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MullinTBG/PLANSPONSOR

2014

EXECUTIVE BENEFIT SURVEY

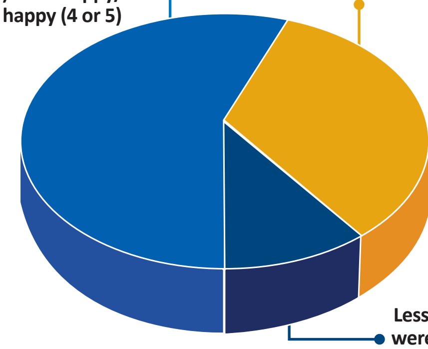
Summary of Results: Published March 2015

Our Specialty – Your Success[SM]

Nonqualified executive benefit programs succeed when they effectively incent the participant to act in accordance with the plan's key objectives, whether to reward for performance, motivate to achieve a specific goal, retain key talent, offer a competitive compensation package, help with financial/retirement planning, or a combination of factors thereof. Our respondents are overall quite satisfied with how well their plans are achieving their intended purpose(s), with 74% believing that their NQDCPs were either "effective" or "extremely effective".

While that still leaves about a quarter of these plan sponsors in some way unhappy with their plans, they know that executive benefits don't accomplish their stated goals without participant engagement. In fact, this year survey respondents ranked "education and communication" as what is most important to potential plan participants in making the decision whether or not to enroll in a nonqualified program. Surprisingly, most plan sponsors don't prioritize the capability to deliver compelling education and communication when choosing a full-service recordkeeper, as evidenced by it tying for last with "price," according to the survey ranking of what aspects are deemed most important in an NQDCP provider.

On a scale of 1 to 5, with 1= "Not happy at all" and 5= "Very happy", how happy are you with the capability of the plan provider(s) you work with to deliver engaging and effective communication and education to plan participants?



The overall plan participation rate reported in the 2014 MullinTBG-PLANSPONSOR Executive Benefits survey dropped back slightly to 43% from 46% in 2013. And while there are myriad reasons an eligible employee may choose not to enroll in an NQDCP – lack of discretionary income to defer additional dollars, a preference to set aside or invest money elsewhere, concerns about the company's solvency, for example – the main barriers to participant engagement tend to center around communication and education, and how well they help a participant feel confident and comfortable with enrolling in a plan that can help them meet their financial planning goals.

This year, our survey results webinar chose to highlight how we can leverage new communication and education tools that take a more intuitive and simplified approach to positively influence behavior that leads to more successful outcomes for participants and plan sponsors alike. We featured the work of the National Association of Retirement Plan Participants, a nonprofit organization that leverages research data, behavioral finance, design and technology to help make financial information and education accessible and relevant for everyone. You can access a replay of the webinar here: **http://tinyurl.com/n7lfvf6**

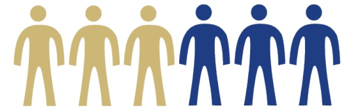
Once again, MullinTBG presents the results of our annual executive benefits survey, with the goal of exploring industry trends and best practices that can help increase overall plan effectiveness, address retirement readiness challenges and, perhaps, evolve our approach to participant education to make it easier for valued employees to make the decisions that can maximize their benefits. After all, with just over half of our webinar attendees responding that they were truly happy with plan providers' communications capabilities, there's still a lot of work to be done to change outdated and ineffective methodologies and deliver more compelling messages.

84% offer NQDCPs

43% participation rate

41% Provide company match

58%



Participation rates were higher for informally funded plans with company match

WHY OFFER NQDCP?

