



Nonqualified Deferred Compensation Survey

Insights into how plan sponsors view NQDC plans as a critical employee benefit—
and a powerful tool for retaining key employees



NQDC Perspectives From Morgan Stanley at Work

Across industries and company sizes, attracting and retaining top talent is critical to the success of any business. Companies are searching for tools that can give them an edge when competing for senior executives and other key employees.

Our recent survey of 200 plan sponsors shows that nonqualified deferred compensation (NQDC) plans have emerged as powerful tools in companies' efforts to provide well-rounded and differentiated benefit offerings. The survey also revealed many valuable insights about how plan sponsors can leverage the flexibility offered by NQDC plans and tailor their offerings to meet the needs of their key executives.

As with any workplace benefit, educating employees and guiding them through their participation decisions is essential for capitalizing on the benefits these plans offer. The survey highlights ways plan sponsors can work with their plan provider to deliver the resources and support employee needs.

We welcome you to explore the survey results and discuss with us how your organization can use NQDC plans to better serve your key employees and strengthen your workplace benefits offering.



Thank you,
Scott Whatley
Head of Morgan Stanley at Work

Contents

1

Plan Eligibility, Participation and Features

Employee demographics and participation rates can shape plan sponsors' approach to NQDC education and plan design.

[JUMP TO SECTION](#) →

2

The Role of the Plan Provider

Plan providers help plan sponsors address their NQDC challenges by offering expertise, bundled solutions and access to dedicated representatives.

[JUMP TO SECTION](#) →

3

Education, Advice and Guidance

Plan sponsors believe NQDC education and advice are critical, and there is room for improvement in both content and delivery.

[JUMP TO SECTION](#) →





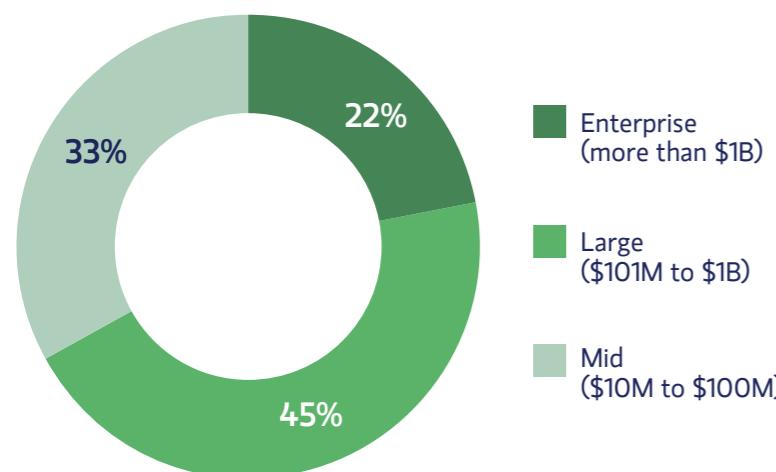
About the Survey

In September 2024, Morgan Stanley sponsored an independent survey of 200 employee benefits influencers or decision-makers at mid- to enterprise-sized companies that offer NQDC plans.¹

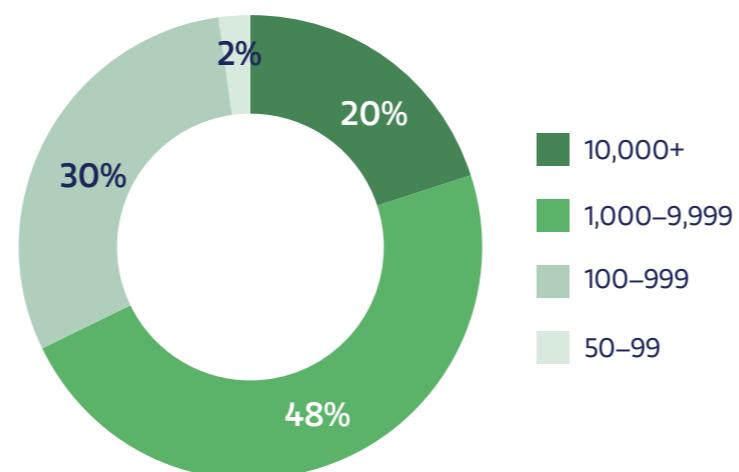
Respondents represented 63% public and 37% private companies with at least \$10 million in revenue, including two-thirds of respondents representing plans with more than \$100 million.

