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Waldron Private Wealth

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“To defer or not to defer?”

By Michael Krol

THAT IS THE QUESTION

Top executives often have the option to invest in many different retirement plans as part of their compensation package. Yet, each plan comes with different risks, rules and benefits that can often confuse employees to the point of decision paralysis.

One compensation plan option that often puzzles employees due to its many rules and payout options, is the nonqualified deferred compensation plan.

A nonqualified deferred compensation plan allows an employee to take compensation (salary, bonus, commissions, etc.) earned in one year and delay payment until a future date. The deferred compensation is then invested until the designated time in which the individual elects to have it distributed. During this time, those investments can grow tax deferred, and income tax is applied only when the plan starts distributing the funds.

There are many questions to consider when determining whether or not you should participate in a deferred compensation plan, including:

01 Do you need the funds now? The decision to defer

compensation should only be made if you will not need access to the funds in the short term. There are rules in place which prohibit moving your deferred compensation-plan payout date to an earlier date than the one originally selected.

02 Will your tax rate be equal to or lower than your current tax rate when payouts begin? If you are going to be in a higher tax bracket when the deferred compensation pays out, you will be paying a greater amount of tax than if you had paid it in the year you earned that income.

03 What are the plan's investment options? Each company selects the investment options to be made available to its employees. You should review those options to determine if they will meet your goals.


04 How much confidence do you have in your company being around when you begin your distributions? Nonqualified deferred compensation plans treat participants as unsecured creditors of the company should it go into bankruptcy. This means that your deferred compensation is

not guaranteed and that you should probably avoid plan participation if you don't have confidence in the financial stability of your company.

If you decide that participating in a deferred compensation plan makes sense for you, the next two questions to consider are: How much should you contribute, and how should distributions be structured?

The answer to these questions should be coordinated with your overall investment and savings strategy. Because there are many rules in place which limit your ability to change your election, it is important to work with your HR department or a planning professional before you make an election.

A nonqualified deferred compensation plan can be a great savings vehicle for individuals who are looking to save assets for future expenses and will not need to access those funds in the short term.

It is also important to note that because most individuals will not be able to save all that they need for retirement by investing solely in a nonqualified deferred compensation plan, other saving strategies should be considered as well. 

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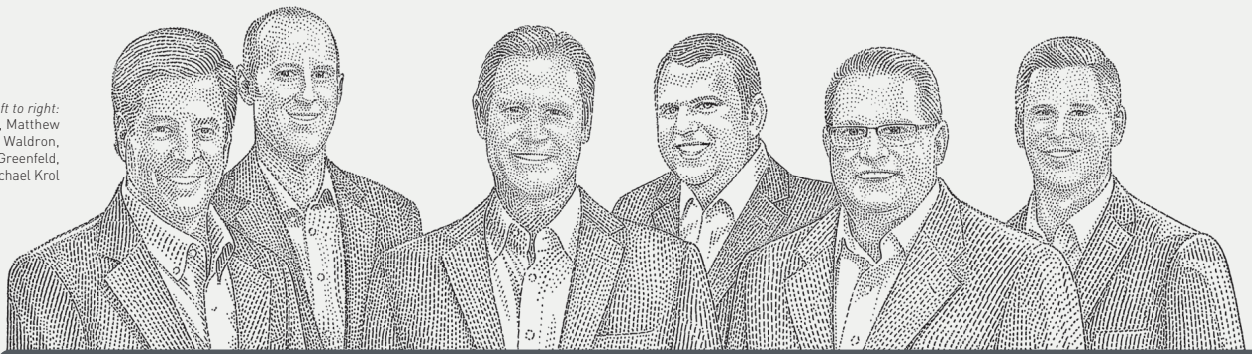
“A nonqualified deferred compensation plan can be a great savings vehicle for individuals who are looking to save assets for future expenses.”

—Michael Krol

How to reach Waldron Private Wealth

You can reach Waldron at 412.221.1005. We would be happy to discuss our process and approach with you.

Left to right:
Jim Mendelson, Matthew Helfrich, John Waldron, Benjamin Greenfeld, Chris Roe, Michael Krol



About Waldron Private Wealth

Waldron Private Wealth is a boutique private wealth management firm that advises a select group of high net worth individuals, families and family offices. By limiting the number of clients it serves, Waldron can offer greater focus on how to best simplify the complexities of significant wealth, so all clients can achieve what’s important in their lives. Waldron’s advisory team is prepared to serve its clients across a wide range of key financial disciplines. The advisory team includes: three CPAs, seven CFPs, an attorney, a certified divorce financial analyst and three members holding certificates from the Institute for Preparing Heirs.

Financial Services Experience
112+ years (combined)

Assets Under Management
\$1.1 billion (as of 12/31/2014)

Minimum Fee for Initial Meeting
None required

Minimum Net Worth Requirement
\$5 million

Largest Client Net Worth
Confidential

Compensation Method
Asset-based (investment services), hourly and fixed fees

Primary Custodians for Investor Assets
Fidelity Family Office Services and Pershing

Professional Services Provided
Planning and investment advisory services

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