Schedules

Are participants allowed to change their existing payment schedules?



Survey Findings

Three-quarters of plan sponsors allow changes to distribution payment schedules, but typically with limits.

Marketplace Insights

While payment modifications are offered by most plans, they are not currently widely utilized by participants in NQDC plans. However, participants who elect to utilize the feature consider this added flexibility important for their tax and financial planning purposes.

Many respondents allow for changes to be made in payment schedules.

DEFINED BENEFIT SUPPLEMENTAL EXECUTIVE RETIREMENT PLANS (SERPs)

The State of Defined Benefit SERPs

Employers Move Away from Defined Benefit Plans

There is a declining prevalence in SERPs, from 67% of respondents offering them in 2009 to only 30% offering them today. The trend in SERPs is consistent with the trend toward a declining prevalence of qualified defined benefit plans.

The economic uncertainty of the past few years has highlighted financial issues with respect to defined benefit arrangements. This has caused companies to consider "de-risking" their qualified pension liabilities by taking steps to terminate plans or transfer investment and mortality risk to a third party. Because SERPs often function in tandem with defined benefit plans, companies have considered similar approaches to their defined benefit SERPs.

Sponsors terminating qualified defined benefit plans or SERPs frequently replace the lost benefit with additional company contributions to an NQDC plan.

Benefit Formulas, Vesting, and Distributions

The most common defined benefit SERP design (71% of plans) provides for a supplemental retirement benefit accruing over the participant's years of participation. Typically the benefit formula is based on credited years of service, or on a percentage-per-year-of-service approach. There are two basic designs: offset and excess plans.

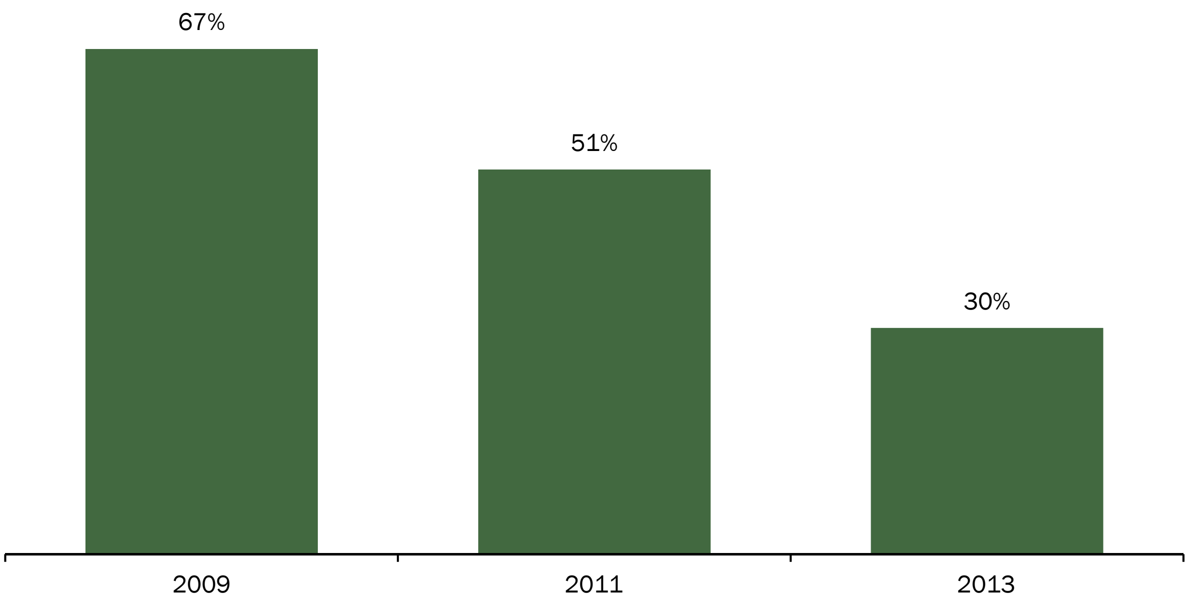
Offset plans set an income replacement target at retirement age and are frequently offset by other expected retirement income, including qualified plan payments and social security. The payment options may or may not follow the options provided under the employer's other plans.

Excess plans mirror a related qualified pension plan, providing the same accrual formula (without regard to compensation or plan limits imposed by the tax code), vesting schedule and payment options.

A less common type of SERP provides a **fixed benefit** determined by the employer and paid over a fixed period of years after retirement. The payment terms are usually designated by the sponsor. These types of SERP benefits serve primarily as retention plans, although the amount of the benefit (typically determined in the discretion of the employer) may take other expected benefits into account. Vesting is tailored to the employer's retention objectives.

Defined Benefit SERP Offering

Do you offer a defined benefit SERP?



Note that 2009 and 2011 reflect companies reporting both active and frozen SERPs, while 2013 reflects active SERPs only.

Survey Findings
Based on survey responses, SERPs are less common than NQDC plans. Of those who do not offer defined benefit SERPs, very few say they are actively considering one. 97% of respondents who offer a defined benefit SERP also offer an NQDC plan.

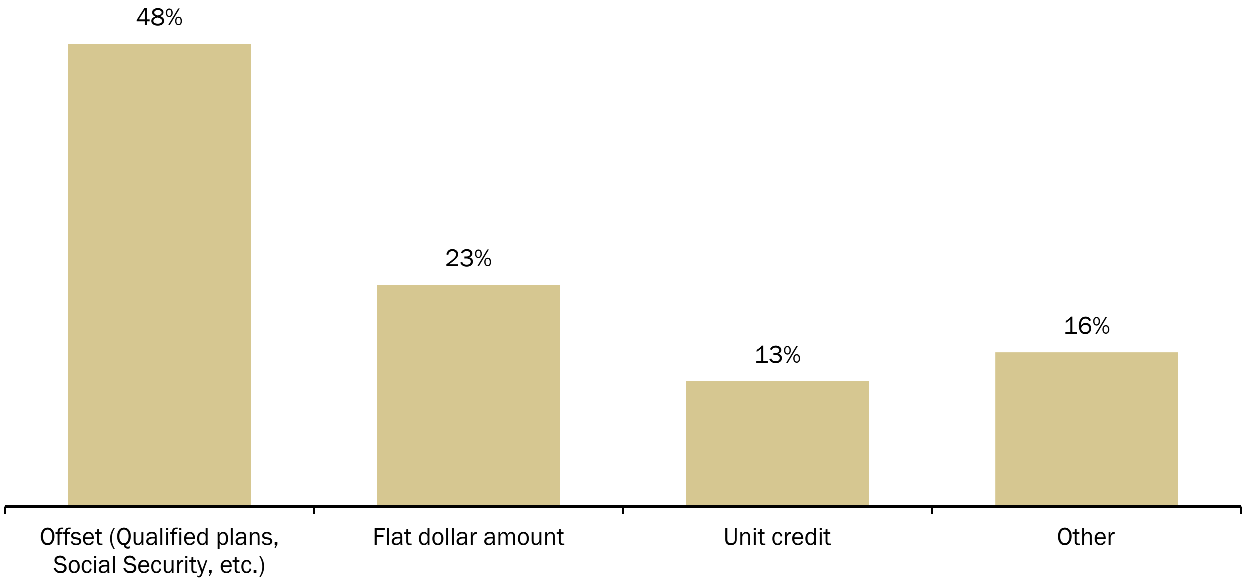
Among the *Fortune* 1000, 20% offer an active defined benefit SERP, while another 27% have frozen their defined benefit SERP.

