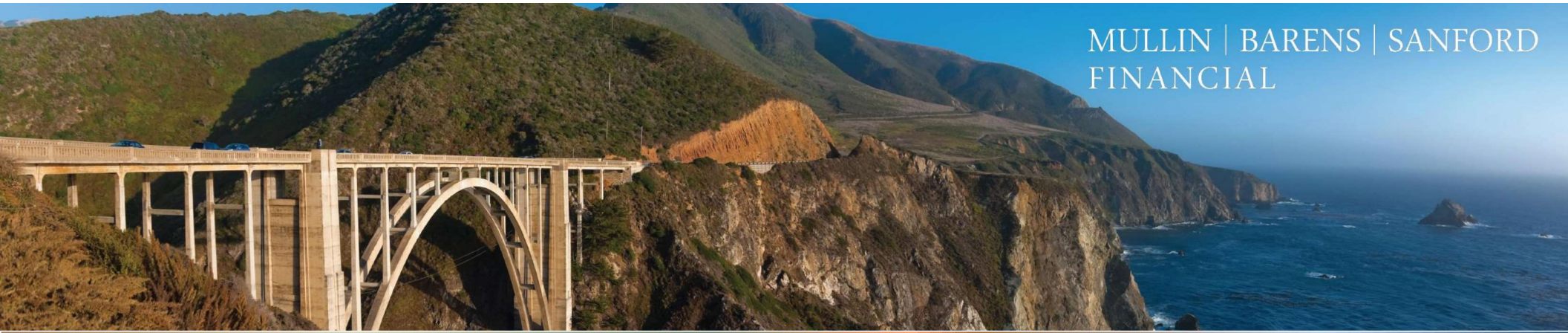


Addressing Compensation & Benefit Challenges

An Introduction to the Effective Use of Nonqualified Deferred Compensation Plans

Presented to:

HC&B HOUSTON COMPENSATION AND BENEFITS

Presented by:

Erik Speed, Associate Principal
erik.speed@mbsfin.com
(818) 292-7206

Bryn Mercado, Consultant
bryn.mercado@mbsfin.com
(310) 613-4506

Agenda

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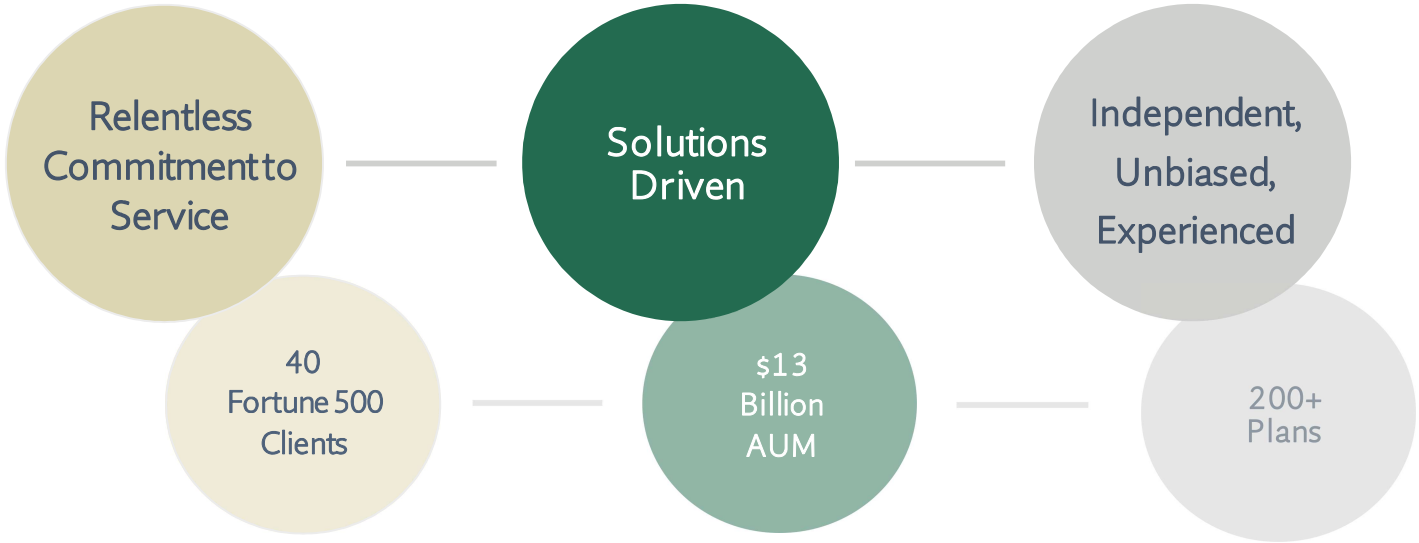
- Introduction
- About Nonqualified Deferred Compensation Plans (DCPs)
  - What are they?
  - Reasons companies offer them
  - Basic rules governing them
  - Benefits to plan sponsors
  - Benefits to eligible employees
- Best in Class Design Elements
- Case Studies
- Q&A