- ✓ 85% as a retirement savings vehicle
- ✓ 79% to restore deferral opportunity limited by qualified plan restrictions
- ✓ 72% to attract and retain executive talent

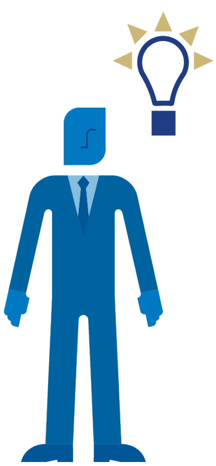
62% informally fund their NQDCP

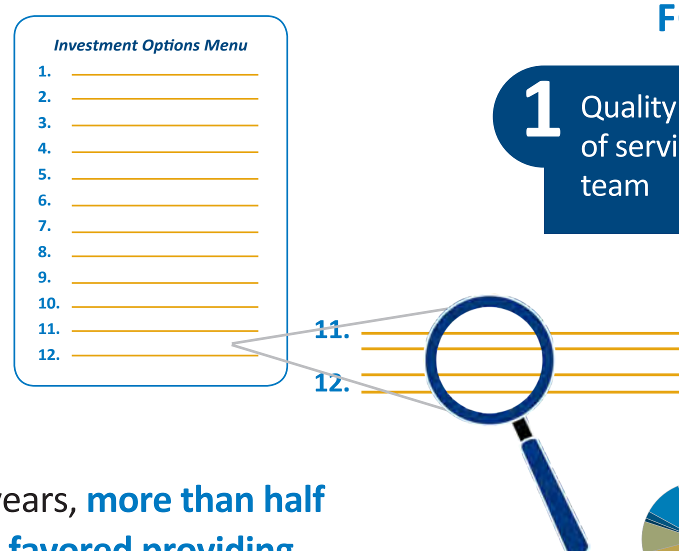
HOW?

1. COLI - 54%
2. Taxable securities - 42%

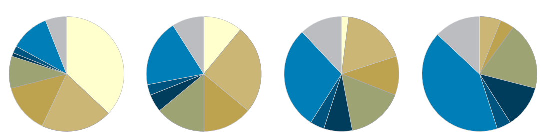
MOST IMPORTANT ATTRIBUTE FOR NQDCP PROVIDER

1. Quality of service team
2. Consultative in NQDCP and 409A
3. Online user experience





51% offer managed or model portfolios

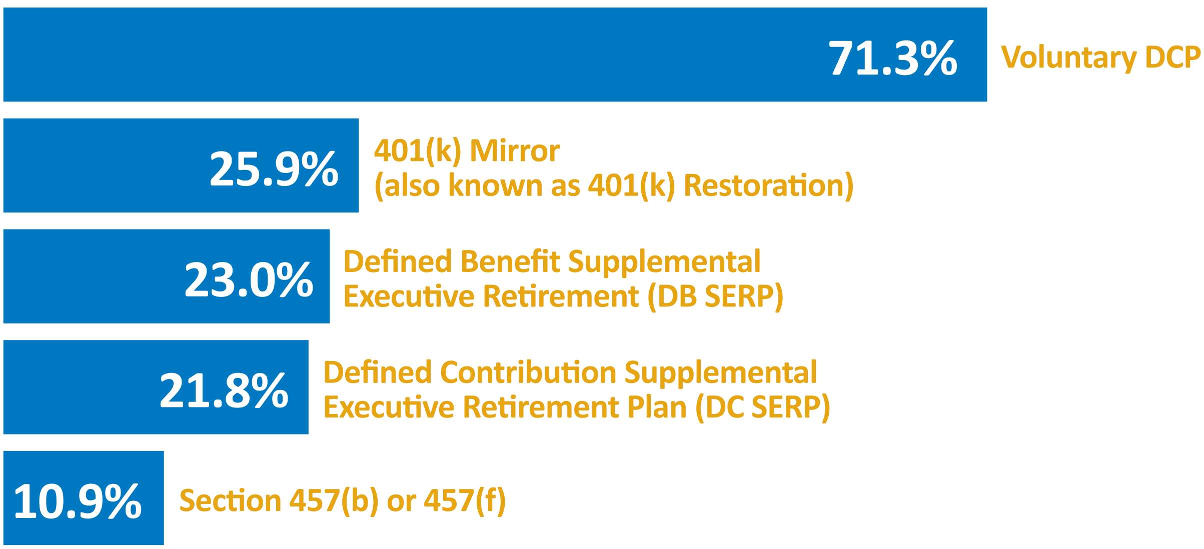


As in previous years, **more than half of respondents favored providing participants between 11 and 20 choices.**