Respondent Characteristics

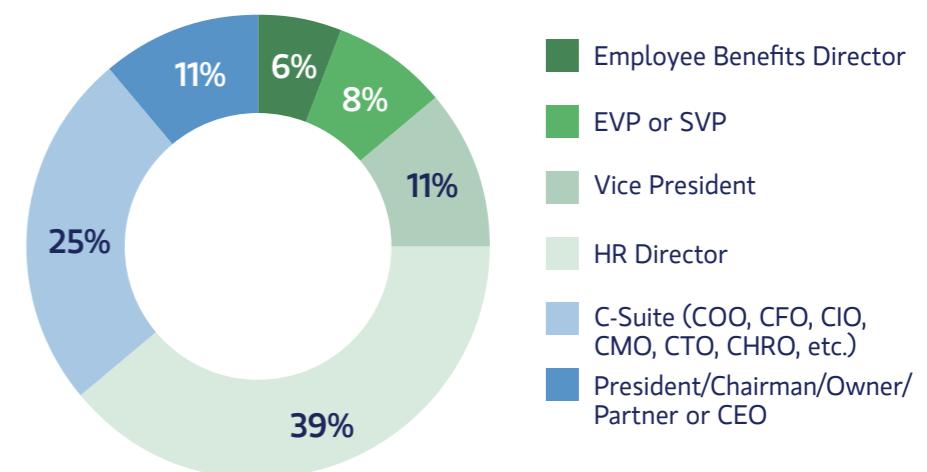
Company Annual Revenue



Company Number of Employees



Respondent Roles



¹ The survey was conducted by independent research firm 8Acre Perspective. Morgan Stanley was not identified as the research sponsor.





Nonqualified Deferred Compensation (NQDC) Plans Explained

A NQDC plan is a tax-deferred workplace benefit offered by a plan sponsor to a select group of highly compensated employees and key executives that can allow for employer and employee contributions.

Unlike 401(k) plans, NQDC plans generally are not subject to statutory contribution limits, which make them enticing to high-earning employees who seek to replace a larger percentage of their income in retirement.

Benefits for companies:

- Can be a powerful executive recruitment and retention tool.
- May be used as reward for meeting performance targets.
- Plans can be created at any time of the year.

Benefits for executives:

- Additional tax-deferred savings opportunity for those affected by contribution limits and/or discrimination testing.
- Plan may reduce current income taxes.
- Executives may be able to receive payouts while still employed.



Keep exploring NQDC features:

[Read more from Morgan Stanley at Work](#), including how a NQDC plan differs from a qualified 401(k) plan.





NQDC Impact

Plan sponsors view NQDC plans as a valuable wealth planning tool for employees and a competitive advantage in the pursuit of top talent.





NQDC Plans Deliver an Outsized Impact Among Core Financial Workplace Benefits

While it may be tempting to view NQDC plans as simply a complement to 401(k) plans, the survey results indicated that plan sponsors believe NQDC plans play a vital role in attracting and retaining key employees.

Plan sponsors reported that NQDC plans have, by far, the greatest impact among other retirement plan types; this suggests that the ability to offer benefits that go beyond more common offerings is noticed and appreciated by key employees.

Impact of Employer Benefits on Employee Acquisition, Retention and Satisfaction

Low Impact Medium Impact High Impact

5% 36% 59%

NQDC

9% 48% 43%

Defined Benefit Plan (pension, cash balance)

7% 55% 39%

Equity Compensation Plan (stock options, employee stock purchase plan)

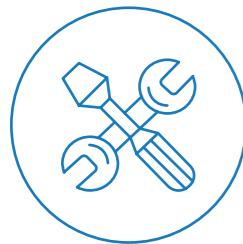
7% 54% 38%

Defined Contribution Plan (401(k), profit sharing)

Q

In terms of impact on employee acquisition, retention and satisfaction, how would you rate each of the following benefits? Base: Total (N=200)





