A resource for business owners

Guardian®

Discover the Salary Deferral Plan

A valuable retention tool for you. A retirement planning solution for your top performers.

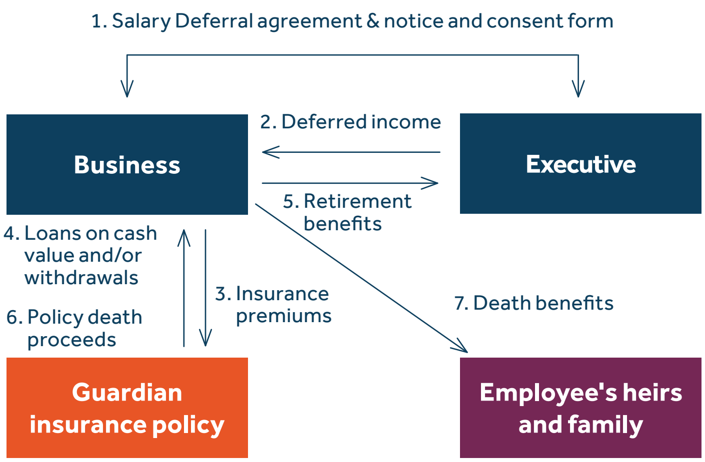
Highly compensated employees often worry about saving enough for retirement. One reason is because government-imposed caps on retirement plan contributions make it difficult for them to save enough for the future on a tax-efficient basis. So it's common for these key employees to look for solutions that can help them plan today for a more financially stable retirement — one where they don't have to make major sacrifices in their lifestyle. You can help provide this solution by implementing a Salary Deferral Plan.

What is a Salary Deferral Plan?

A Salary Deferral Plan is a type of non-qualified deferred compensation plan that enables your business to recruit, retain, reward, and retire a select group of your key employees. A Salary Deferral Plan can be designed to provide pre-retirement death benefits, post-retirement income, or both. This type of plan can be used in tandem with, or instead of, a qualified retirement plan.

With a Salary Deferral Plan, the promise to pay benefits is required to be unsecured and unfunded. But many businesses choose to "informally" fund their plan benefits through the use of business-owned permanent life insurance. In such cases, the business will be the applicant, owner, beneficiary and premium payer of the policy on the participating employee's life.

The illustration below shows how a Salary Deferral Plan works when funded with life insurance.



How a Salary Deferral Plan works

1. Your company enters into a written agreement with your key employee, where your business agrees to provide specified retirement and death benefits.
2. Your key employee agrees to defer current income, thus reducing their current taxes. Your company agrees to credit those deferrals with "interest."
3. Your company will be the applicant, owner, beneficiary, and premium payer of the policy on your employee's life to informally fund the plan and provide a level of comfort to your employee that the business will have the resources to pay the benefit in the future.
4. Upon your employee's retirement, your business takes policy loans and/or withdrawals to make the retirement benefit payments.[1, 2]
5. Alternatively, upon your employee's retirement, your business can pay the benefits from current cash flow and cost recover the benefit payments through eventual receipt of the death proceeds from the insurance.
6. If your employee dies before reaching retirement, your business receives the policy's death benefit income tax-free.
7. Your business then pays survivor benefits to your employee's designated beneficiaries.

Advantages

A Salary Deferral Plan offers various benefits — for both your business and your participating employees.

For your business:

- **Flexibility:** Your company can select the key employees who will participate — and can offer different participants different benefit levels.
- **You can customize the benefit:** Your business can tailor the plan to meet your executives' needs, and vary benefits and timing based on what is most appealing to each participating executive.
- **Financial benefits:**[3] The life insurance policy grows tax deferred and is listed as an asset in your company's books, and the income tax-free death benefit can be used to help recover plan costs.
- **Tax advantages:** Your business gets a tax deduction[4] when it ultimately pays the benefit.
- **The plan is relatively easy to implement:** A typical Salary Deferral Plan requires only a board resolution, a Salary Deferral Plan agreement, and a one-time plan notice to the Department of Labor.

For your participating employees:

- **They can defer more money:** Your participating employees will receive an additional retirement benefit.
- **Tax advantages:** No income tax is payable by the key employee on the benefit until it is actually paid out.

Learn more today

Contact a Guardian financial professional to discover how a Salary Deferral Plan can help protect the long-term financial stability of both your business and the top performers that contribute to its ongoing success.

The Guardian Life Insurance Company of America

guardianlife.com

New York, NY

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1 Policy benefits are reduced by any outstanding loan or loan interest and/or withdrawals. Dividends, if any, are affected by policy loans and loan interest. Withdrawals above the cost basis may result in taxable ordinary income. If the policy lapses, or is surrendered, any loans considered gain in the policy may be subject to ordinary income taxes. If the policy is a Modified Endowment Contract (MEC), loans are treated like withdrawals, but as gain first, subject to ordinary income taxes. If the policy owner is under age 59½, any taxable withdrawal may also be subject to a 10% tax penalty.

2 Some whole life policies do not have cash values in the first two years of the policy and don't pay a dividend until the policy's third year. Talk to your financial representative and refer to your individual whole life policy illustration for more information.

3 Dividends are not guaranteed. They are declared annually by Guardian's Board of Directors.

4 Guardian, its subsidiaries, agents, and employees do not provide tax, legal, or accounting advice. Consult your tax, legal, or accounting professional regarding your individual situation.