RESPONDENT DEMOGRAPHICS/RESEARCH OVERVIEW

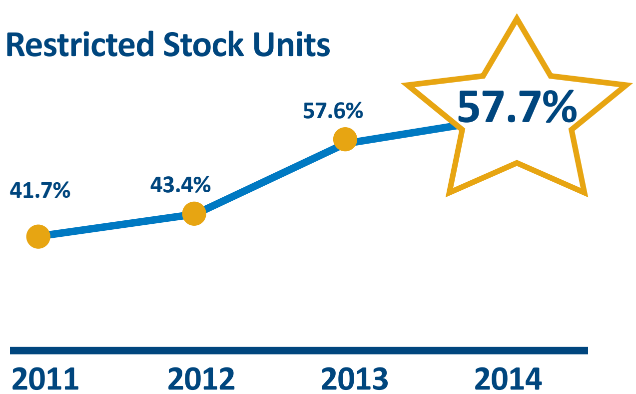
The number of usable responses to the MullinTBG-PLANSPONSOR survey decreased from the year before – 232 respondents in 2014 versus 265 in 2013. Responses from large (revenues greater than $1 billion) vs. smaller companies and publicly traded vs. privately owned companies divided along the same lines, at approximately 61% vs. 39%, respectively. Overall, respondents continue to represent a wide range of industries, and most are tax-paying C-Corps.

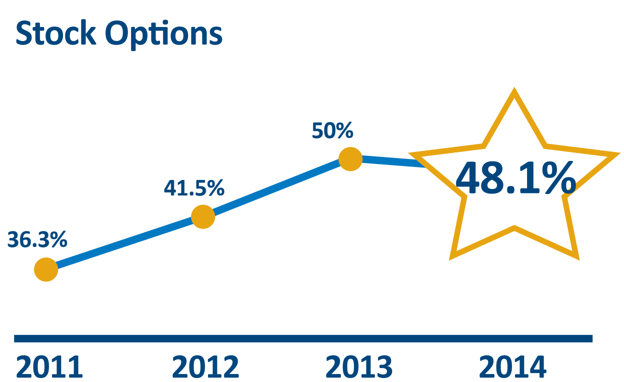
Dipping down below 90% for the first time in many years, NQDCPs were offered by **84.1%** of survey respondents and were more likely to be sponsored by large, publicly traded companies. Of these nonqualified plans, voluntary DCPs, 401(k) Mirror or Restoration plans, and DC/DB SERPs were the most popular; however, it should be noted that 457(b) or 457(f) plans were offered by three-quarters of non-taxpaying companies.



Ultimately, employers continue to regard NQDCPs as a highly valued recruitment and retention tool that provides their top talent with a powerful performance incentive and financial benefit that enables them to reach retirement and other financial planning goals. And while 69% of responding companies don't offer any other type of nonqualified executive benefit, those that do favor restricted stock units, stock options and other incentive programs.

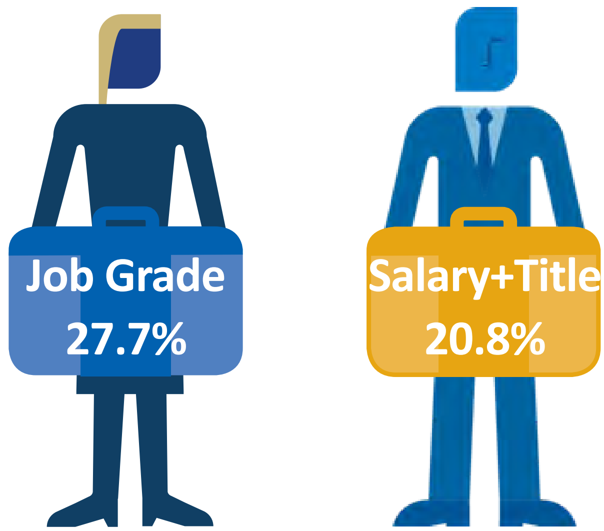
Restricted stock units and stock options in particular maintained their popularity following a significant increase in prevalence last year, which may be indicative of an ongoing trend for more companies to tie executive compensation to company performance.