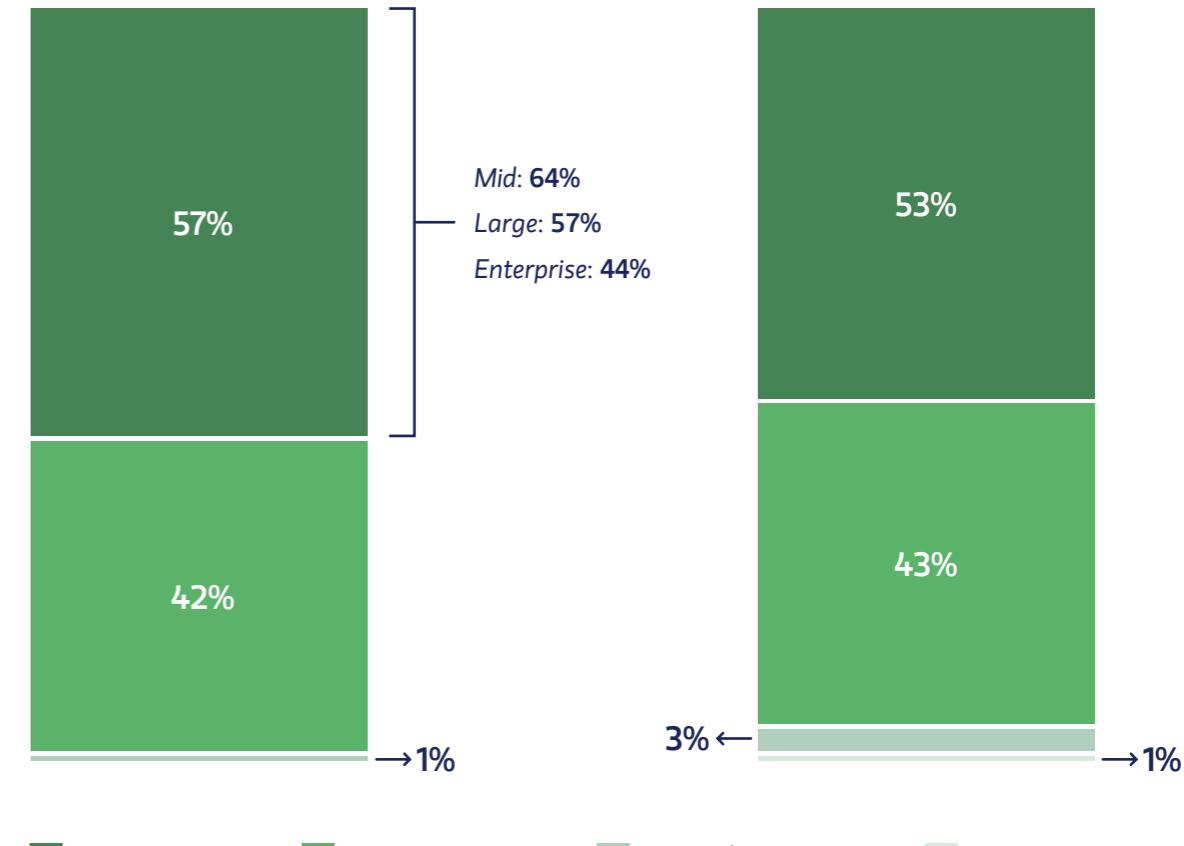
NQDC Plans Are Gaining in Popularity—and Becoming Increasingly Vital

Employers view the NQDC plan as an important tool in the pursuit of senior talent, and there is a strong sense that uptake is increasing among companies of all sizes.

Notably, nearly two-thirds of mid-sized companies strongly agreed that NQDC plans are gaining in popularity.

As companies in this size segment look to retain their key executives or recruit them from larger companies with teams dedicated to managing employee benefits, the relative flexibility of NQDC plans offer an opportunity for mid-sized firms to gain an edge.

“NQDC plans are gaining in popularity”



Q

To what extent do you agree or disagree with the following statement:
NQDC plans are gaining in popularity with more firms our size offering it.
Base: Total (N=200)

Q

To what extent do you agree or disagree with the following statement:
When competing for senior talent in today's economy, it is important to offer nonqualified deferred compensation (NQDC).





Plan Eligibility, Participation and Features

Employee demographics and participation rates can shape plan sponsors' approach to NQDC education and plan design.