About MBS

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- Mullin Barens Sanford Financial (MBS) is an independent consulting firm focused solely on nonqualified deferred compensation plans, executive benefits and associated funding strategies.
- More than 30 years of experience crafting and refining plans that balance employee retention with stakeholder interests by improving plan design, plan operations, ensuring regulatory compliance, reducing plan costs and overseeing provider servicing.



NQDCP | What is it?

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- An employer-sponsored benefit that allows:
  - select employees to:
    - Defer as much compensation as they want from current taxation
    - For as long as they want

  And…

  - Permits the company to make individualized, discretionary, employer contributions to select employees



NQDCP | Top 3 Reason for Offering a DCP

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2021 Non-Qualified Plan Survey

PSCA's Benchmarking Survey of Non-Qualified Deferred Compensation Plans

1

Competitive Compensation & Benefits Package

94%

2

Asset Accumulation

67%

3

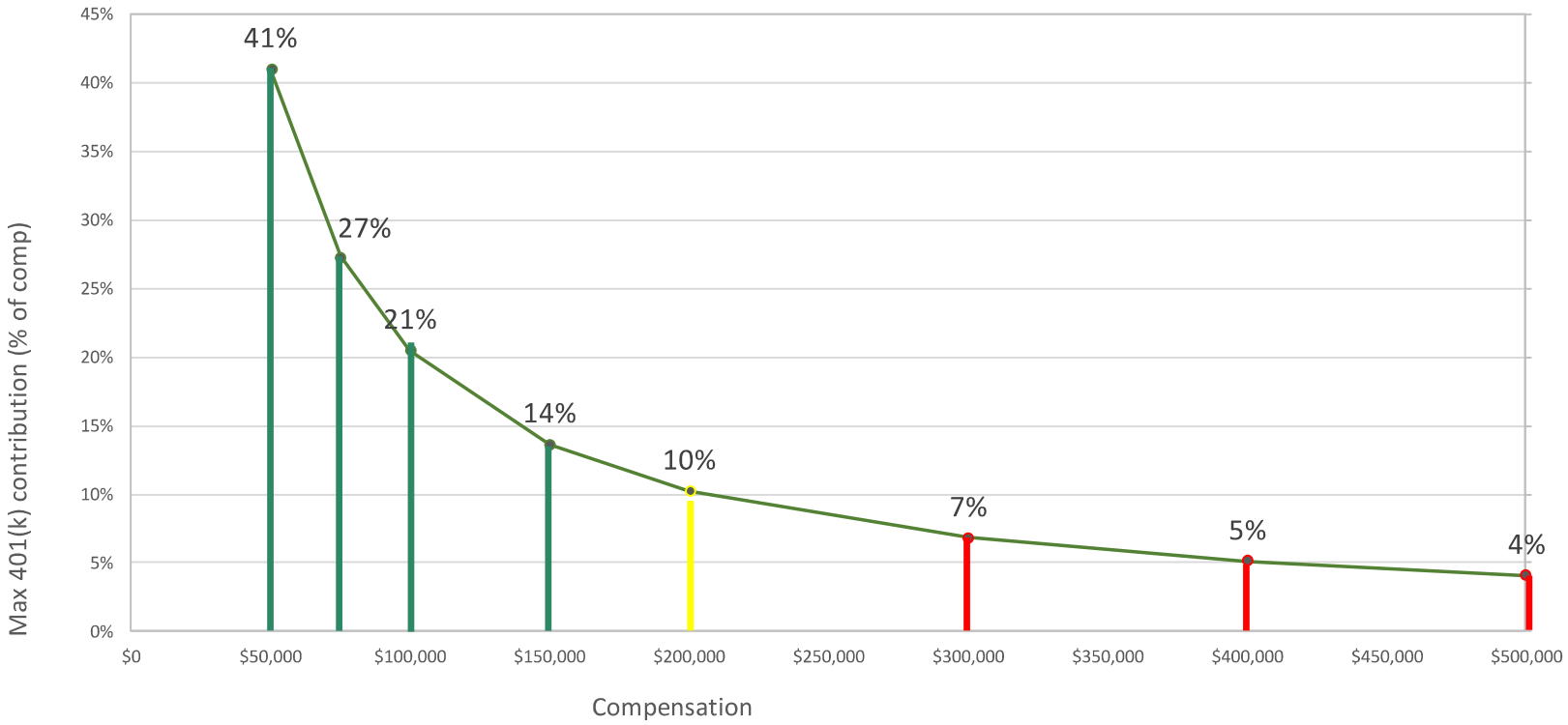
Employee Retention

59%

NQDCP | Why 401(k)s are not enough for HCEs

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As compensation increases, an employee's deferrable percent of income decreases



