

Nonqualified Deferred Compensation

*Providing
retirement
benefits for
your employees.*

What is Nonqualified Deferred Compensation?

A nonqualified deferred compensation plan is an arrangement an employer sets up with an employee whereby the employer agrees to pay an employee income at a later date if certain requirements are met. This type of arrangement can benefit highly paid employees.

With a nonqualified plan, IRS approval is not required and plan contributions are not tax deductible by the employer. A nonqualified deferred compensation plan can be used to provide:

- Retirement benefits.
- Death benefits, both pre-retirement and post-retirement.
- Funds that can be accessed during periods of disability.
- Benefits that can vary at the discretion of the company.
- Tax deductible payments for the business when the business pays out the benefits.

With nonqualified deferred compensation, you can supplement retirement income for selected employees. This can give you a competitive edge to attract and retain key personnel and possibly discourage them from working for your competitors. In the long run, a nonqualified deferred compensation plan should allow you to provide more benefits to key employees at a lower cost than an increase in current salary.

What are the employer considerations?

Nonqualified deferred compensation plans can be simple and flexible. You can design a plan that is tailor-made to meet the needs of your company.

- Select the employees you wish to be included in the plan.
- Determine the amount of compensation to be deferred or the amount of additional retirement benefits to be received.
- Decide how long deferred compensation will be paid.
- Determine whether disability or pre-retirement benefits will be included in the plan.
- Formalize your plan and prepare necessary documents with the help of your attorney.

Your corporation can take a business expense deduction on funds used to pay retirement, disability or death benefits, at the time benefits are paid out.

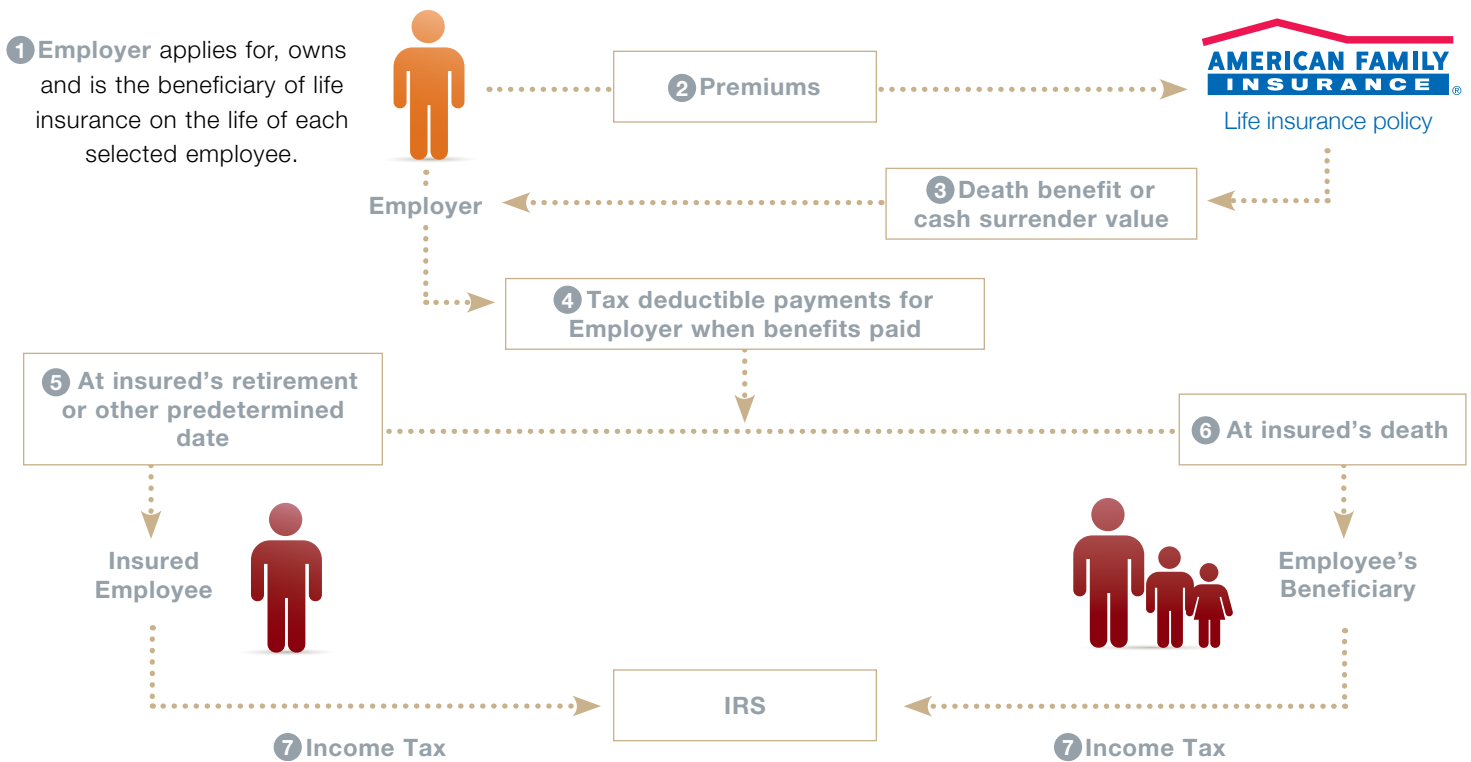
What are the employee considerations?

- Supplements retirement income.
- Allows current tax savings by deferring earnings.
- Can provide death benefits, if death occurs before retirement.
- Can include provisions for disability.



How Nonqualified Deferred Compensation works...

American Family Life Insurance Company offers life insurance policies which can be used to help fund your nonqualified deferred compensation plan. Contact your American Family agent for more information regarding a product suitable for your nonqualified deferred compensation plan.



1. The Employer applies for, pays for, owns and is the beneficiary of insurance on the life of each selected employee.
2. The Employer pays the premium to the Life Insurance Company. The premiums are not tax deductible.
3. The Employer is entitled to receive the death benefit or cash surrender value of the life insurance policy.
4. The Employer can take a tax deduction in the year a benefit is paid.
5. The Insured Employee receives payment at his or her retirement or a predetermined date either by cashing in the life insurance policy, by borrowing on the policy or by using cash set aside for this purpose.
6. If the Insured Employee dies prior to receiving his or her payment, the employer can use the policy's death benefit proceeds to make employer tax deductible payments to the Employee's Beneficiary.
7. Whether the money goes to the Insured Employee or to the Employee's Beneficiary, the recipient pays income tax on the payments.

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This information is based on our understanding of current tax laws which are subject to change. Neither American Family Life Insurance Company nor its agents are authorized to give tax or legal advice. Employers should consult with their own tax advisor and/or attorney for assistance in setting up a Nonqualified Deferred Compensation plan and answers to tax questions.



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