



## NONQUALIFIED SALARY CONTINUATION PLANS

### *A Powerful Fringe Benefit for Key Employees*

Every business has key employees—people who make those important decisions that affect profits. A valuable commodity, these employees are difficult to find and harder still to replace. It's not unusual for a business to find that one of its key employees has been “pirated away” with enticements of increased salary and better benefits by a competitor. Left in such a position a company faces the unenviable task of replacing and retraining - fast!

One of the most powerful tools a business can use to retain key employees is a nonqualified salary continuation plan. It is the single benefit key employees are most reluctant to leave behind.

### **What Is A Nonqualified Salary Continuation Plan?**

Basically, a nonqualified salary continuation plan is a promise. The business promises to pay the key employee a future benefit if the key employee remains with the business until retirement at a specified age. The business may also promise to pay a death benefit to the key employee's family if he or she dies before all the promised retirement benefits are paid. Life insurance policies have tax advantages which make them an efficient way to fund these plans. Here's how it works:

Through the salary continuation plan, the employer purchases an insurance policy on the key employee and pays the annual premiums. The employer is the owner and beneficiary of the insurance policy. At retirement, or death, the employer pays the promised benefits. Upon the employee's death, the employer recovers its cost from tax-free insurance dollars.

### **What Are The Advantages?**

Apart from providing a valuable benefit that helps employers retain and attract key employees, there are other advantages for both employers and employees on this type of plan.

Employers like the fact that no IRS approval is required. In contrast to other “traditional” plans, which require participation from employees of all levels, this type of plan can be completely selective. Favoring key employees is legal. The benefit can be provided at little or no ultimate cost. Also, the insurance policies funding the plan remain assets of the company.

The key employees receive the benefit at no cost and they only pay taxes on the benefits as they are paid out. Key employees can use the plan to supplement their “traditional” retirement plans, receiving the benefits after they retire.

### **Plans Can Be Customized To The Needs Of The Business.**

Nonqualified salary continuation plans can also be personalized to help businesses accomplish their goals in recognizing and rewarding key employees. The business decides which key employees receive the benefit and payment is contingent on the employee remaining with the business until retirement. Those who leave forfeit all the supplementary benefits.

For all of these reasons, many businesses are turning to nonqualified salary continuation plans. Many find that they produce happier, more productive key employees who are committed to the business until retirement through a plan, which minimizes the business' cost.

*Specific tax and legal consequences should be verified by your tax advisor.*



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