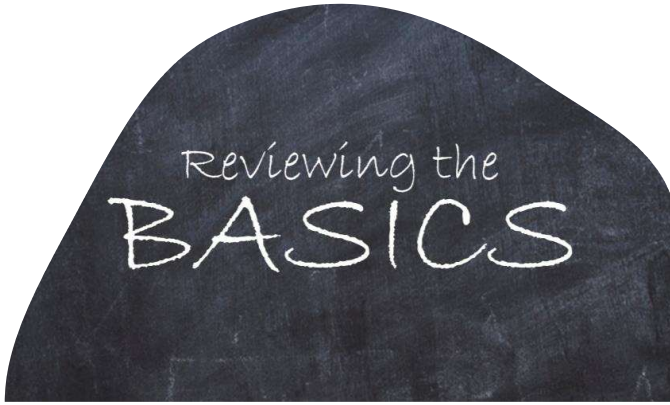
NQDCPs | The Basics

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- Eligibility: select group
- Deferrals: Pre-tax (federal and state income tax deferred)

  No dollar maximum
- Elections to defer: Made before compensation is earned

  An initial distribution election must accompany the deferral election
- Compensation deferred remains and is accounted for as a company asset, and would be subject to the claims of the general creditors of the company in the event of bankruptcy
- Exempt from most ERISA requirements
  - Can identify
    - individual employees *or*
    - groups of employees
  - for eligibility or discretionary company contributions



NQDCP | Benefits to Plan Sponsor

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- Enhances the value of your existing compensation strategy without increasing cash compensation
- Provides HR another tool in the toolkit to attract and retain key talent
  - Sign-on bonuses can be designed to spread the cash flow impact over several years
  - Targeted retention or incentive bonuses can be used to keep or motivate key employees at no cost to the company unless goals are achieved
- Is a low-cost, high-value plan that can be designed, implemented, and administered with little financial impact to the company