Marketplace Insights
The declining prevalence of SERPs is consistent with the trend in the declining prevalence of qualified defined benefit plans. In our experience, DB SERPs will continue to decline in prevalence as NQDC plans grow in popularity.

The declining prevalence of SERPs is consistent with the trend in the declining prevalence of qualified defined benefit plans.

Benefit Formula

What is the benefit formula for the defined benefit SERP?



Survey Findings

About half of survey respondents indicate that the benefit formula for their defined benefit SERP includes an offset for benefits provided by qualified plans, Social Security, or other related compensation.

Marketplace Insights

Most defined benefit SERPs are intended to provide income replacement at a specified level (e.g., 60% of average pay) taking into account the benefits provided under other retirement plans and benefits. These plans also make up for any lost benefits under a qualified pension plan resulting from elective deferrals into a NQDCP to the extent the deferral reduces pensionable compensation below the 401(a)(17) limit ($260,000 in 2014).

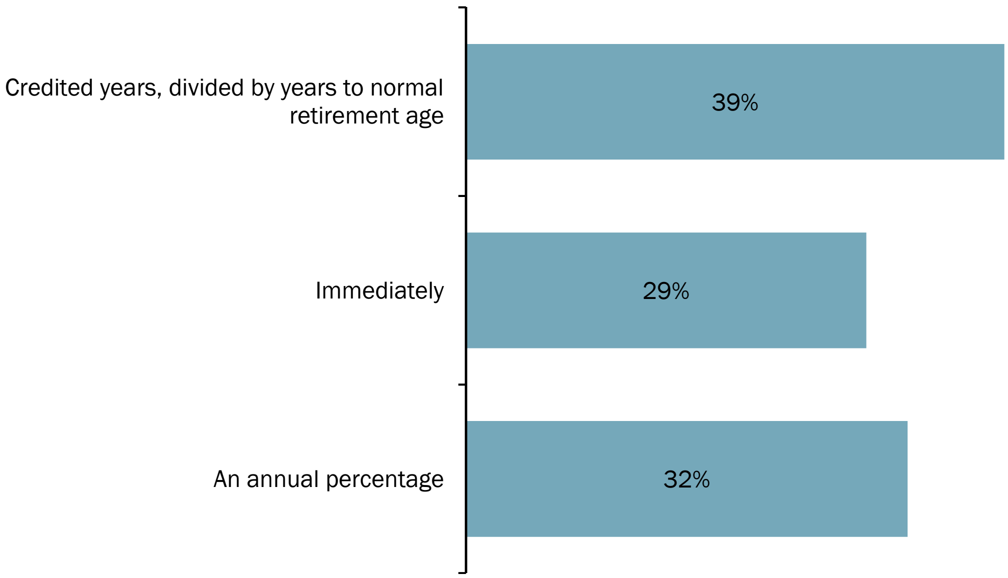
A minority of DB SERPs are “mirror” unit credit plans (13%), designed to replace benefits lost due to tax code limits.

Companies often replace terminated defined benefit SERPS with company contributions to their NQDC plans as a means of restoring the SERP benefit.

SERP benefit formulas are often offset by other retirement plans, as they typically are designed to replace a percentage of pre-retirement income.

Benefit Accrual

How does the benefit accrue?



Survey Findings

39% of respondents say that defined benefit SERP benefits accrue based on credited years, divided by years to normal retirement age. Approximately one-third indicate that the benefit accrues immediately or at an annual percentage.

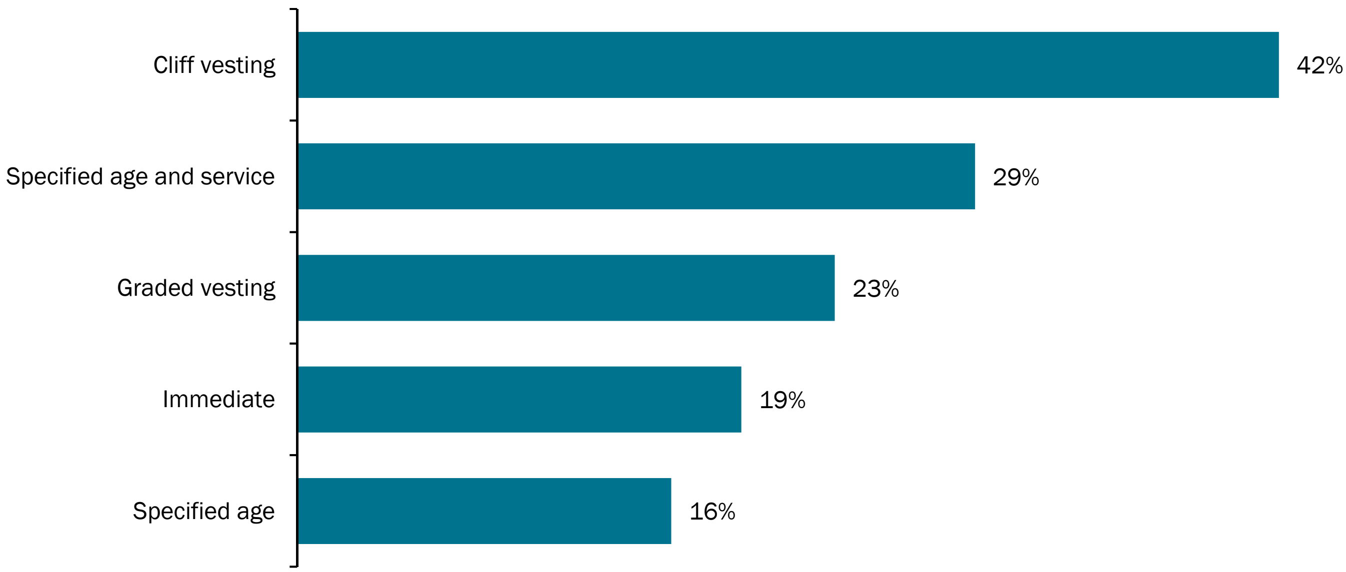
Marketplace Insights

Whether the plan focuses on credited years, or on a percentage-per-year approach, the vast majority of plans (71%) are designed to accrue a supplemental retirement benefit over the participant's remaining working lifetime.