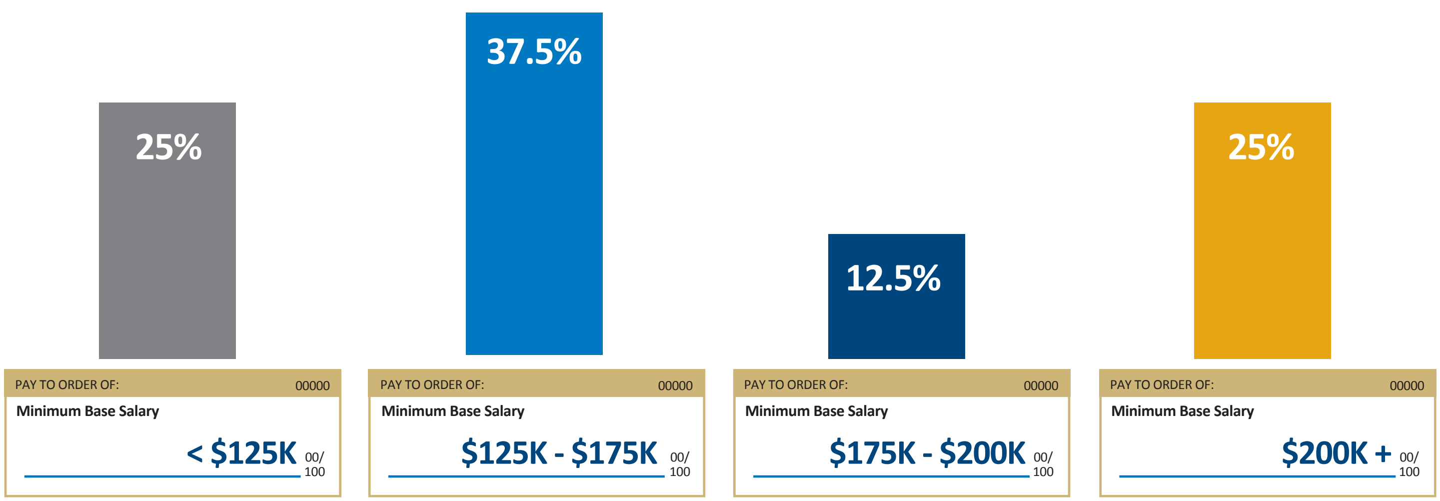


CRITERIA FOR ELIGIBILITY

Consistent with prior years, there were no predominant criteria for defining eligibility; however, for 2014, job grade and salary + title were the most prevalent.



37.5% of all respondents cited a minimum base salary requirement of between $125,000 and $174,999, and a notable **25%** required a minimum of $200,000. A solid **25%** set their minimums under $125,000, and those plans had a lower participation rate by more than six percentage points, as compared to plans with a higher minimum. This may suggest in part that some employees with less disposable income may not enroll because they feel it is not financially feasible to defer beyond qualified plan limits.



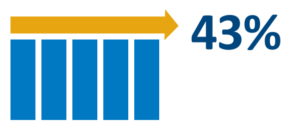
IMPROVEMENTS TO NQDCP

Although over **80%** of respondents don't plan on making any changes to their NQDCPs, of the few that are, the majority cited additions or enhancements to:

When we added "increase number of eligible employees" to the answer options this year, **15%** of respondents selected this enhancement

PARTICIPATION

Once again, average participation rates were effectively flat, and certainly lower than the 50% seen in the years prior to the financial crisis.



Participation rates were higher in plans offering matching contributions.