NQDCP | Benefits to Eligible Employee

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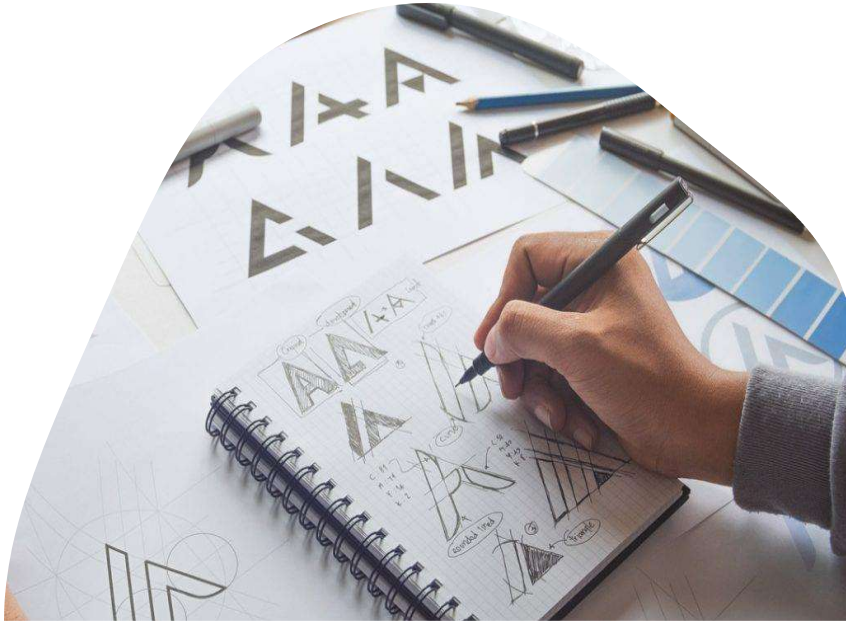
- Allows eligible employees to control when and how they take taxable receipt of their compensation
- Provides all the benefits of pre-tax investment without dollar caps on contributions
- Can extend 401(k) matching formula to limited but otherwise eligible compensation



NQDCP | Best in Class Design Elements

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- Simplified, streamlined and easy to understand
- Deferral of major forms of compensation used by the company
- Restoration of matching contributions restricted in 401(k)
- A diverse array of investment choices, including Asset Allocation + Fixed Crediting
- Distribution Upon:
  - Termination
  - Specified Date
  - Change of Control
- Distribution Methods:
  - Lump sum
  - Annual installments
- Secured with a rabbi trust
- Deferrals are used to self-fund; no additional cash outlay from company
- Low cost to plan sponsor





CASE STUDIES

Case Study #1

Retaining Specific Employees

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Problem:

Key employees were being wooed away by competitors



Case Study #1

Retaining Specific Employees

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How NQ was used to help address:

Established Key Employee Retention Plan

- Annual Company Contribution
- Amounts specific to individual
- 7-year tiered vesting
- Amounts funded to trust at time of vesting (no need to claw back unvested amounts)
- Participant elected distribution and investment elections



Case Study #2

Solving Qualified Plan Testing Issues Without Safe Harbor

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Problem:

National casual dining restaurant chain had significant issues with passing non-discrimination tests due to very large number of lower paid employees



Case Study #2

Solving Qualified Plan Testing Issues Without Safe Harbor

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How NQ was used to help address:

HCEs were permitted to participate only in NQ DCP



Case Study #3a/3b

Nullifying Competitive Compensation Disadvantages

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Problems:

3a) Key executive recruit hesitant about walking away from sizable unvested options

3b) Internal executive transfer losing contributions to Australian Government Pension benefit



