PSCA's 2019 NQDC Survey

Focus of NQDC plan sponsors is shifting towards helping employees save more for retirement.

By Hattie Greenan and Bruce J. McNeil for PSCA's NQDC Committee

The Plan Sponsor Council of America conducted its third benchmarking survey of non-qualified deferred compensation (NQDC) plans in early 2019. The survey provides benchmarking data about the design, structure, and funding of NQDC plans — plans often offered to a select group of highly compensated employees.

Asked why plan sponsor respondents offered NQDC benefits, they were most likely to respond with "have a competitive benefits package" followed by "to help employees accumulate assets." Rounding out the top three responses plan sponsors cited, "help HCEs defer the same proportion of their income as other employees." Notably, the percent of organizations stating their primary goal in offering these plans was "to help employees accumulate assets" increased by 40 percent over the last three years. This increase, coupled with a decline from 41.6 percent in 2016 to 35.4 percent in 2018 of respondents who indicated that their primary purpose was to offer a competitive or above average benefits plan, indicates a shift in focus to helping employees increase their retirement savings. See Exhibit 1.

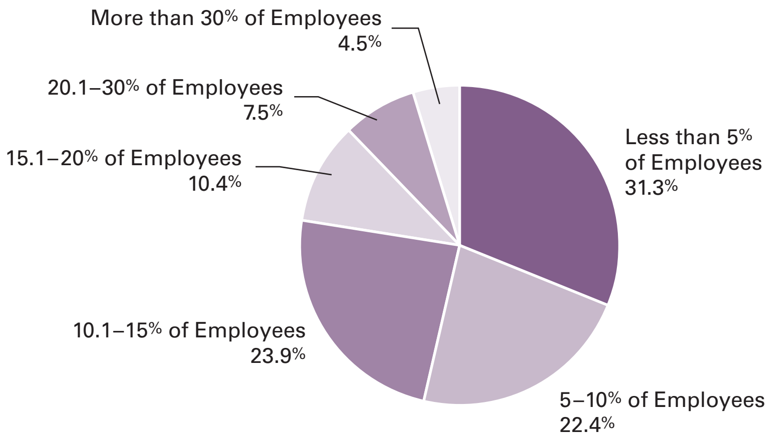
Survey Overview

The survey generated responses from 127 plan sponsors that have active, account balance NQDC plans. The respondents represent a wide variety of industries, including a significant number with more than 5,000 employees. The responses also reflect considerable diversity in employer types — one-half of the responses were from privately-held companies, 45.6 percent were from publicly-traded companies, and 4.7 percent were from non-profit organizations. Nearly all of the responding organizations, 97.1 percent, offered a 401(k) plan to eligible employees alongside the NQDC plan, nearly one-third also offered a defined benefit pension plan, and nearly one-half offered a long-term incentive plan. A summary of the data follows.

Exhibit 1: Reasons for Offering a Non-Qualified Plan to Employees

	Year		
Reason	**2016**	**2017**	**2018**
Have a Competitive Benefits Package	34.6%	36.3%	32.7%
Have an Above Average Benefits Package	7.0%	2.4%	2.7%
Increase Employee Stock Ownership of the Company	2.7%	0.0%	0.0%
Retain Eligible Employees	14.1%	9.7%	15.5%
Help Eligible Employees Accumulate Assets	16.2%	23.4%	22.7%
Help Eligible Employees Raise Their Income Replacement Ratio	2.2%	4.8%	2.7%
Allow HCEs to Defer the Same Proportion of Their Income as Other Employees	18.9%	17.7%	19.1%
Offer a Tax-Planning Device to Eligible Employees	3.8%	3.2%	3.6%
Overall Objective of the Plan	0.5%	2.4%	0.9%
	100.0%	99.9%	99.9%

Exhibit 2: Percentage of Employees Eligible to Participate In the Plan



Eligibility

Most employers restrict NQDC plan access to "top-hat" employees. More than half of responding employers allow 10 percent or fewer of their total employees to participate in the NQDC plan with an average of 5.2 percent of total employees eligible to participate. See Exhibit 2.

