

Protect your business

Incentives for your key employees can help you with recruiting and retention

Your key employees are the backbone of your company—their leadership and expertise keep it on the right path. So finding and keeping your top people is a priority. Plus, key employees want to work for a company that values their hard work—and offers them an incentive to stay.

The good news is you have options. You can increase the salary or bonuses of select talent now. Or, you can contribute intended salary or bonus increases into a deferred comp plan that provides a future benefit and a reason to stay.

If you simply increase their base salary or bonuses, it may imply the reward you give today is permanent. And your key talent may not be motivated to stay and help you reach your future business goals. Implementing a key employee benefit plan instead may provide longer term benefits for both the business and your key talent.

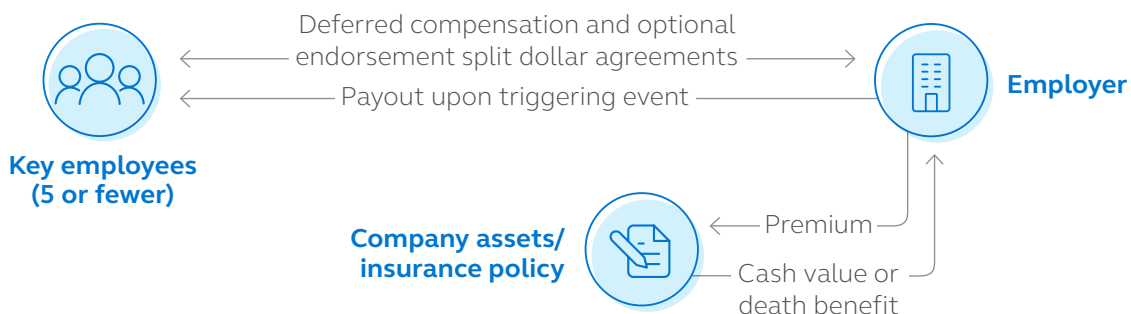
Let’s look at an alternative to increasing current compensation.

Here’s how it works

A defined contribution deferred comp agreement is established with select key employees. You determine how much you want to contribute to the plan for each key employee. You then have some plan design options, such as choosing a vesting schedule and payout terms that allow the plan to be easily customized to fit your objectives.

You also have options when it comes to informally financing your plan. You may choose to insure some or all of your participating key employees. In addition, an optional endorsement split dollar agreement may be used, so that part of the policy death benefit goes to the key employee’s survivors if the key employee should die during the service period.

Upon a triggering event (separation from service, retirement, disability, or death), a payout may begin for the key employee. Payouts can be made in a lump sum or in annual installments over varying periods.



What you need to know

There are many advantages to this plan, just as there are some things to consider.

For you

Encourage loyalty. You provide an incentive for the key employee to join your company and stay for the long term.

Enjoy flexibility. Based on your business needs and goals, you can choose from a range of life insurance products to insure some or all participating key employees. You can also choose a vesting schedule and payout options.

Receive a tax deduction. The company receives a tax deduction in the year the benefit is paid.

Reduce cash flow. Premiums are paid with company after-tax dollars, so each premium payment reduces your annual cash flow.

Recover the premium cost. If a key employee dies before a triggering event, the life policy's tax-free death benefit may be used to recover the cost of the premiums paid by the company.

For your key employee

Receive tax-deferred growth. Earnings and employer contributions accumulate in the plan tax-deferred.

Review investment options. The key employee may be given the opportunity to choose the deemed investments (also known as reference investments) used to measure the value of their account. This might include offering a fixed interest rate.¹

Help provide for the future. Benefits from the plan can meet multiple needs—including paying off student loan debt, accumulating supplemental retirement income, and providing financial support to key employees' beneficiaries if death occurs during the service period.

Must qualify. One or more policies could informally finance the benefit of multiple key employees. Any key employee you choose to insure must be healthy enough to qualify for the life insurance policy.

Pay taxes. Employer contributions will be treated as wages and subject to payroll taxes. Generally, this occurs when the employer contributions become vested. Income tax is due on the deferred comp benefit amount in the year it's received.

Encourage your key employees to stay with you for the long term, instead of exploring opportunities with your competition, by providing this plan. It's a great way to offer them a valued benefit, while helping you recruit, reward, and keep your top talent.

 [Learn more](#)

Contact your financial professional today. Visit principal.com.

¹ The company will need to determine whether the selected rate will be deemed a reasonable rate of return under the FICA regulations.

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