Case Study #3a/3b

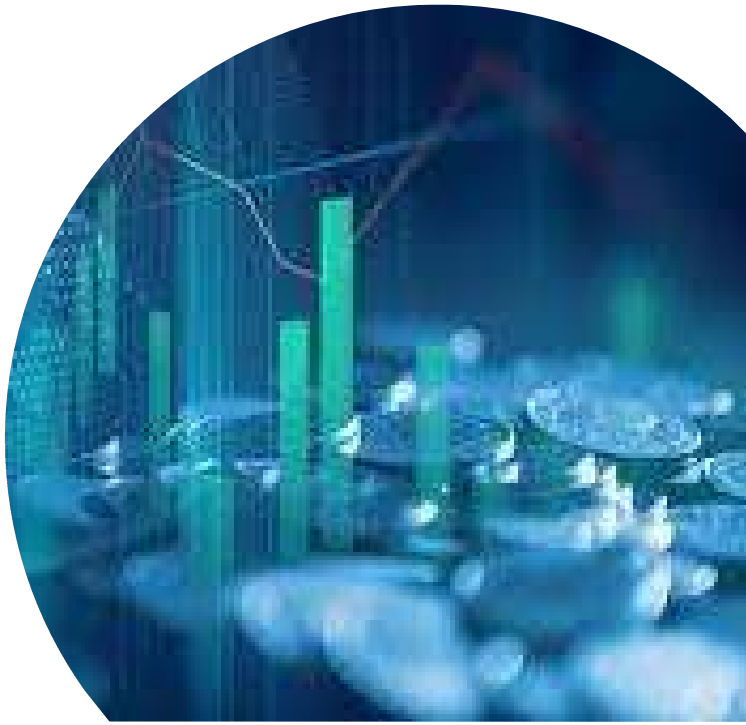
Nullifying Competitive Compensation Disadvantages

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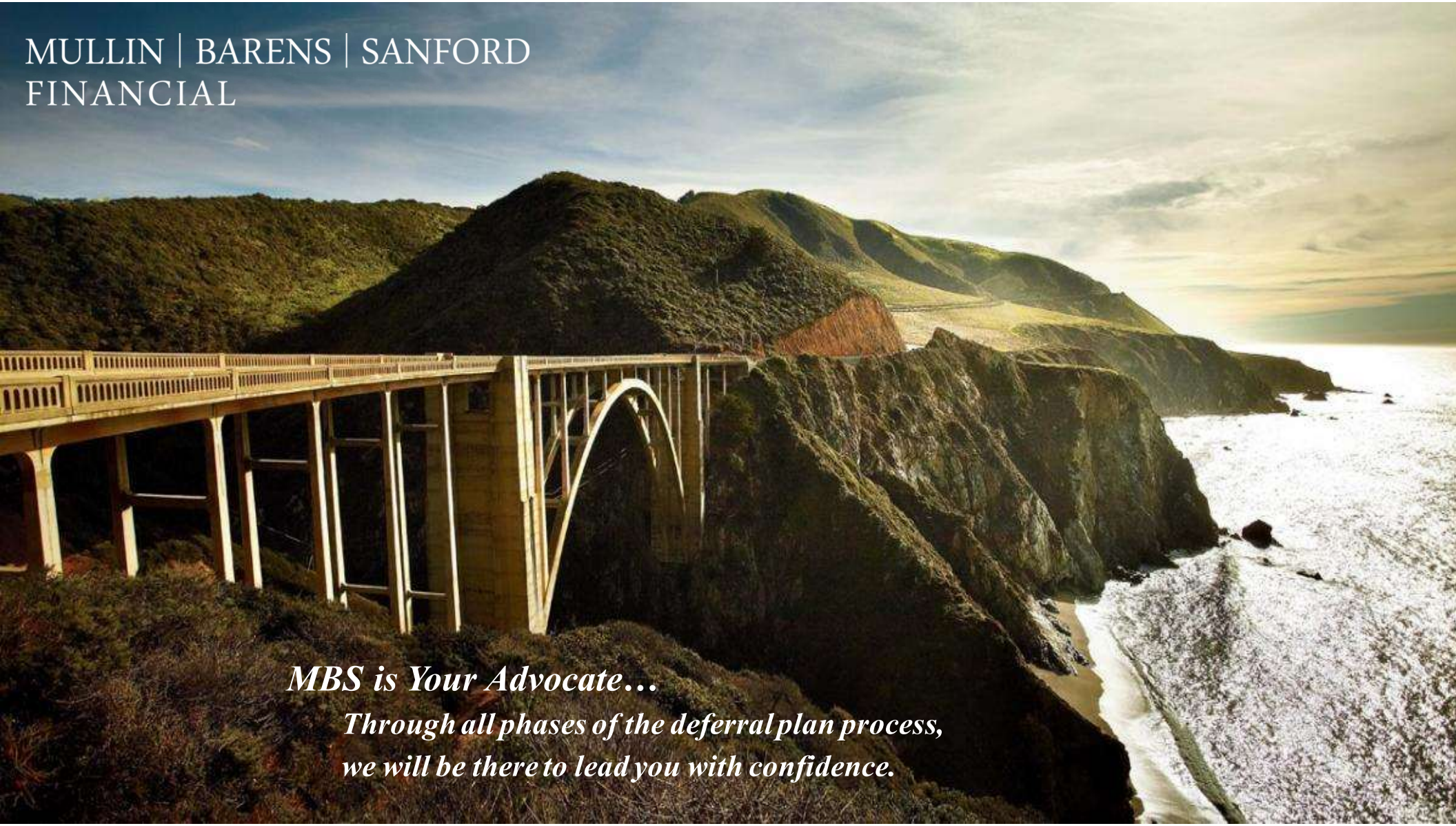
How NQ was used to help address:

