

## LIFE ADVANCED MARKETS

# Nonqualified deferred compensation using life insurance (single employee): Example resolution

Authorizes the key employee compensation arrangement and ensures it is implemented in a structured and legally sound manner

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

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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.

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# CORPORATE RESOLUTION OF EMPLOYER

*(to be used with nonqualified deferred compensation agreement – single employee)  
(for use only in situations where the stock of the employer is not publicly traded)*

The undersigned, being all of the directors of \_\_\_\_\_, a corporation duly organized and existing under and by virtue of the laws of the State of \_\_\_\_\_, at a meeting of the board of directors duly called on the \_\_\_ day of \_\_\_\_\_, 20\_\_ and held at \_\_\_\_\_, with a quorum present, unanimously adopt the following resolutions:

**WHEREAS,** \_\_\_\_\_ (the “Employee”) as a valued employee of the company has acquired experience and knowledge and has performed valuable services to the business of the company and the company desires that Employee continue to do so; and

**WHEREAS,** the establishment of a deferred compensation agreement for the Employee serves the interests of the Employer by assisting in [recruiting][retaining] Employee; and

**BE IT RESOLVED:** That the Employer hereby adopts the Nonqualified Deferred Compensation Agreement between Employer and the Employee (the “Nonqualified Deferred Compensation Agreement”), a copy of which is attached hereto.

*[optional if Rabbi Trust is used] **BE IT FURTHER RESOLVED:** That the compensation amounts deferred by the Employee pursuant to the Nonqualified Deferred Compensation Agreement shall be held in trust, with \_\_\_\_\_ serving as trustee, for the exclusive benefit of the Employee and the Employee’s beneficiaries, and the deferred compensation amounts shall not be diverted or used for any other purpose.*

**BE IT FURTHER RESOLVED:** That the appropriate officers of the corporation are hereby authorized and directed to: (1) take the necessary steps to perform the Employer’s obligations as set forth in the Nonqualified Deferred Compensation Agreement, (2) take such actions as may be necessary to obtain a policy of life insurance on the life of the Employee in an appropriate face amount, issued by Allianz Life Insurance Company of North America, with the company identified as the owner and as beneficiary of such policy as a means to provide a secure, tax-advantaged source of funds to finance Employer’s future obligations as described in the Nonqualified Deferred Compensation Agreement; and (3) to pay from the company’s funds all premiums for such life insurance policy as they become due and payable.

By signing this instrument, the undersigned take the above actions on the \_\_\_ day of \_\_\_\_\_, 20\_\_.

\_\_\_\_\_  
Director

\_\_\_\_\_  
Director

\_\_\_\_\_  
Director