The Case for Nonqualified Deferred Compensation Plans

Nonqualified deferred compensation (NQDC) plans have long been used to provide benefits for key employees. While the focus has evolved toward meeting the retirement readiness needs of these employees, NQDC plans also have the ability to address other goals of both employers and key employees.

- **RECRUIT**: Attracts top talent as part of a competitive benefits package.
- **RETAIN**: Incents key employees to save more and use employer contributions to keep top talent.
- **REWARD**: Provides performance-based contributions to achieve organizational goals.
- **RETIRE**: Offers additional savings option to help bridge the gap caused by qualified plan limitations and Social Security.

NQDC plans should be designed to meet the specific goals of both your organization and your key employees.
A recognized leader in the industry

The Principal Financial Group® is a global investment management leader.

We’re a leading provider of defined contribution plans¹ and the No. 1 provider of nonqualified deferred compensation (NQDC) plans².

With more than two decades of experience, The Principal® has committed specialized resources to our nonqualified solutions.

For new or existing plans, and from organizations large to small, we make your experience easier by providing a complete solution — innovative plan design, multiple financing options, implementation and plan administrative services. Trust an industry leader to give your deferred compensation plan an edge.

Committed to Solutions. Committed to You.

¹ Based on number of recordkeeping plans, PLANSPONSOR Recordkeeping Survey, June 2015.

² Based on total number of NQDC plans, PLANSPONSOR 2015 NQDC Buyer’s Guide.
Raising the bar in NQDC plans and services

The Principal specializes in providing NQDC plans and administrative services designed to meet the unique needs of you and your financial professionals.

What sets The Principal apart from other plan providers?

**COMMITMENT & EXPERIENCE**

The Principal started in the NQDC market by serving the needs of small and mid-size businesses (SMB) when few providers would. Today, we deliver solutions for all sizes and types of employers, from some of the largest for-profit employers in the country, to small and medium businesses, as well as tax-exempt organizations.

**PLAN DESIGN & CONSULTING**

Our specialized team of legal, accounting and financing resources have a deep understanding of the NQDC market. We provide guidance on the design of new plans and improvements to existing plans. The results: sustainable plans that help balance an employer’s financial requirements with the needs of its key employees.

**SERVICE & RELATIONSHIPS**

Our goal is to deliver a comprehensive service model with features and tools that exceed your expectations — coordinating support at a national and local level. Our experienced staff sets a high standard of service for both clients and their advisors, with the goal of building lasting relationships that meet your ongoing needs.

Consistently investing in our people, technology and knowledge allows The Principal to serve the evolving needs of employers, key employees and financial professionals.
Commitment and expertise
Committed to Solutions. Committed to You.

For more than two decades, The Principal has developed specialized resources for our nonqualified deferred compensation platform. Additionally, we leverage the best practices and industry leadership from our retirement and global investment management businesses.

With our experience and expertise, our goal is to provide best-in-class solutions to help meet your needs. Whether setting up a new plan or getting the most out of an existing plan, you and your financial professionals deserve the specialized support we deliver.

Nonqualified deferred compensation solutions

The Principal offers a variety of NQDC plans. Depending on your organizational structure and the type of benefit design you are interested in, we offer plans for for-profit and tax-exempt entities, in either defined contribution or defined benefit design. In addition, NQDC plans may allow for participant deferrals, discretionary employer contributions, or both.

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<th>Defined Contribution (DC)</th>
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<td>FOR PROFIT</td>
<td>NOT FOR PROFIT</td>
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<td>“Excess” Incentive Bonus</td>
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<td>Defined Benefit</td>
<td>457(f) DB</td>
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Integration for total retirement solutions

Your NQDC plan is available standalone or as part of Principal Total Retirement Suite™. This platform streamlines retirement administration across multiple solutions for greater coordination and efficiency — ensuring alignment with your goals. The Principal Total Retirement Suite offers:

- Coordination of benefit design across multiple solutions to provide a comprehensive benefit package for all of your employees
- One consolidated website displaying information for your entire retirement program
Plan design and consulting

Designing an effective NQDC plan requires an understanding of both your organizational goals and the plan design alternatives available to meet those goals. The long-term operation of the plan benefits, the efficient administration and financing of the plan and the on-going information available to you and your plan participants will determine the long-term success of the plan. All while watching out for your bottom line.

Consulting expertise
Experienced deferred compensation specialists can provide guidance on many factors that can influence an NQDC plan design. These include participant eligibility, compensation options, earnings crediting, discretionary employer contributions, vesting options, benefit events and security mechanisms. The Principal offers a variety of analytical tools and resources for both new and existing plan situations.