Most defined benefit SERPs are designed to accrue a benefit over the participant's remaining working lifetime.

Vesting Schedule

What is the vesting schedule?



Percentages add to more than 100% because more than one answer could be selected.

Survey Findings

42% of respondents report using cliff vesting, while roughly one-quarter offer vesting based on either specified age and service or graded vesting.

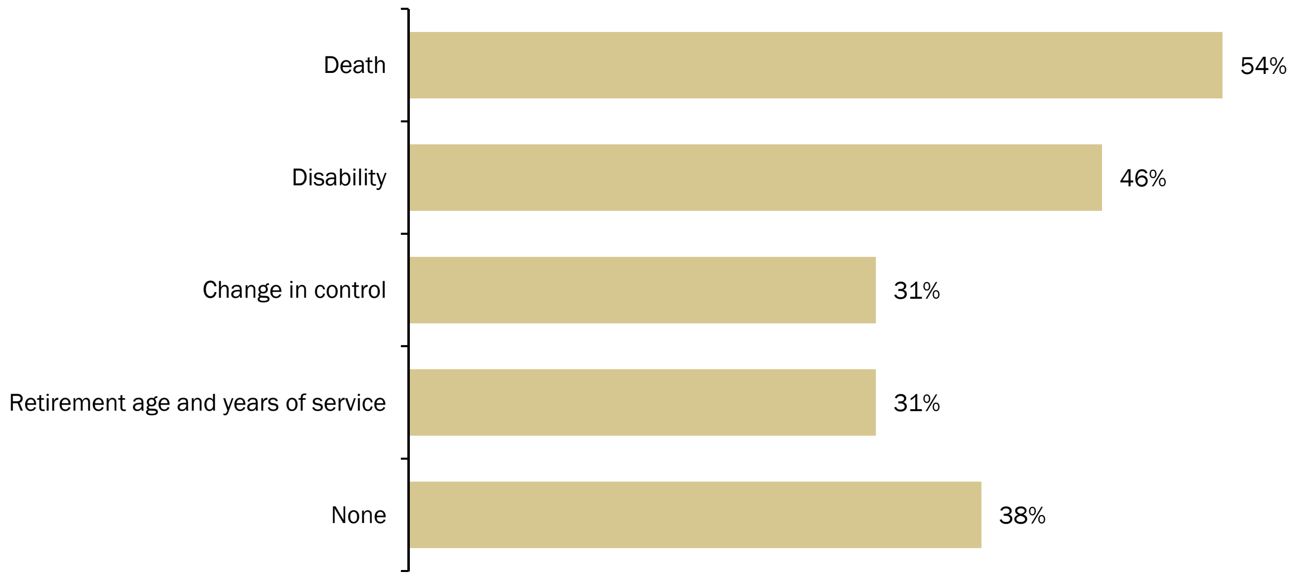
Marketplace Insights

Many defined benefit SERPS follow qualified defined benefit plan vesting, which typically has cliff or graded vesting, frequently requiring at least five years of service. This supports the view that defined benefit SERPs are intended to provide retirement benefits earned over a number of years.

Cliff vesting is the most common schedule for defined benefit SERPs.

Accelerated Vesting

In what instances does the plan provide for accelerated vesting?



Survey Findings

Roughly half of respondents indicate that their defined benefit SERP allows for accelerated vesting in the event of death or disability. Nearly one-third say their plans also allow it in cases of change in control and at a stated retirement age or a specific number of years of service.

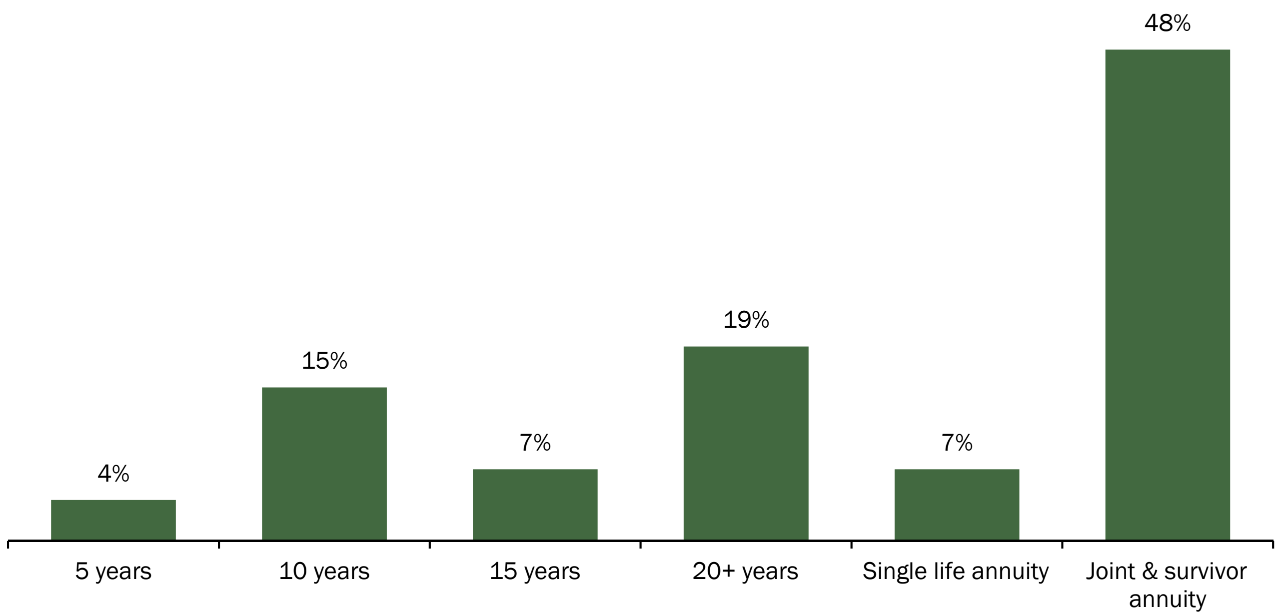
Marketplace Insights

When defined benefit SERPs accelerate vesting, they do so for the same triggering events as NQDC plans do. However, SERPs are less likely to accelerate vesting than NQDC plans, reflecting the fact that deferred compensation plans are primarily driven by "executive deferrals" while defined benefit SERPs are primarily driven by "company contributions" with a focus on retention and incentivization.

Although defined benefit SERPs accelerate vesting for the same triggering events as NQDC plans, accelerated vesting is provided more frequently in NQDC plans.

Payment Timeframe

What is the maximum period over which participants may take their payments from the defined benefit SERP?



Survey Findings

Nearly half of respondents reported that the maximum distribution duration from their plan is a joint and survivor annuity. Fixed period maximum durations of 20 years and 10 years were the next most common.

Marketplace Insights

Defined benefit SERP distribution options typically replicate qualified defined benefit plan distributions, to create a predictable income stream for the executive—and frequently a spouse.

