



DEFERRED COMPENSATION PLAN



Program Highlights & Fact Finder

Nonqualified Options for Employers and Key Executives



No matter what the economic climate, employers need something extra to attract and retain the best talent

Deferred Compensation Plan

It's a fact of business: No matter what the economic climate, employers need something extra to attract and retain the best talent. A comprehensive compensation package—including both qualified and nonqualified retirement plans—can be the key. However, the government places strict legal limits on what a “highly compensated” employee can contribute to a qualified retirement plan or receive in benefits. As a result, many of these select employees cannot defer the same percentage of income to their 401(k) and other qualified plans as can their coworkers.

Nonqualified deferred compensation plans can help offset these limitations. The deferred compensation plan allows businesses to design a truly competitive supplemental retirement plan because it is not subject to most ERISA requirements like qualified pension and profit-sharing plans.

How It Works

Step 1: Deferring Income

- The key executive defers a percentage of his or her pre-tax salary and/or bonus for a period of years. In return, at the retirement or death of the executive, the employer provides a supplemental retirement income for the executive and his or her family.

Step 2: Purchasing Life Insurance

- The employer uses the executive's deferred compensation to purchase a life insurance policy on the life of the executive, suitable to his or her risk tolerance, time horizon, and financial goals.
- The employer is the owner of the policy and names itself as the beneficiary. The executive is the insured.
- The policy offers an income tax-free death benefit and accumulates a tax-deferred cash value for the employer.¹ Premium payments are not deductible.

Step 3: Receiving Income

- When the executive retires or at another specified date, he or she begins receiving the deferred benefits from the employer, at which time the employer receives an income tax deduction and the benefits are taxable to the executive.
- The employer can use the accumulated net cash value—through withdrawals or policy loans—to fund the benefit distributions.²
- Since the deferred compensation benefits are an unsecured promise by the employer and are subject to the claims of the employer's creditors, the employee is not taxed until the income is distributed.

Step 4: Beneficiaries

- In the event of the executive's death, the plan may provide that his or her beneficiaries receive either a taxable annual income or a taxable lump-sum death benefit, depending on plan design, funded by the policy proceeds received by the employer.

The Advantages

With the deferred compensation plan, both the employer and key executives benefit. Depending upon the design of the plan, here's how:

The Executive

- Reduces taxable income in deferral years.
- Has income deferral opportunities not subject to qualified plan limits.
- Accumulates tax-deferred retirement benefits until distribution.
- Can enjoy a preretirement survivor benefit.

The Employer

- Has minimal ERISA requirements.
- Controls the plan, owns the life insurance policy, and can include the cash value of the life

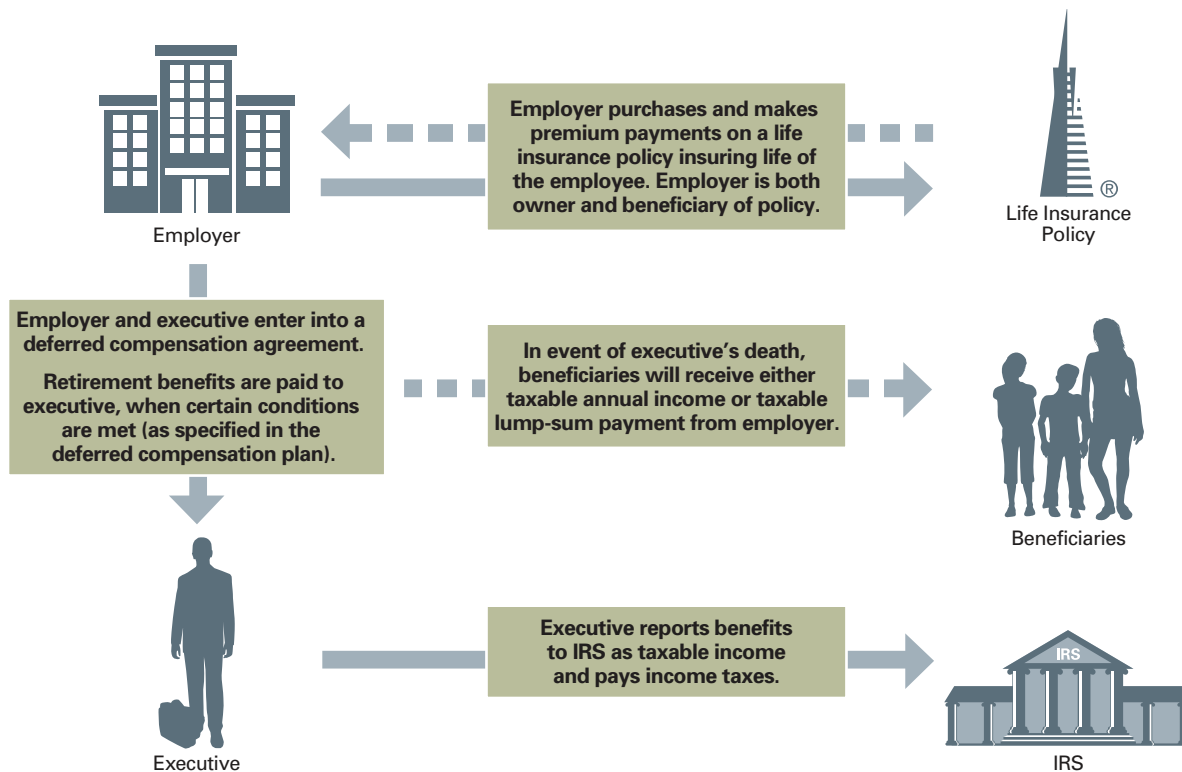
insurance policy as an asset on the company's balance sheet.

