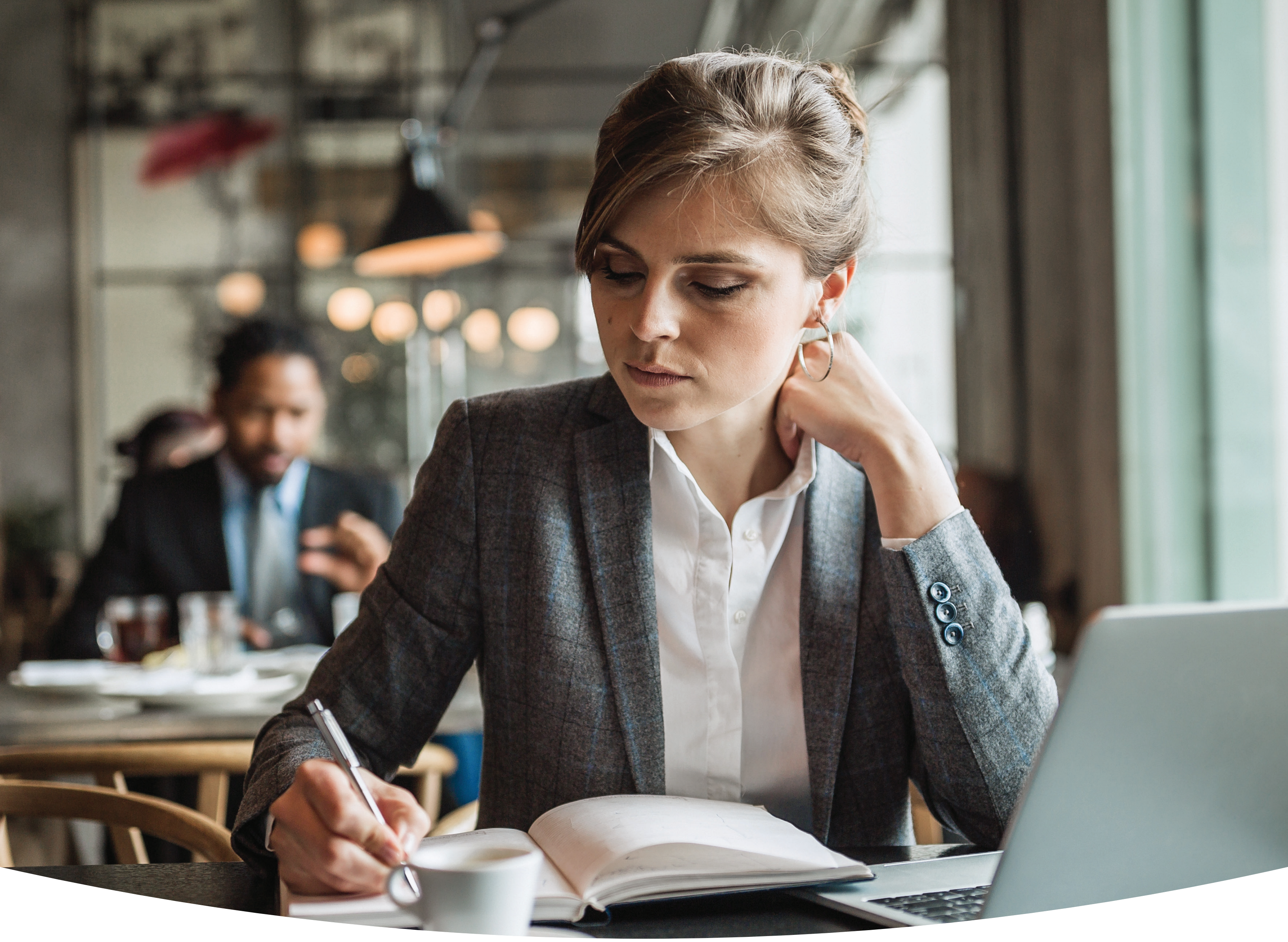

Create a plan to recruit, reward and retain

Advanced Markets

Nonqualified deferred compensation

EQUITABLE

Recruit, retain and reward highly valued employees

In today's competitive marketplace, the ability to recruit, retain and reward employees is critical to the success of any business. It is especially important to take care of those people who help make the difference between success and failure.

The competition for talented senior executives is fierce

A company may think it has a generous benefits program in place. However, it may not be accomplishing the most important goals: to retain and also reward the most valued employees by providing a benefit plan that will help them secure a comfortable retirement. Therefore, there's no substitute for a well-designed executive nonqualified retirement plan.