Distribution options and payment durations are used to create a predictable income stream for the executive.

Retirement Payment Options

How are retirement payments made?

Percentages add to more than 100% because more than one answer could be selected.

Survey Findings

SERPs are designed to pay annual benefits well beyond separation from service, to provide important retirement income benefits.

Marketplace Insights

The majority of plans offer single life and joint and survivor annuity payments, as they mirror the qualified defined benefit plan offering. Participants naturally select these similar distribution options to provide predictable retirement income benefits.

While not all plans offer lump sum payouts, the use of this form of distribution likely reflects participant concerns over the long-term benefit security of annuity distributions from a defined benefit SERP.

Annuity payments (single life and joint and survivor) are the most common retirement distribution, although lump sums are also highly prevalent.

INFORMAL FUNDING

Informal Funding Enhances Benefit Security

Employers Continue to Fund Non-Qualified Plans

Of the companies surveyed, 70% report that their NQDC plans are informally funded. This level of funding has remained relatively constant over the past eight years. The percentage of SERPs which are informally funded has increased from previous years.

Purposes

Funding non-qualified liabilities with a cost-effective vehicle serves three primary purposes:

- offsetting the earnings impact of the plan
- providing a ready source of funds for future benefit payments
- enhancing participant benefit security

Funding Vehicles

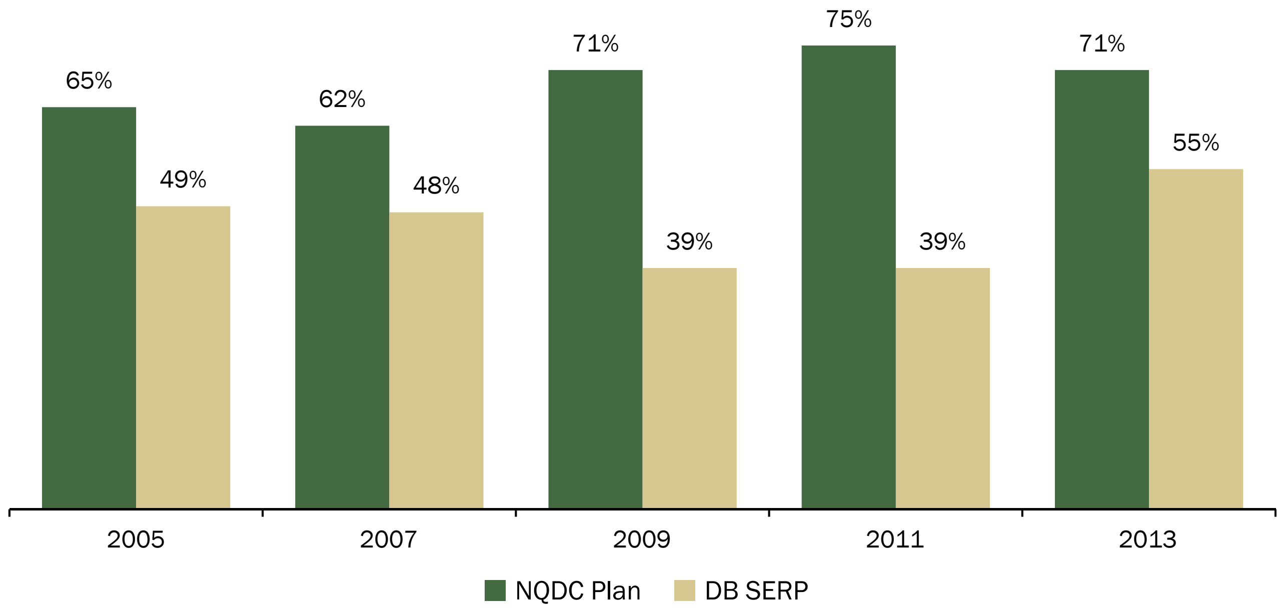
Respondents indicate that company-owned life insurance and mutual funds remain the predominant informal funding vehicles for NQDC and SERP plans. More than one-half of NQDC and defined benefit SERP plan sponsors who informally fund their plans fund 100% of their benefit liability.

Hedging Strategies

Increasingly, companies have chosen to hedge the market volatility of participant accounts and the related impact to a plan sponsor's earnings and balance sheet. These companies use a Total Return Swap (TRS)—a contract between the NQDC plan sponsor and the swap provider (bank) that allows the sponsor to hedge the liabilities of the NQDC plan in a capital-efficient manner.

Funding Status

Does your company currently fund non-qualified plan liabilities (set aside company assets)?



Survey Findings

Of the companies surveyed, 71% report that their NQDC plans are informally funded. In addition, defined benefit SERPs have shown an increase in the rate at which they are informally funded.

Marketplace Insights

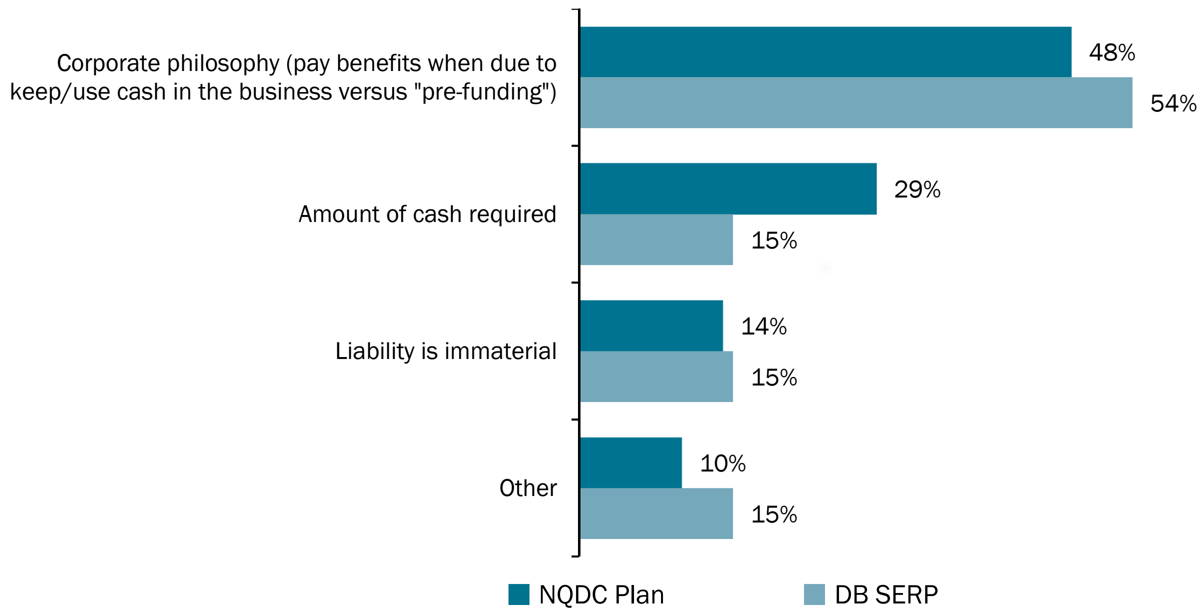
With respect to NQDC plans, the trend toward mutual fund driven investment menus within these plans has created the need for sponsors to hedge the volatile earnings and balance sheet impact—with the result that funding prevalence has remained consistently high.