Asked about how they determine eligibility, by far the most common method was job level or title (65.3 percent), followed distantly by Internal Revenue Code (IRS) limits and minimum base salary (20.3 percent each).

Participation

The survey revealed that, on average, about one-half of eligible employees participate in the NQDC plan. Not surprisingly, organizations that provide a non-matching contribution experience much higher rates of participation (approximately 63 percent) relative to organizations with no employer contribution, where participation rates fall below 30 percent. See Exhibit 3.

Employer Contributions

More than one-half of the respondents provide an employer matching contribution under the NQDC plan, the most common type being a "restoration" match designed to make up for the "missed" match in the 401(k) plan or 403(b) plan due to limits under the Internal Revenue Code or plan limits (32.8 percent), followed by a fixed match (17.2 percent). Twenty percent of the plans provide for a discretionary employer contribution not based on employee contributions. See Exhibit 4.

Vesting

A wide variety of vesting schedules are used, however immediate full vesting is available at nearly 40 percent of plans, whereas about one-fourth of NQDC plans use a graded vesting schedule, and 21.5 percent rely on a cliff vesting schedule.

Distributions

The survey revealed that about 50 percent of NQDC plans offer participants the opportunity to make "in-service" distribution elections and 58.5 percent allow emergency withdrawals.

The majority of plans allow for distributions upon separation of service (89.1 percent) and nearly one-half (46.2 percent) allow for distributions upon a change in control. Nearly all NQDC plans allow for lump sum distributions, and more than 75 percent allow annual payments; roughly one-in-ten (9.3 percent) provide annuities as a distribution option.

Plan Financing

The survey indicated that plan sponsors use various methods to fund the benefits payable under a NQDC plan. More than 40 percent of plans fund NQDC obligations from current assets, about one-third set assets aside and invest in mutual funds to meet those future obligations, and nearly one-in-five (19.7 percent) do so by purchasing an insurance policy. See Exhibit 5.

More than one-half of NQDC plans (52.9 percent) have the same investment options in their NQDC plan as they do in their tax-qualified defined contribution (DC) plan. Twenty percent of plans that offer company stock as an investment option in their DC plan also allow company stock as an option under the NQDC plan.

Nearly 75 percent of the respondents base NQDC plan investment returns on specific investment options to track performance, and 14 percent rely on a fixed market rate for determining investment returns.

Plan Recordkeepers

More than 90 percent of plan sponsors use the services of an outside firm as a

Exhibit 3: Average Percentage of Eligible Employees with a Plan Balance

Type of Employer Contribution	All Plans
Matching Contribution Only	55.8%
Non-Matching Contribution Only	62.5%
Both Matching and Non-Matching Contributions	62.8%
No Employer Contribution	29.9%
All Plans	52.4%