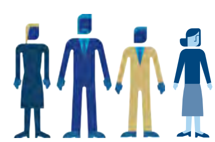
48%

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

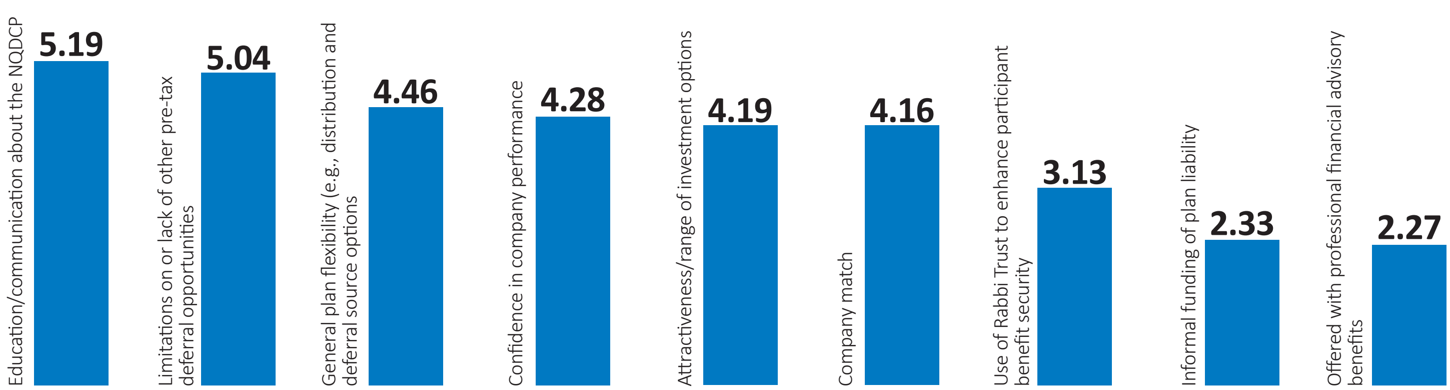
46%

The winner? Informally funded plans that offered a match had the highest participation.

58%



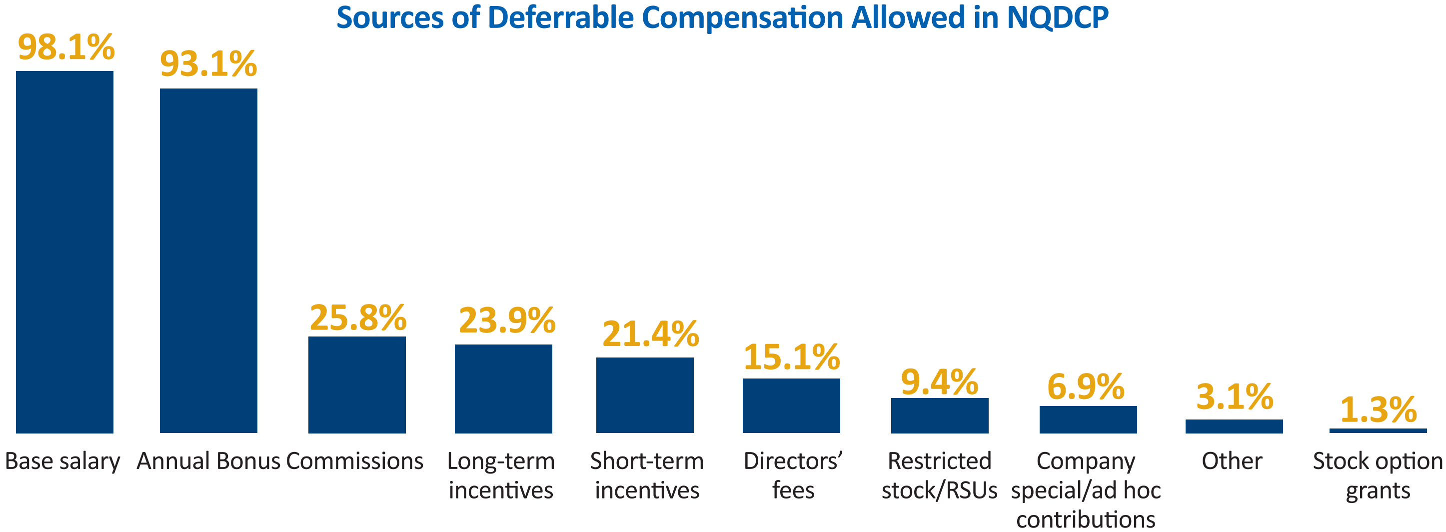
And what do plan sponsors think is most important to eligible employees in making the decision whether or not to participate? **Education/communication** tops the rankings, followed by the pre-tax deferral opportunity and the flexibility an NQDCP offers in the way of deferral source and distribution options.