Historically, funding of SERPs was less prevalent, because the earnings and balance sheet impact was more predictable and easier to budget. However, with recent market uncertainty and fluctuation in interest rates, many defined benefit SERPs experienced a negative earnings and balance sheet impact (similar to what companies experienced with qualified plans). As a result, as corporate earnings have stabilized and with increased levels of liquidity, many have chosen to mitigate the earnings and balance sheet impact of their SERPs by increasing their funding.

Funding continues to be important for NQDC plans. Funding is increasing for SERPs following a decrease during the recent economic turbulence.

Reasons For Not Funding Plans

What is the primary reason you do not informally fund your liabilities?



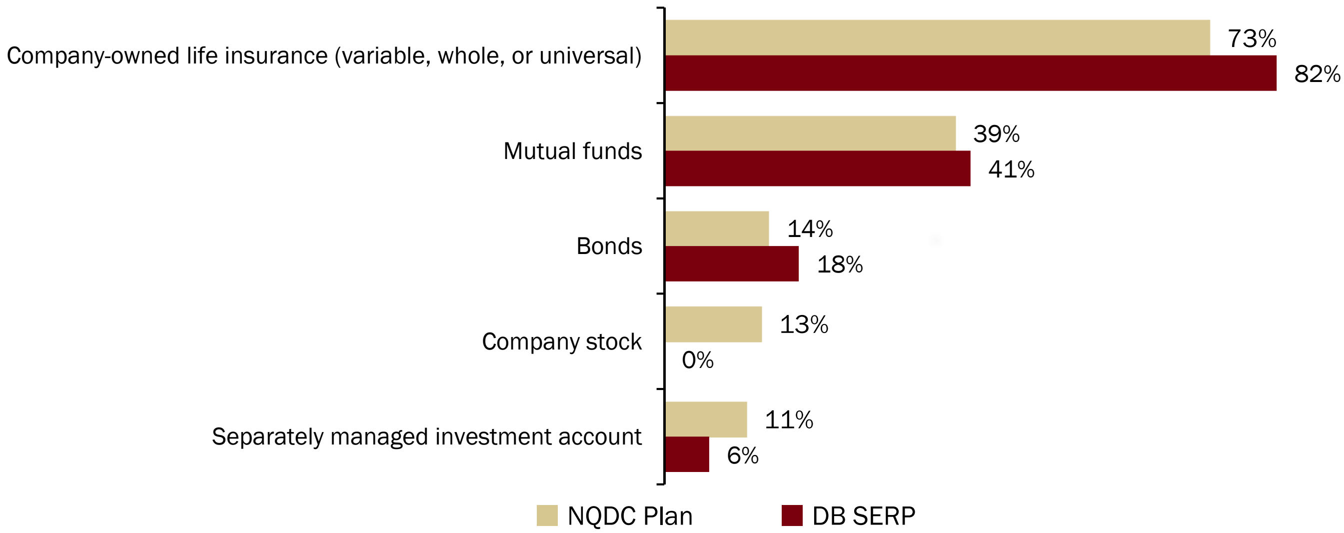
Survey Findings
Of those plan sponsors who choose not to informally fund their liabilities, the primary reason is that their corporate philosophy is to pay benefits as they come due rather than use a prefunding approach (48% NQDC, 54% DB SERP). This can allow the company to retain and use the cash in their business.

Marketplace Insights
Many companies which have not traditionally funded their NQDC plans have expressed interest in more effectively hedging their plans. This is due to substantial equity gains in recent years, which have increased participant account balances, in turn increasing corporate liabilities and the adverse impact on corporate earnings.

Many companies which have not traditionally funded their NQDC plans have expressed interest in more effectively hedging their plans due to recent market gains.

Types Of Assets Set Aside For Funding

What types of assets has the company set aside?



Percentages add to more than 100% because plan sponsors often utilize a combination of funding vehicles.

Survey Findings

Company-owned life insurance (COLI) and mutual funds continue to be the primary asset types used to fund both NQDC plans and defined benefit SERPs.

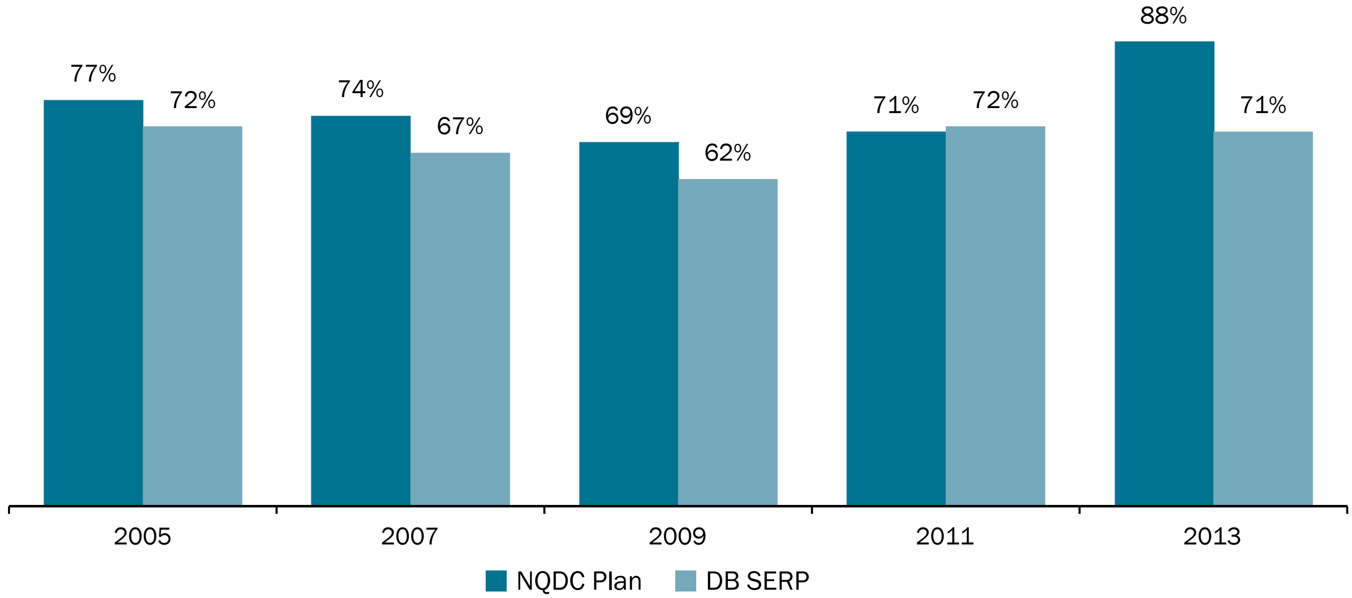
Marketplace Insights

While sponsors typically employ "variable" COLI to hedge the variable benefits of deferral plans, plan sponsors of defined benefit SERPs often use "general account" insurance (whole or universal life) when insurance is used to fund SERP benefit liabilities. This reflects the ability to match the predictable expense structure of defined benefit SERPs with the relatively predictable earnings and beneficial accounting treatment of an insurance company's general account investment portfolio.