- Provides selected key employees with additional deferral opportunities different from those available to other employees.
- Gains an attractive tool for recruiting, retaining, and rewarding talented executives by providing additional retirement income.
- Receives an income tax deduction when benefits are paid out to the executive at retirement.
- Enjoys greater flexibility in plan design.
- May have alternative minimum tax (AMT) income.

¹ Notice and consent requirements and other provisions of § 101(j) must be met. Employer must also follow annual reporting requirements of § 6039I.

² This will reduce the policy's cash values and may affect the death benefit. Withdrawals or loans from, or pledged from, a life insurance policy that is a modified endowment contract (MEC) are taxable to the extent of the gain in the policy. If the policy is not a MEC, policy loans and pledges are not taxable when made and withdrawals in excess of basis are taxable.

Deferred Compensation Plan Using Life Insurance



A Deferred Compensation Plan Is Ideally Suited for:

- Employers who want to recruit and retain key employees.
- Companies that want to offer benefits in excess of those offered by their qualified retirement plans.
- Executives who want to supplement their retirement income and provide financial security for their families.

Enhanced Retirement Income

A deferred compensation plan funded with Transamerica Life insurance policies can be an essential part of an executive compensation package. Through a life insurance policy, employers can recruit and retain key executives by offering a truly valuable financial perk—supplemental retirement benefits funded with deferred income.

Deferred Compensation Plan Fact Finder

Employee

Name _____ Annual Compensation \$ _____

Federal Tax Bracket _____ % State Tax Bracket _____ %

Company Ownership (if any) _____ %

Employer

Name _____

Address _____

Entity Type: C Corp S Corp Partnership LLC

Federal Tax Bracket _____ State Tax Bracket _____

Total Number of Employees _____

Illustration

Type of Insurance: Fixed Universal Life Variable Universal Life

Product to Illustrate _____

Policy Assumptions: Current _____ Guaranteed _____ Illustrated (VUL) _____

Insured's DOB _____ State of Policy Issue _____

Gender _____ Smoker Nonsmoker Select Preferred Standard

Desired: Death Benefit \$ _____ or minimum so as not to create a MEC _____

Death Benefit Option: Level _____ Increasing with cash value _____ Increasing, switching to level _____

Plus-Premium _____

Annual Insurance Premium \$ _____

Years to Pay Premium _____ or to age _____

Maximize Income from Policy at Insured's Age _____ for _____ years

If premium is not known, indicate desired cash flow from policy beginning in year _____ and ending in year _____

Policy Cash Value at 100 Equal to: Endowment at initial face or Cash value equal to \$ _____

Deferred Compensation Plan Fact Finder (continued)

Plan Design

Employee Deferral:

- Deferral Amount: Match policy premium _____
 Specified \$ _____ for _____ years
 None

Retirement Benefits:

- Benefits Based On: Executive deferrals for _____ years
Specified \$ _____ for _____ years
Policy distributions _____

Survivor Benefits:

- Benefits Based On: Executive deferrals for _____ years
Specified \$ _____ for _____ years
Death benefit for _____ years
Present value rate _____%

Employer Recovery:

- Amount of Recovery: Benefit payments _____
Premiums and benefits _____
No recovery _____
Cost of money _____%

Producer Information

Producer Name _____
Broker/Dealer Affiliation (required for variable life proposal) _____
Phone No. _____
E-mail Address _____
Date _____

Note: This can be illustrated with the Transamerica Nonqualified Deferred Compensation choice in our illustration software.



Transamerica Life Insurance Company
Transamerica Financial Life Insurance Company