Exhibit 4: Types of Employer Contributions Allowed in the Plan

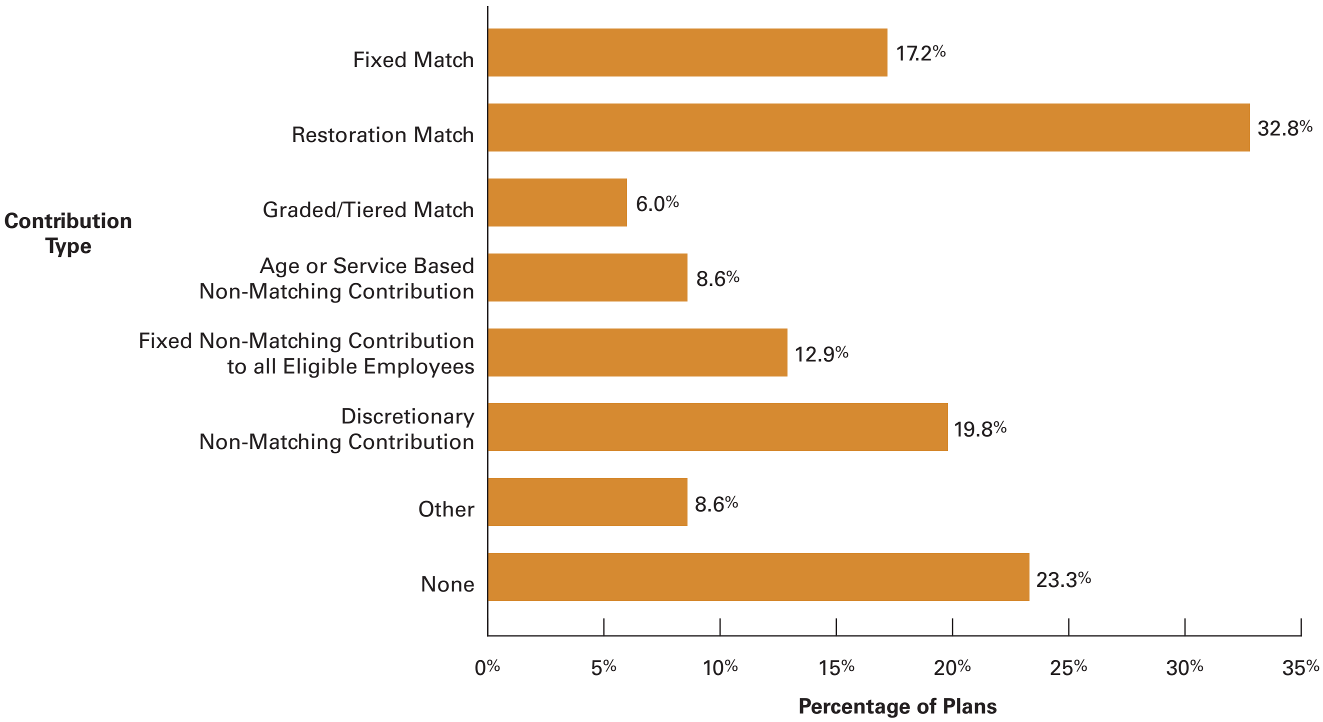
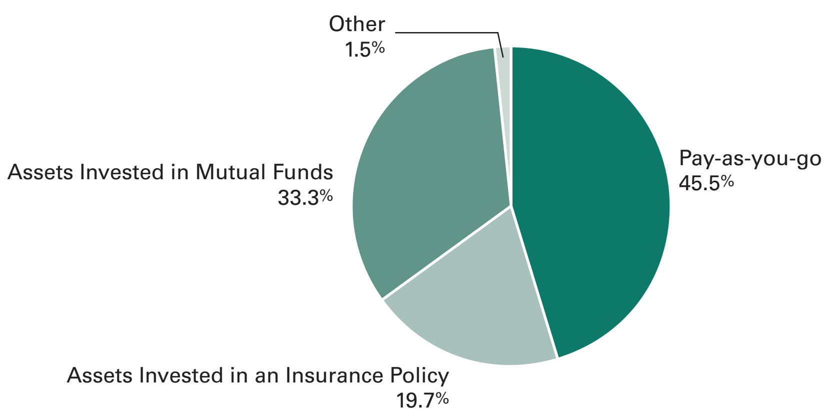


Exhibit 5: Primary Plan Financing Methods



recordkeeper for their NQDC plan, and nearly two-thirds (64.2 percent) use the same recordkeeper for the NQDC plan as the administrator of their DC plan.

Mergers and Acquisitions

While change in control provisions are frequently a critical aspect of some NQDC plans, 40 percent of organizations do not have an internal control process in place in the event of a merger or acquisition. Larger organizations are, however, noticeably more likely to have one (68.5 percent of organizations with 5,000 or more employees and only 42.1 percent of organizations with 200–999 employees).

Education

The survey noticeably indicated that more than one-half of the plan sponsors say they provide specific NQDC plan education to their eligible participants. The top two reasons for providing specific education are to increase appreciation for the benefits provided by the plan (39.7 percent) and to increase participation in the plan (25.0 percent).

The most common methods used to communicate the NQDC opportunity are e-mail communications (84.3 percent), enrollment kits (68.6 percent), and individually targeted communications (41.4 percent).

For more information visit https://www.psca.org/2019NQDC_report or contact PSCA at research@psca.org.

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