Mutual funds, life insurance, or a combination, are often used to fund both NQDC plans and defined benefit SERPs.

Grantor Trusts

Does your company use a grantor 'rabbi' trust to segregate any of the informal funding assets?



Survey Findings

A very large percentage of plan sponsors use a rabbi trust to segregate informal funding assets. Rabbi trusts are more frequently used for NQDC plans than for defined benefit SERPs.

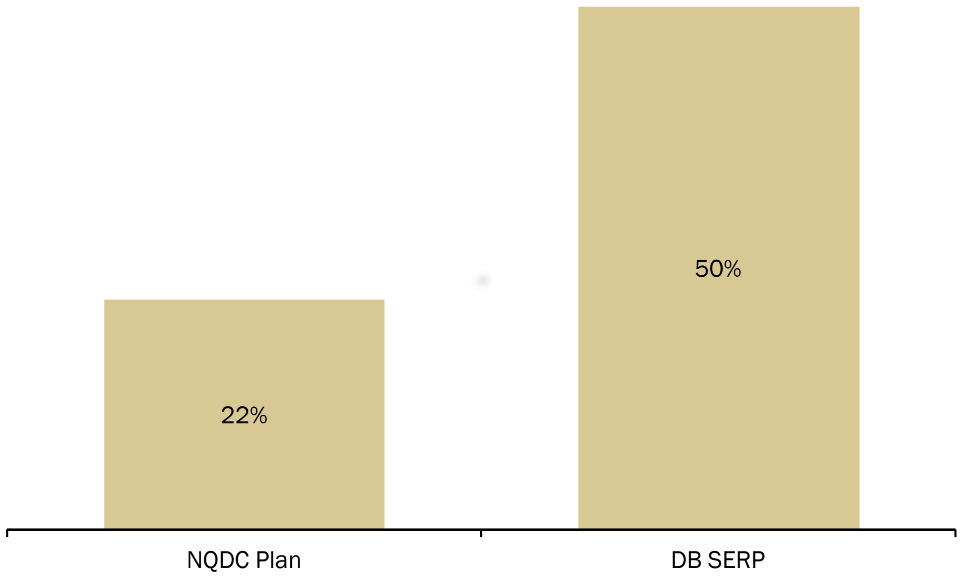
Marketplace Insights

Rabbi/grantor trusts continue to be the principal vehicle to hold informal funding assets, primarily to provide participants benefit security against the risks of change in control or change in management.

Rabbi trust use remains extremely common among plan sponsors.

Death Benefits

Does your company offer any type of death benefit to the participants?



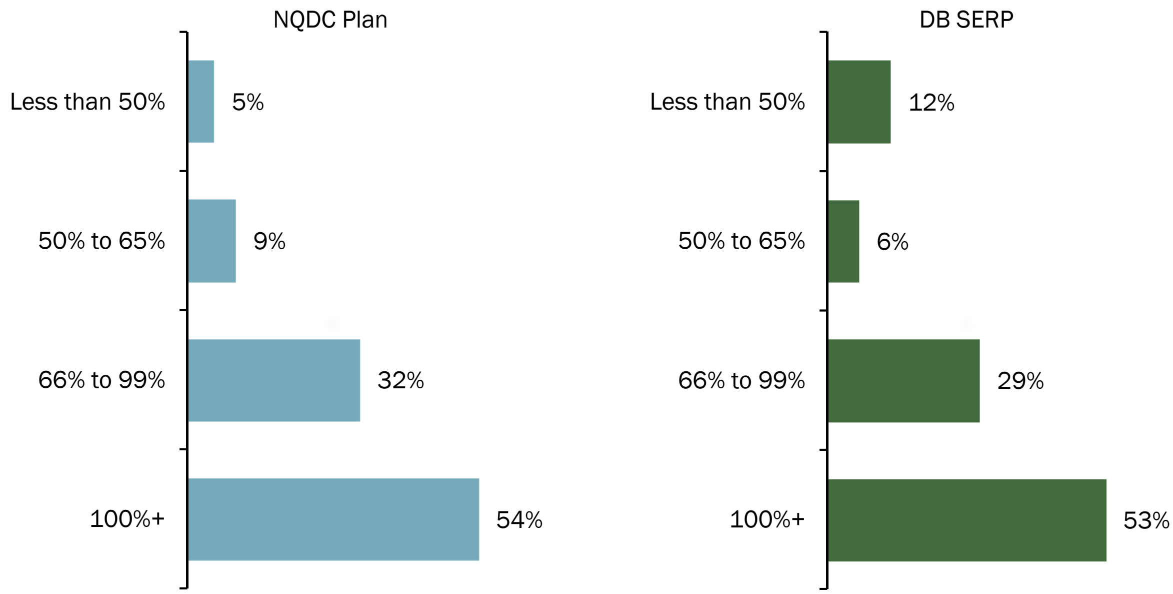
Survey Findings
50% of respondents who informally fund their DB SERPs provide their participants with a pre-retirement death benefit—and nearly one-quarter of NQDC plans do so as well.

Marketplace Insights
Informally funding benefit plan liabilities with company-owned life insurance allows plan sponsors to provide additional attractive benefits (e.g., death benefits, enhanced crediting rates to participant accounts) in defined benefit SERPs or NQDC plans—benefits they might not otherwise be able to efficiently offer.

Informally funding benefit plan liabilities with company-owned life insurance allows sponsors to provide additional benefits they might not otherwise be able to efficiently offer.

Percentage Of Liability Funded

What percent of the pre-tax benefit liability is informally funded?



Survey Findings

More than one-half of those NQDC and SERP plan sponsors who informally fund their plans fund 100% of their benefit liability. Of those that fund less than 100%, 29% fund the “after-tax” liability.

Marketplace Insights

Companies fund at these levels to provide an effective hedge against the fluctuations in plan liabilities, to create liquidity reserves for participant benefit payments and to provide additional participant benefit security.

Over half of respondents fund 100% of the pre-tax liability, and 29% fund the “after-tax” liability.

PLAN RECORDKEEPING

Sponsors Focus on Outsourcing

Non-Qualified Plan Outsourcing
Survey responses highlight a continuing trend of moving day-to-day plan administration to a third-party administrator (TPA). This trend toward outsourcing is attractive to plan sponsors in an increasingly complex regulatory environment (due to IRC §409A) and with the burden of compliance.