A smart investment

It isn't enough to simply have a one-size-fits-all benefit plan package. Given the limits imposed by the Internal Revenue Code on contributions to traditional qualified retirement plans, highly compensated executives may find it difficult to achieve their retirement goals. A nonqualified plan may be the answer. Nonqualified plans can add the flexibility key executives need to meet these goals.

The retirement planning dilemma key executives face

Shortfalls occur when it comes to funding executives' retirement income goals

Historically, the majority of an executive's retirement income was made up of Social Security and qualified plan benefits. Today, however, highly compensated employees may face a serious shortfall upon retirement, even when contributing the maximum amount of pretax compensation to their qualified retirement plan.

Retirement myths can distort your planning

Consider the following hypothetical example:

Three hypothetical employees will be age 65 at retirement in 12 years with the same company-sponsored benefit package. All employees are age 53 when they begin employment. The manager starts with an annual compensation of $50,000; the executive starts with an annual compensation of $250,000; and the senior executive starts with an annual compensation of $450,000. All annual compensation increases at 5% for 12 years.

Pension shortfall			
	Manager	**Executive**	**Senior executive**
Beginning compensation	$50,000	$250,000	$500,000
Final compensation	$89,793	$448,964[2]	$808,135
Retirement income goal (70% of final compensation)	$62,855	$314,275[3]	$565,695
Retirement income sources			
Company pension	$22,448[1]	$90,000	$90,000
Social Security	$35,732[2]	$53,740[2]	$53,740[2]
401(k) income	$25,763	$25,763	$25,763
Total retirement income	$83,943	$169,503	$169,503
	($21,088) surplus	**($144,772) shortfall**	**($396,192) shortfall**

1 Pension benefit calculated at 25% of final pay and subject to the maximum compensation limit of $305,000 for 2022 and cost-of-living adjustments at 6%, with the maximum compensation limit increasing in $5,000 increments according to IRC Section 401(a)(17). Pension benefits would be reduced if a joint and survivor benefit option is elected at retirement.

2 Social Security benefits calculated for the year of retirement using 2% cost-of-living adjustments.

3 401(k) income assumes annual deferred amount of $20,500 for 12 years, and does not reflect any increases to the maximum deferral amount under IRC Section 402(g)(1) due to EGTRRA (including the special "catch-up" rule for age 50 and older). Using a hypothetical growth rate of 5%, an annual income amount payable for 25 years.

Executives value benefits that build and maintain their wealth

As the chart on the preceding page illustrates, a highly compensated executive and senior executive still may face a tremendous shortfall when it comes to funding their retirement income goals. So it's no surprise executives value benefits that build and maintain their wealth. Therefore, establishing a nonqualified retirement plan for your key executives and yourself may help them reach their retirement income goals, and help you retain their loyalty to your business.

"...a highly compensated executive and senior executive still may face a tremendous shortfall when it comes to funding their retirement income goals."

Key employees in 401(k) plans have limitations

A company's 401(k) plan may be an adequate retirement savings plan for the majority of your employees, but this may not be the case for your highly compensated executives. The following hypothetical example shows how key employees could be receiving substantially less of a deferral opportunity (as a percentage of income) compared to other employees.

In this example, both employees work for the same company, with annual earnings of $40,000 and $200,000, respectively.

401(k) plan shortfall

	Supervisor	Key executive
Annual compensation	$40,000	$200,000
401(k) deferral amount subject to the lesser of $20,500 or 100%[4]	51.25%	10.25%[4]
Company match of $.50 on the dollar up to a maximum of 3%	3%	3%
401(k) deferral opportunity	54.25%	13.25%
Key executive's lost deferral opportunity	-	41.00%

4 2022 maximum deferral amount under IRC Sec. 402(g)(1) is $20,500, plus an additional "catch-up" of $6,500 for individuals age 50 and older. This "catch-up" is not included in the percentages above.