DEFERRAL SOURCES & COMPANY MATCHING CONTRIBUTIONS

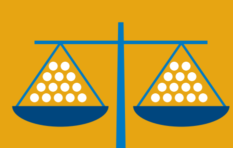
Base salary **(98.1%)** and annual bonuses **(93.1%)** were deferral sources offered up by nearly all survey respondents. Less common but otherwise notable compensation allowed in an NQDCP were commissions as well as short- or long-term incentives.

Sources of Deferrable Compensation Allowed in NQDCP



Company match prevalence remained flat overall, and as in prior years, was more commonly offered at larger organizations (43%) and public companies (47%).

40.9% offer a company match



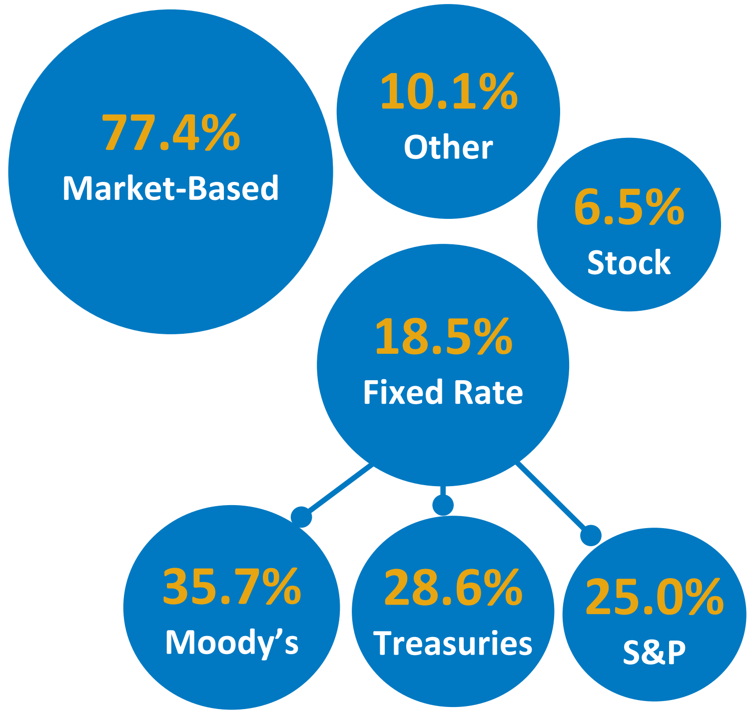
How are company match contributions predominately calculated?

- According to a fixed percent **(68.8%)**
- Replace a lost 401(k) match **(46.9%)**

What are the most common vesting requirements?

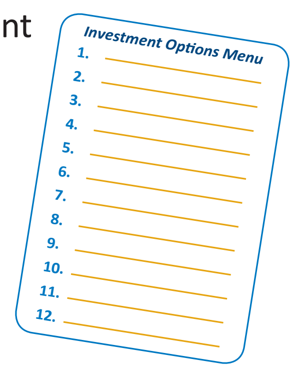
- Immediate **(45.3%)**
- Years of service **(29.7%)**
- Same as 401(k) **(23.4%)**

PARTICIPANT INVESTMENT OPTIONS

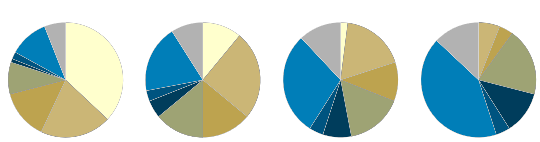


Market-based investments continue to be the most prevalent option for NQDCP fund menus. Fixed rates ticked up in popularity across the board from last year, with Moody's, Treasuries and S&P indexes topping the rankings of these stable deemed investment alternatives.