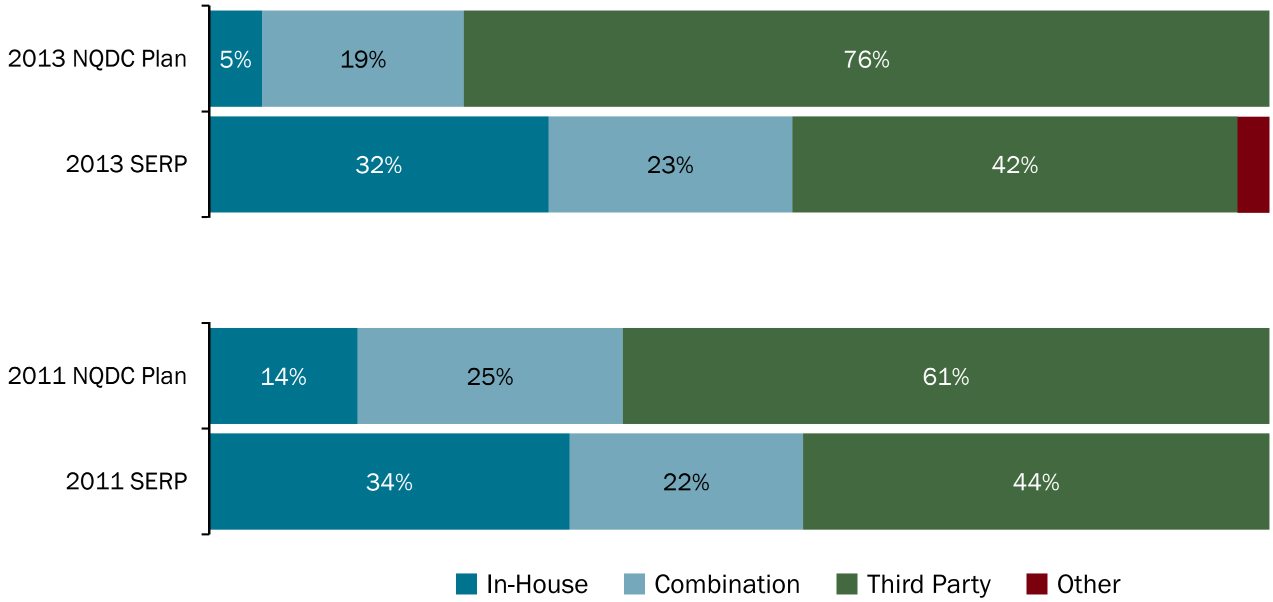
Plan sponsors' satisfaction with their recordkeepers tracks closely with the recordkeeper's capabilities in key areas such as:

- "best practices" plan design consulting/peer benchmarking
- IRC §409A risk mitigation
- legislative and tax monitoring
- investment menu construction/monitoring
- "high-touch" participant education
- participant and plan sponsor website experience/tools
- corporate financial reporting

Survey respondents indicate lower levels of satisfaction with participant communication and education. Improvements in this area can significantly enhance employee understanding of the plan, and help improve both participation and plan sponsor satisfaction.

Plan Administration

How is the day-to-day administration handled?



Survey Findings

Survey responses indicate a continued trend of moving toward outsourcing plan administration.

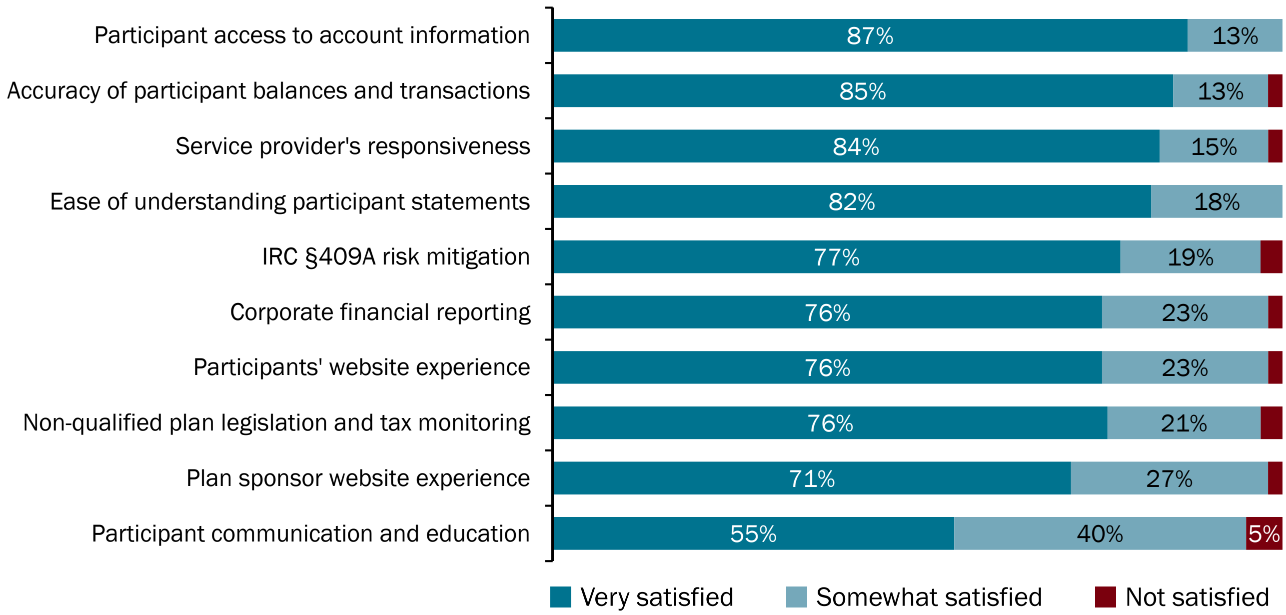
Marketplace Insights

Outsourcing continues to be attractive to plan sponsors. This is due to the increasingly complex regulatory environment, the burden of compliance, and the associated risks and expense of IRC §409A non-compliance.

Exclusive use of TPAs has become much more common over the past decade.

Satisfaction With External Recordkeeper

How satisfied are you with each aspect of your external recordkeeper?



Survey Findings

Plan sponsors are largely satisfied with their TPA's performance except in the area of participant communication and education.

Marketplace Insights

Plan sponsors' satisfaction with their recordkeepers tracks closely with the recordkeeper's capabilities in key areas such as IRC §409A risk mitigation, legislative and tax monitoring, ease of understanding statements, and corporate financial reporting.

Increasing satisfaction in participant communication and education is a critical opportunity. Helping participants define their financial objectives in illustration how an NQDC plan can be leveraged to assist them in meeting their goals is key to improving satisfaction and increasing participation rates.