Nonqualified deferred compensation plans

Key advantages

Recruit, retain and reward	Nonqualified plan benefits can help make your company more attractive to prospective and current executives. Supplemental plans can also be used to reward individuals for performance.
Selectivity and control	Your company may choose the participants, plan design and the amount of corporate and/or executive contributions. In short, your company can maintain complete control.
Exemption from IRS approval and minimal ERISA requirements	Since nonqualified retirement plans are generally unfunded and structured exclusively for key executives, they do not have to comply with most ERISA requirements or Internal Revenue Code rules that regulate qualified plans. They must, however, comply with the Deferred Compensation Rules under Section 409A of the Internal Revenue Code.
No contribution limits or nondiscrimination requirements	Contributions to nonqualified plans generally are not subject to statutory limits; as a result, preferential treatment to top executives may be permitted.
Lower setup and administration costs	Generally, most plans are easy to set up and manage. No annual reporting of the plan is required (unlike IRS Form 5500 for qualified plans) and bookkeeping can be quite simple. Vesting can be either nonexistent or by any schedule your company desires. The amount of the contributions to the nonqualified plan must be reported as deferred compensation on the executive's W-2 for that tax year.
Income tax deferral	Generally, contributions, company matches and earnings are not taxed to the executive until the proceeds are actually distributed. Social Security taxes, including Federal Insurance Contribution Act (FICA) and Medicare taxes, apply when amounts are vested. A benefit is vested when the executive's rights are no longer subject to a substantial risk of forfeiture. Deferrals are subject to FICA at the time of deferral.

Different strategies to meet specific needs

There are several strategies designed to help companies retain and reward key employees.

Executive bonus plan

Bonuses enable select executives to own cash value life insurance, which may offer:

- Tax-deferred cash value accumulation.
- Supplemental income through tax-free policy withdrawals and/or loans.[5]
- Death benefit is generally received income tax-free to a personally named beneficiary.
- Control of the life insurance policy.

Bonus and Tax Loan Plan® (BATL Plan®)

BATL Plan® is a combination bonus and loan arrangement in which the employer pays the executive bonus compensation to pay premiums on cash value life insurance, and loans the executive money to pay the income taxes due on the bonuses. This offers the executive:

- Income tax-free supplemental death benefit protection for executive's survivors.
- Little or no current cost.
- Tax-deferred cash value accumulation.
- Loan from employer may be repaid through policy loans or withdrawals.[5]
- Supplemental retirement income possible through policy withdrawals and/or loans. Policy loans may negatively impact the policy and should be considered carefully. They reduce the policy's face amount and increase the chance a policy may lapse.

Cost-sharing plan (split-dollar life insurance plan)

The company and executive share the cost and benefits of life insurance.

- Executive can get permanent life insurance coverage and cash value accumulation.
- Taxable income to the executive may be more or less than the premium paid.

Supplemental executive retirement plan

Mirrors or supplements a qualified retirement plan.

- Employee contributions are usually not required.
- No federal taxes are paid on the benefits until they are received.

Deferral plan

Pretax salary deferrals and employer matching contributions "mirror" 401(k) deferrals and contributions lost under IRC contribution limits and nondiscrimination rules.

- Reduces employee's current taxes.
- Contributions and all earnings grow tax-deferred for the employee.
- Can replace lost qualified employer contributions via a match.

Important note

Life insurance death proceeds payable to an employer from an Employer-Owned Life Insurance (EOLI) policy are excludible from the employer's taxable income, provided that certain employee notice and consent requirements are satisfied prior to the issuance of the policy. If these requirements are not met, death proceeds in excess of the employer's basis (premiums and other amounts paid by the employer for the policy) will be included in the employer's taxable income.

5 Depending on the type of plan in place. Policy loans and withdrawals will reduce the cash value and face amount and increase the chance a policy may lapse.

Plan design options	Freedom to select participants/ insureds	Employer's deductible contribution/ payment	Plan/policy assets are protected from employer's creditors	Contributions/ premiums tax-deferred	Government reporting required	IRS approval necessary	Employer controls funding
Qualified defined benefit contribution pension plan	Limited	Yes	Yes	Yes	Yes	Yes	Yes
Qualified defined benefit pension plan	Limited	Yes	Yes	Yes	Yes	Yes	No
Nonqualified supplemental executive retirement plan (SERP)	Yes	No	No	Yes	Generally little[6]	No	Yes
Nonqualified deferral/401(k) mirror	Yes	No	No	Yes	Generally little[6]	No	Yes
Executive bonus plan	Yes	Yes	Yes	No	Generally none[6]	No	Yes
BATL Plan®	Yes	Partial	Yes	No	Generally none[6]	No	Yes
Cost-sharing plan	Yes	No	Yes, if owned by the employee	No	Generally little[6]	No	Yes

Securing and funding SERPs and deferral plans

Securing

Rabbi trusts allow specific assets to be segregated by the company to pay plan benefits to the participants. The trust assets, treated as company assets, remain on the company's balance sheet and are subject to the claims of creditors. Thus, if the company has a change in ownership, is unwilling to pay promised benefits or becomes insolvent or bankrupt, the employees under the nonqualified retirement plan will be unsecured general creditors of the company. Additionally, any income the trust generates is considered taxable income to the company.