Multiple financing options
Three commonly used NQDC financing techniques are corporate-owned life insurance (COLI), taxable investments and unfinanced. To help you and your financial professionals determine the most appropriate financing strategy, The Principal creates detailed financial models based on your organization’s assumptions. These models compare multiple financing techniques to illustrate the impact on company cash flow, tax, financial statements, cost and long-term performance. Once the plan is in place, we will assist in providing periodic plan financing reviews to help you and your financial professionals assess whether or not the current approach is still meeting your objectives.

Focused investment management
Underlying these financing options is a focused investment management strategy to help bring flexibility and choice to your plan. The Principal provides an expansive investment platform, giving you access to both internally and externally managed investment options, including sub-advised options and well-known mutual funds.

For both taxable investments and COLI financing options, The Principal monitors each with a variety of rigorous and disciplined processes. The result is an analytic framework that offers quality investment options from various well-known investment managers* across asset classes and investment styles.

* When we use the term “investment manager,” we may be referring to an investment advisor or sub-advisor of an underlying mutual fund.
Plan administrative services
Setting the standard in service

Exceptional service and support are essential to a successful NQDC plan for you and your plan participants. The administrative services provided by The Principal — both as an NQDC plan sponsor and for your key employees — reflect the value and commitment you are investing in this benefit. We create a tailored administrative plan to ensure the initial and ongoing needs of your plan are met.

FOR PARTICIPANTS

Information and service
Access plan information via the participant website and statements, which provide participants with benefit information, investment resources, tools to manage their benefits and much more! Depending on plan type, participants also receive:
- Initial and ongoing enrollment services
- Rebalance capability, including scheduled rebalancing
- Detailed account and investment direction information
- Personalized rate of return on investment selections
- Multiple types of accounts (retirement, education and in-service)
- Daily valuation of accounts

Education & communication
Our approach to helping your employees understand their retirement needs starts with three simple questions:

How much income will I need to meet my retirement needs and goals?
How much income will my retirement portfolio generate?
What is the difference?

From there, The Principal provides the education, tools and resources to help them make the most of this unique, exclusive benefit. For eligible participants, we make it as easy as...

DECEIDE
You decide to delay receiving a portion of next year’s compensation based on your financial goals. This reduces your taxable income.

INVEST
You select from the reference investments available in the plan. While you are not directly investing, your account is credited with any gains or losses.

ENJOY
You receive the compensation you previously deferred, plus any potential earnings credited to your account.

From the first day participants are eligible for the plan and through their retirement years, we’re there every step of the way to help maximize the plan’s value.
An effective benefit plan begins at the earliest stages. We actively communicate with you and your advisors throughout each step of the process, to ensure there is a coordinated effort to achieve your goals.

**Plan implementation**

Count on The Principal to guide you through the implementation process with ease and flexibility.

Each client is unique; therefore establishing a new plan or transferring an existing plan to The Principal requires a tailored action plan. At the beginning of the process, you and your financial professionals will receive an implementation summary and milestones guide that clearly identifies accountability and time frames for all parties involved.

**Information and service**

Plan and benefit information is available via the employer website and corporate accounting reports. The online site provides plan asset and liability reporting, investment resources and tools to assist with administering the plan. Depending on plan type and design, you will also receive:

- Access to plan participants’ account information
- Daily valuation of assets/liabilities
- Asset/liability information and rebalancing services
- Financing reviews to assess plan performance
- Updates on enrollment progress

**Quality assurance**

Quality assurance with Type 2 SOC 1 Report issued according to SSAE16, providing assurance regarding effectiveness of controls and processes. This report provides independent, industry-standard assurance of our NQDC operations and demonstrates our continued commitment to delivering high-quality results.
Nonqualified deferred compensation — next steps

How can your organization and its financial professionals benefit from the leadership and specialized expertise of The Principal?

✓ 1st | We’ll listen to better understand your unique needs — whether establishing a new plan or enhancing an existing plan.

✓ 2nd | We’ll provide consulting expertise throughout all phases of the process — plan design, financing options and administrative services — so you can make informed decisions to maximize the benefit for you and your key employees.

✓ 3rd | We’ll deliver a tailored NQDC plan design and provide administrative services that best fit your goals and needs. You can also count on us to review your plan design and financing options over time. We do this to help your organization consider potential changes, while continuing to meet ongoing goals and objectives.

The Principal is ready to work with you and your financial professional today. Together, we can create or enhance a nonqualified deferred compensation plan to match the needs of your organization and its top talent.
Investing involves risk, including possible loss of principal. Before investing, carefully consider the investment option objectives, risks, charges and expenses. Contact a financial professional or visit principal.com for a prospectus or, if available, a summary prospectus containing this and other information. Please read it carefully before investing.

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