Survey results show that the majority of respondents **(72.4%)** prefer limiting their investment options to less than 20 – a moderate amount that can typically cover all major asset classes for diversification purposes while helping participants avoid "choice overload." The range of between **11 and 20 choices** in particular continues to resonate year after year, with more than half favoring this amount for the investment menu.



For the first time, the survey introduced a question about use of **model or managed portfolios** as an investment option. These portfolios, designed for a range of risk profiles and asset allocation strategies, are a diverse mix of automatically rebalanced investments either built from the standard investment menu offered ("model") or professionally constructed and actively managed ("managed") and may include other investments not otherwise available inside the plan. Either way, these portfolios – typically ranging from "conservative" to "aggressive" – offer participants a way of simplifying their asset allocation decisions by aligning with their tolerance for risk and particular time horizon. About half of our responding plan sponsors include pre-mixed portfolios as part of their plan's investment menus, with significantly more **(42%)** preferring managed over model **(8.4%)**.



BENEFIT DISTRIBUTIONS & EVENTS

Flexible options for scheduling and receiving plan payments are a key benefit and differentiator of nonqualified plans, and the vast majority of plan sponsors offer their eligible participants a range of distribution election choices that are permitted under 409A.

WHEN?

- **Separation from Service (95.6%)**
- **Death (81.3%)**
- **Scheduled In-Service (70.0%)**
- **Disability (64.4%)**

HOW? → **89.4% offer both Lump Sum and Installment Options**

WHAT'S THE LATEST ON GUARANTEED RETIREMENT INCOME OPTIONS?

According to Callan Investments Institute's 2015 Defined Contribution Trends survey, the growth of in-plan solutions for retirement income made little progress in 2014. And with nonqualified trends following adoption by qualified plans, our survey results did indeed reveal that interest is still low, yet holding steady. While last year positive responses came in at 15.5% – meaning plan sponsors were either actively researching or at least considering a retirement income option – this year **18.6%** noted their interest.

Callan's research observed that an annuity option in a qualified retirement plan tends to be via a defined benefit plan. With that in mind, warming to the idea of a guaranteed retirement income product in either qualified or nonqualified plans would require that plan sponsors be thoroughly educated on the offering and its benefits and risks. Only when companies feel confident in their decision to implement this type of solution will participants follow suit with their investment elections.

INFORMAL FUNDING

As compared to 2013, there was a slight uptick in the number of respondents setting aside assets to informally fund NQDCP liabilities (57.2% to 62.2%), and more are doing so in order to manage their asset-to-liability ratios. The percentage choosing COLI as an informal funding vehicle continues to increase – from 46.2% to 53.9% — with taxable securities and cash following in second and third place in prevalence, respectively.

62.2% 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 - 53.9%***
2. **Taxable securities - 42.2%**
3. **Cash - 18.6%**

HOW MUCH?

1. **75-99% of liabilities = 35.4%**
2. **100% or more of liabilities = 46.8%**

HOW DETERMINED?

1. **Based on pre-tax liabilities = 88.9%**
2. **Based on after-tax liabilities = 11.1%**

*44% of respondents that utilize COLI offer a survivor benefit to participant beneficiaries

- **62% have a security vehicle for their NQDCP**
- **100% of security vehicles utilized are Rabbi Trusts**

WHY DON'T COMPANIES INFORMALLY FUND?

- **Don't know (45.9%)**
- **Corporate philosophy of "pay as you go" (40.5%)**
- **Plan liability was so small as to be immaterial (13.5%)**

Last year, when 26% of respondents "didn't know" why their companies didn't informally fund their plan liabilities, we indicated that there could be room for improvement in terms of communicating the benefits of informal funding, such as increased participation rates, overall satisfaction for participants and other reasons cited by other respondents in the way of asset/liability management and the desire to mitigate P&L impact. It bears repeating that unfunded plans can cause volatility to the income statement, as well as a negative drag on earnings. When companies set aside assets for future distribution with the intention of having available cash to pay benefits as they come due, they can help secure the incentive value of the plan to attract and retain key executives, and preserve the value of the benefit as a financial planning tool.