Funding

Companies may adopt various informal funding techniques to pay for nonqualified plan liabilities and still maintain the unfunded status for ERISA purposes.[7] The benefits are unsecured promises by the employer.

Life insurance has long been a favored method of informally funding nonqualified plans due to the tax-deferred accumulation of cash values and the self-completing nature of death benefits. The death benefit from a life insurance policy can be used not only to pay critical survivor benefits to a key executive's family, but also to recoup costs incurred by the company in funding the plan.

6 Depending on the type of plan in place.

7 Employee Retirement Income Security Act (1974, amended).

Equitable Financial's strategy

Our dedicated, expert team of Advanced Markets specialists meets the changing needs of clients by offering custom-designed advice and actionable strategies that can proactively help them achieve their desired results. Setting up and administering a nonqualified executive benefit plan requires a knowledgeable group of trained professionals and state-of-the-art technology. Equitable Financial can provide some of the services listed below. In addition, some executive benefit plans require the services of a third-party administrator.

Scope of client services

Executive benefits	
Funding design	Specific expertise in product design to address benefit liabilities
Sample plan documents[8]	Sample plan and trust documents
Policy administration services	Dedicated team for underwriting and policy issue
Executive compensation planning options	Deferral, SERP, executive bonus, BATL Plan® and split-dollar plans
Business strategies	Complimentary business support platform for owners and their authorized advisors

It's a winning decision

Now may be the time to consider an executive benefits program or enhance an existing one. Remember, with the right benefits program in place, a company can worry less about retaining and rewarding key executives, and concentrate more on the strategies that make the business successful.

References to Equitable Financial represent both Equitable Financial Life Insurance Company and Equitable Financial Life Insurance Company of America, which are affiliated companies.

Life insurance products are issued by Equitable Financial Life Insurance Company (New York, NY) or Equitable Financial Life Insurance Company of America and co-distributed by affiliates Equitable Network, LLC (Equitable Network Insurance Agency of California in CA; Equitable Network Insurance Agency of Utah in UT; Equitable Network of Puerto Rico, Inc. in PR) and Equitable Distributors, LLC. For New York state-based (i.e., domiciled) Equitable Advisors financial professionals, life insurance products are issued by Equitable Financial Life Insurance Company (New York, NY). All companies are affiliated and directly or indirectly owned by Equitable Holdings, Inc., and do not provide tax or legal advice. You should consult with your tax and legal advisors regarding your particular circumstances.

Under current federal tax rules, you generally may take federal income tax-free withdrawals up to your basis (total premiums paid) in the policy or loans from a life insurance policy that is not a Modified Endowment Contract (MEC). Certain exceptions may apply for partial withdrawals during the policy's first 15 years. If the policy is a MEC, all distributions (withdrawals or loans) are taxed as ordinary income to the extent of gain in the policy, and may also be subject to an additional 10% premature distribution penalty prior to age 59½, unless certain exceptions are applicable. Loans and partial withdrawals will decrease the death benefit and cash value of your life insurance policy, and may be subject to policy limitations and income tax. In addition, loans and partial withdrawals may cause certain policy benefits or riders to become unavailable and may increase the chance your policy may lapse. If the policy lapses, is surrendered or becomes a MEC, the loan balance at such time would generally be viewed as distributed and taxable under the general rules for distribution of policy cash values.

Please be advised that this document is not intended as legal or tax advice. Accordingly, any tax information provided in this document is not intended or written to be used, and cannot be used, by any taxpayer for the purpose of avoiding penalties that may be imposed on the taxpayer. The tax information was written to support the promotion or marketing of the transaction(s) or matter(s) addressed, and you should seek advice based on your particular circumstances from an independent tax advisor. Equitable Financial does not provide tax or legal advice.

Equitable is the brand name of the retirement and protection subsidiaries of Equitable Holdings, Inc., including Equitable Financial Life Insurance Company (NY, NY), Equitable Financial Life Insurance Company of America, an AZ stock company, and Equitable Distributors, LLC. Equitable Advisors is the brand name of Equitable Advisors, LLC (member FINRA, SIPC) (Equitable Financial Advisors in MI and TN). The obligations of Equitable Financial and Equitable America are backed solely by their claims-paying abilities.

The information provided is based on our general understanding of the subject matter discussed and is for informational purposes only. Please consult your tax and/or legal advisors regarding your particular circumstances. BATL Plan® is a registered service mark of Equitable Financial Life Insurance Company.

Life Insurance: • Is Not a Deposit of Any Bank • Is Not FDIC Insured • Is Not Insured by Any Federal Government Agency • Is Not Guaranteed by Any Bank or Savings Association • May Go Down in Value

EQUITABLE