

## LIFE ADVANCED MARKETS

# Nonqualified deferred compensation using life insurance (single employee): Example deferral election form

Allows the key employee participating in the plan to choose the amount and timing of the compensation deferral.

Using this nonqualified deferred compensation (NQDC) plan, specific key employees may defer a portion of their income – such as salary, bonuses, or commissions – to be paid at a future date, typically upon retirement or separation from service.

The employee does not pay income taxes on any amounts deferred until such time as the employee receives the deferred compensation.

Unlike qualified plans (e.g., 401(k) plans), NQDC plans do not have to comply with ERISA<sup>1</sup> requirements, allowing for more flexibility in terms of design and participation criteria. NQDC plans do not have IRS contribution limits, and are typically unfunded, meaning the money remains part of the company's general assets and is subject to creditor claims in bankruptcy. However, employers may often choose to purchase life insurance policies on the lives of the plan participants in order to provide the liquidity necessary to pay the deferred compensation to the participants in the future per the terms of the plan.

Keep in mind that any strategy that includes life insurance is contingent on the health underwriting of the insured and financial underwriting. Employers should consult with financial professionals and tax professionals to determine whether it is an appropriate strategy for their specific situation.

All legal documents need to be drafted by an attorney; this example is provided as a reference for your discussions.



### Indexed Universal Life (IUL)

With its death benefit protection, accumulation potential, and the opportunity for loans and withdrawals, IUL can be a valuable tool for small businesses to address key-employee compensation, business succession, and business-owner estate-planning strategies.



**NEED ADDITIONAL HELP?** Call the Life Case Design Team at **800.950.7372**.

<sup>1</sup> Employee Retirement Income Security Act of 1974

This sample document is for general information only and is not intended to be legal, tax, or financial advice. Allianz Life Insurance Company of North America, its affiliates, and their employees do not provide tax or legal advice. We assume no responsibility or liability for any errors or omissions in the content of this document, nor for any actions taken based on it.

Clients should consult their own legal counsel to ensure that any agreements meet their specific needs and comply with applicable laws and regulations. The provision of this specimen document does not imply endorsement or approval of any specific terms or conditions contained within it. It is not adapted to the specific circumstances or objectives clients may have.

Allianz Life Insurance Company of North America does not provide financial planning services.

Indexed universal life (IUL) insurance policies provide a death benefit that is generally paid income-tax-free to beneficiaries, and the potential to build tax-deferred accumulation value. IUL requires qualification through health and financial underwriting.

Policy loans and withdrawals will reduce the available cash value and death benefit and may cause the policy to lapse, or affect guarantees against lapse. Withdrawals in excess of premiums paid will be subject to ordinary income tax. Additional premium payments may be required to keep the policy in force. In the event of a lapse, outstanding policy loans in excess of unrecovered cost basis will be subject to ordinary income tax. If a policy is a modified endowment contract (MEC), policy loans and withdrawals will be taxable as ordinary income to the extent there are earnings in the policy. If any of these features are exercised prior to age 59½ on a MEC, a 10% federal additional tax may be imposed. Tax laws are subject to change and you should consult a tax professional.

Product and feature availability may vary by state and broker/dealer.

Guarantees are backed solely by the financial strength and claims-paying ability of Allianz Life Insurance Company of North America.

Products are issued by Allianz Life Insurance Company of North America, 5701 Golden Hills Drive, Minneapolis, MN 55416-1297. 800.950.1962 [www.allianzlife.com](http://www.allianzlife.com)

This content does not apply in the state of New York.

**For financial professional use only – not for use with the public.**

# DEFERRED COMPENSATION AGREEMENT (SINGLE EMPLOYEE)

## 20\_\_ EMPLOYEE ELECTION FORM

I \_\_\_\_\_ (“Employee”) hereby elect to defer a portion of my compensation under the terms of the Nonqualified Deferred Compensation Agreement between \_\_\_\_\_ (“Employer”) and Employee dated effective \_\_\_\_\_ (the “Agreement”).

I understand that my election is irrevocable. I hereby certify that my decision to defer is not based upon reliance of any financial or tax advice given by the Employer. I further certify that I am aware that no ruling or determination has been obtained from the Internal Revenue Service that the Agreement will effect the deferral of income for income tax purposes. This election is subject to the terms and conditions of the Agreement.

### PART ONE: DEFERRAL ELECTION

This part of the form relates to the percentage you wish to defer. Please return this form by December 15, 20\_\_\_\_, reflecting your wish to defer compensation.

#### **Deferral of annual bonus or incentive plan compensation:**

I hereby elect to defer \_\_\_\_\_% (the minimum deferral is 25%) of my annual bonus or incentive plan compensation earned for 20\_\_\_\_, as specified by the Employer, which is payable in 20\_\_\_\_.

#### **Deferral of base salary:**

I hereby elect to defer \_\_\_\_\_% (no minimum) of my base salary starting January 1 through December 31, 20\_\_\_\_.

OR

I hereby **elect NOT to defer** any compensation in 20\_\_\_\_. (Please initial here \_\_\_\_\_)

*Note: By December 15, the Employee is required to make a new deferral election for any base salary, bonus, or incentive plan compensation.*

## PART TWO: DISTRIBUTION ELECTION

*(Important: See notes below if you have made a previous payment election. Skip this election unless you intend to change it under the conditions stated in notes below).*

This part two permits you to choose how your Deferred Compensation Account will be paid to you upon a separation of service from Employer. Please initial on the line corresponding to your choice.

### **Lump sum payment:**

\_\_\_\_\_ I hereby elect to receive my deferred compensation account payment in a one-time lump sum.

*(Note: Payment will be made as soon as administratively feasible following the year of your termination of employment.)*

### **Annual payment election:**

\_\_\_\_\_ I hereby elect to receive the deferred compensation account payments following my termination of employment in five (5) equal annual payments, with the first annual payment made as soon as administratively feasible following my termination of employment and with successive annual payments being made each year thereafter.

*Note: If your deferred compensation account balance is \$50,000 or less at the time that the first distribution payment is to be made, distribution of the account balance will be made in a single lump sum.*

*Note: If you decide to change your payment election in the future, the election must be changed at least 365 days before your termination of service.*

\_\_\_\_\_  
Date

\_\_\_\_\_  
Employee signature

RECEIVED BY EMPLOYER: \_\_\_\_\_

*Authorized signature*

Date received: \_\_\_\_\_