RECORDKEEPING AND SERVICE PROVIDERS

76% of companies rely exclusively on a third-party recordkeeper

Third-party recordkeeping continues to be the predominant trend, utilized exclusively by 76% of companies and entirely or in part by a whopping 97% of companies. As compared to 2013, the percentage of smaller companies (<$1 billion in revenue) outsourcing their NQDCP administrative tasks increased from 63.3% to 85.7%, likely due to the need for specific and comprehensive nonqualified capabilities from a technological, consultative and legislative/regulatory perspective that could be too challenging to provide in-house.

FINANCIAL PLANNING AND ADVICE

Financial planning benefit offerings more or less held steady this year at 49%, which would indicate that plan sponsors continue to recognize the value in providing supportive services to their most valued employees to help them make more well-informed investment and retirement planning decisions. After all, with 34% of higher-income households reporting that not being able to retire comfortably is their biggest financial worry*, addressing those concerns with professional advice and guidance can potentially alleviate stress and distraction that could negatively impact an employee's focus and performance. Similar to last year, those companies sponsoring this executive benefit bestowed them primarily at the senior/C-suite level (48.5%), followed by executives (35.2%) and mid-level managers/directors (21.2%). By and large, respondents used external advisors, and the majority (58.8%) offered them at no cost to the executives.

49% offered financial planning benefits to participants

*"Higher income" = more than $175,000 in annual income. Source: Country Financial Security Index, 2014

GROUP AND VOLUNTARY BENEFITS

Group life (96.1%) and group disability (91.0%) are perennially popular benefit offerings by our survey respondents. The percentage of respondents offering their executives employer-paid disability insurance has varied slightly over the years (21.3% in 2014, down from 24.1% in 2013, up from 20.8% in 2012) and the rate of employee-paid offerings in 2014 was similar, at 23.9%. These individual supplemental disability plans are generally put in place to help make up for group plans' monthly benefit maximums that result in lower income replacement for highly compensated employees, as well as variable performance pay not otherwise covered, such as bonuses, commissions, long-term incentives, stock awards, etc.

Long-term care offerings, previously in decline over the last few years, finally held steady in 2014 at 28%.

SUMMARY

The vast majority of companies continue to sponsor NQDCPs that they believe are satisfying corporate objectives and providing a valuable executive benefit. And while participation rates have dipped somewhat from their pre-recession highs of just over half of all eligible employees to 43% in 2014, the data would indicate that in addition to a company match and the added security of an informal funding strategy, the clear communication of plan features and education about the benefits of deferring compensation to meet financial planning goals are key drivers of plan participation and satisfaction.

To that end, it would behoove plan sponsors to prioritize the delivery of effective participant engagement strategies in order to help ensure the success of their nonqualified plans. Offering model or managed portfolios certainly can help ease asset allocation decisions among plan participants, and providing access to professional financial planning advice and guidance appears to be a popular benefit solution, but without the appreciation and understanding of the plan as a tool for achieving one's retirement income objectives or short-term financial needs, these features and enhancements may fall short of their intended purposes.

So how do we – plan sponsors, advisors and recordkeepers – change the conversation when it comes to participant education to help deliver better outcomes? By taking steps to simplify communications and make education more accessible. By focusing more on easing decision-making and less on including complex charts and technical terms that serve to confuse more than compel. And by showing the consequences – for better or for worse – of the decisions participants can make (Defer more = realize financial goals. Defer less = increase potential of not having enough retirement income). A provocative communication/education program that uses new techniques may be a drastic shift for some where standard materials have otherwise been satisfactory, but if the end goal is to engage, encourage and incent plan participation and specific behaviors that increase deferral rates, an inspired approach may just help more employees and their plan sponsors realize more successful outcomes.