3a) Discretionary company contribution mirrors remaining vesting schedule of unvested options.

3b) Special contribution made to new CEO's NQDCP account equalizing lost foreign pension benefit




QUESTIONS


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MBS is Your Advocate…
Through all phases of the deferral plan process,
we will be there to lead you with confidence.

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Erik Speed | Associate Principal

Erik has been a trusted resource to plan sponsors for over 25 years. With an integrity borne of his midwestern roots, he has partnered with his clients to ensure positive outcomes for all aspects of their benefit programs. A creative problem-solver and leader recognized by both peers and clients, Erik brings to MBS knowledge in nonqualified deferred compensation plans, helping to design, fund and manage innovative and accessible retirement and executive benefit programs.

Prior to joining MBS, Erik spent 20 years with Prudential and MullinTBG. He's also held consulting positions with Willis Towers Watson and BNY Mellon. He is a Series 6, 63 and 65 FINRA Registered Representative and holds a California state life and health insurance license.

Erik graduated from Cornell University with a B.S. in Applied Economics and Business Management and received his MBA from the University of Southern California's Marshall School of Business.

He and his wife Rachel live in Encino, California and are busy raising three teenage sons. They enjoy hiking Southern California's numerous mountain trails and look forward to their annual summer visit to their cottage on a remote lake in Ontario, Canada, which has been in Erik's family for 5 generations.



Bryn Mercado | Consultant

Bryn joined Mullin Barens Sanford Financial from a background in personal insurance lines. He spent years working as a Senior Producer for a major independent brokerage based in Orange County. During his time at this agency, he specialized in home and auto insurance, and actively represented over 25 insurance carriers, such as The Hartford, Travelers, Progressive, and Nationwide.

Bryn graduated from Westmont College with a B.A. in Psychology. He also competed on the Men's Tennis Team, serving as captain for 3 years.

Away from work Bryn loves to play tennis and spend time with his family at their home in Ladera Ranch, California. He and his wife Erynne keep active while raising their two young sons. Together they enjoy taking trips to San Diego, Santa Barbara, and Palm Springs. Bryn also volunteers as a Board Member for a non-profit foundation that is dedicated to mental health awareness

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1421 Emerson Ave., Oxnard CA 93033 | Website: www.mbsfin.com | main: (650) 740-7773 | direct: (818) 292-7206 | erik.speed@mbsfin.com
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