Increasing satisfaction in participant communication and education is a critical opportunity

OTHER EXECUTIVE BENEFITS

Supplemental Benefits

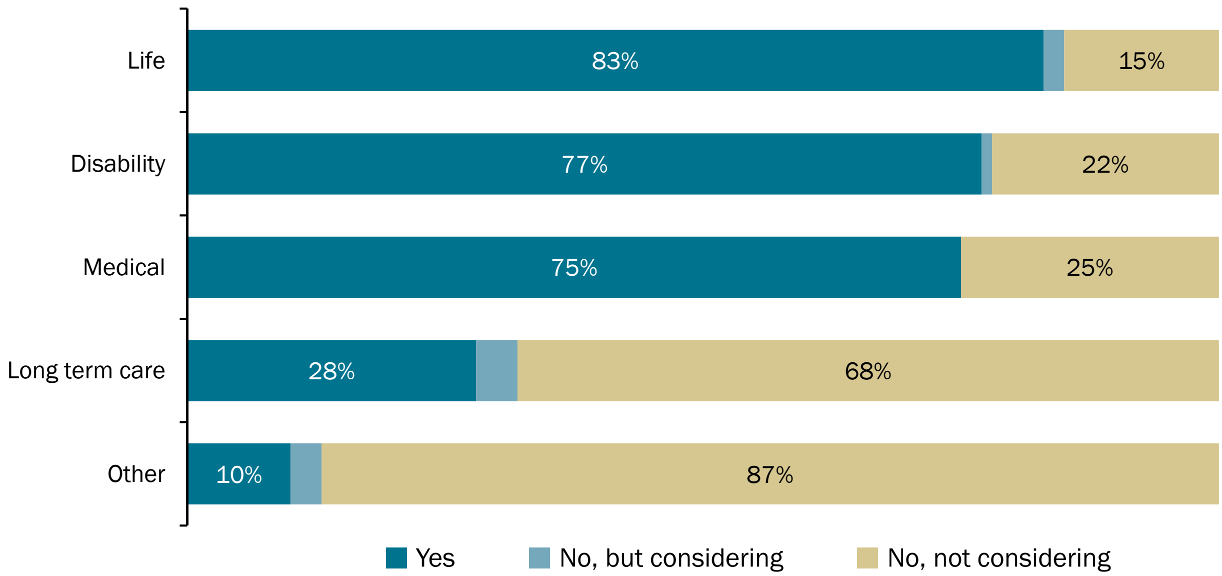
Employers Continue to Provide Traditional Supplemental Benefits

The core executive supplemental benefits of life, disability and medical coverage continue to be important offerings for executives. Companies that offer supplemental plans frequently share a portion of the costs with the executive. We expect to see continued interest in the potential expansion of supplemental medical plans in response to recent changes in health care laws.

Employers should continue to evaluate these benefits specially when new legislation is enacted to ensure that these supplemental plans are efficient, effective, and compliant.

Other Offerings For Executives

Does your company have any of the following supplemental plans for executives and/or board members?



Survey Findings
At least three-quarters of respondents offer supplemental life, disability, and/or medical plans for executives.

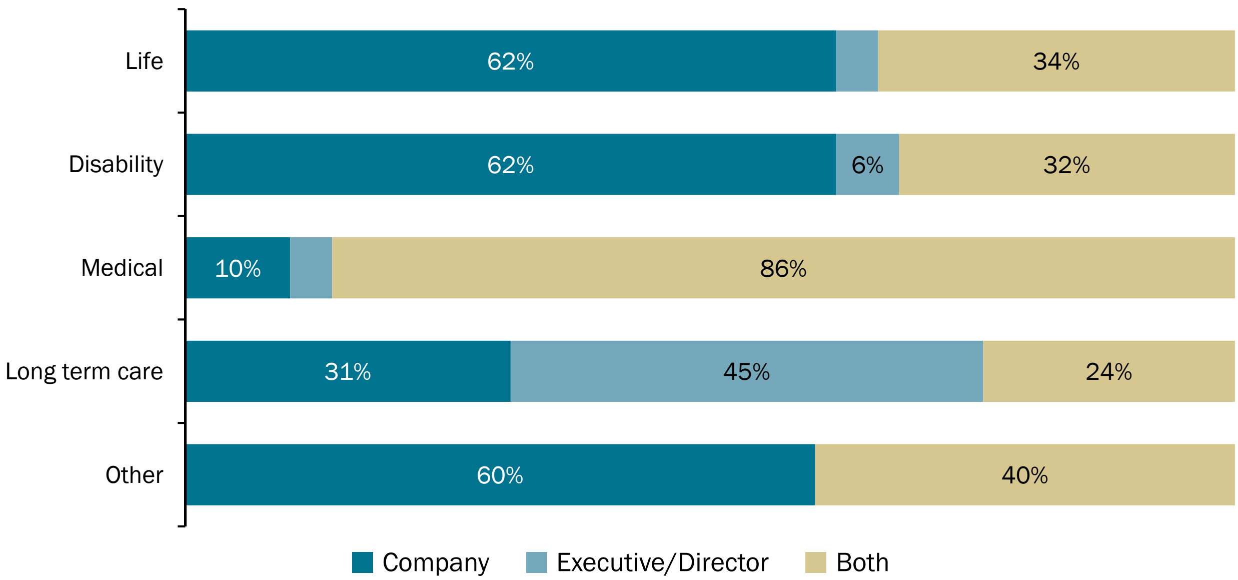
Marketplace Insights
The core executive supplemental benefits of life, disability and medical coverage continue to be important offerings for executives. However, there does not appear to be significant interest in adding additional supplemental benefits. We expect to see continued evaluation of supplemental medical plans, in response to changing health care laws. It is also important to review supplemental plans in light of the Affordable Care Act's more stringent discrimination requirements with respect to these plans.

Long-term care coverage is a frequently considered, but the limited available offerings from insurance companies has diminished the ability to provide access to this benefit.

Life, disability, and medical insurance are often provided for executives and board members.

Funding For Other Offerings

Who pays for each of the following?
Among those who offer each benefit



Survey Findings

Approximately two-thirds of respondents pay for supplemental life and disability coverage. For medical benefits, 86% share the cost between the company and executive.

Marketplace Insights

Companies that offer supplemental plans frequently share a portion of the costs with the executive. In the current environment, companies are less paternalistic about providing these benefits but are amenable to providing executives with cost-effective opportunities to obtain additional benefits.

Companies pay a portion of the cost to qualify as an employer-sponsored plan and obtain beneficial features for executives, such as "guaranteed issue" underwriting or cost-effective pricing.

In most cases, additional benefit offerings for executives are paid for by the company or a combination of the company and the executive/director.

For more information

about this survey, contact your Newport representative, or email to: **thenewportgroup@newportgroup.com**.

THE NEWPORT® GROUP

30 Years of Vision

THE NEWPORT® GROUP

30 Years of Vision

www.newportgroup.com