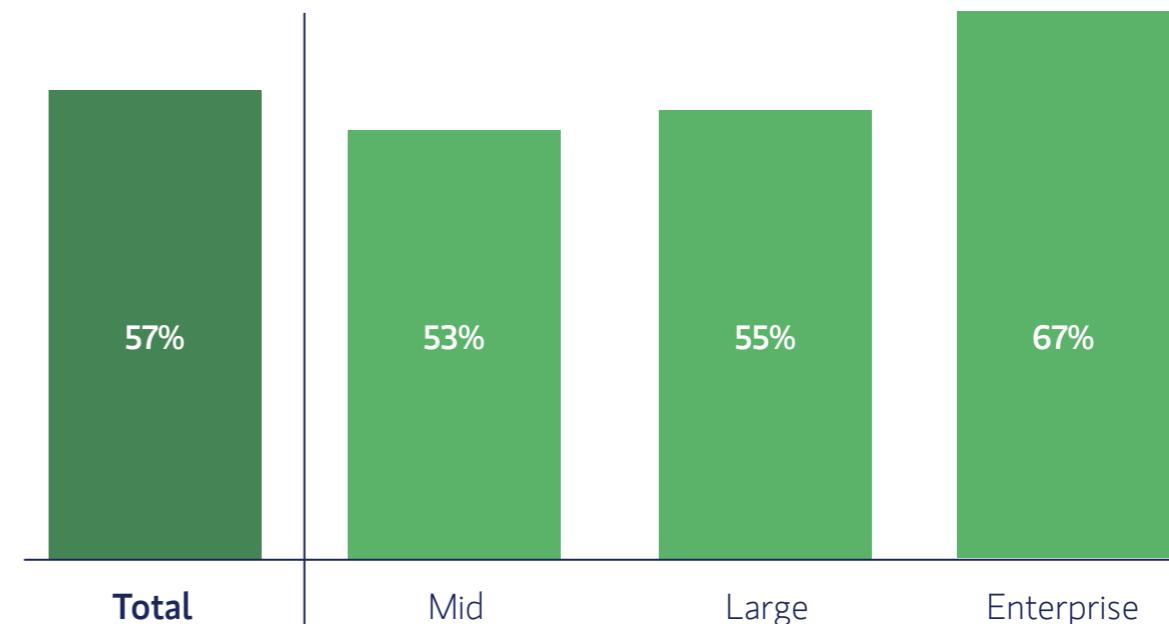


Employees Typically Take Advantage of NQDC Opportunities

For employers that go through the effort and expense of establishing a retirement plan, it can be confounding if few employees take advantage of the benefit. Fortunately, this isn't the case with NQDC plans.

On average, 57% of eligible employees participate in a NQDC plan, based on respondents' estimates; this number increases to 67% at enterprise-sized companies.

Average Percent of Eligible Employees Participating in the NQDC Plan

**Q**

As best you can approximate, what percentage of eligible employees participate in the NQDC plan? Base: Total (N=200)





Participation Gaps Exist Across Several Demographic Lines

Company tenure (longer) and income (higher) are the characteristics most likely to correlate with NQDC plan participation. Age appears to play a meaningful role, as well, with employees between the ages of 45 and 54 being the most likely to participate.

In addition, men are more likely to participate than women. This gender gap may be partially explained by differences in the number of men and women in higher income brackets, as research shows that the earnings gender gap is still 28%. Meanwhile, the gender gap in retirement income is 32%—or 4% greater than the earnings gap.*

This data suggests that companies may want to focus their education and engagement efforts on the benefits for their women executives.

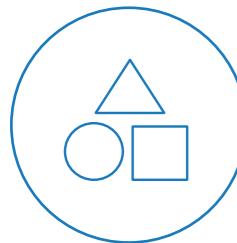
* [The Institute for Women's Policy Research](#)

Q Thinking only about eligible employees, please indicate which eligible employee profiles are more likely to participate in the NQDC plan. Base: Less than 100% of eligible employees participate in the NQDC plan (N=197)

NQDC Plan Participation by Employee Profile

Percent of plan sponsors indicating a profiling characteristic is more likely to participate.





Plan Design—and Its Various Elements—Plays a Key Role in Driving Participation

Because they generally aren't subject to many of ERISA's restrictions (if structured and operated properly), NQDC plans offer employers more flexibility to design the plan for the needs of their specific workforce and financial situation.

This flexibility exists across multiple dimensions, and respondents indicated that distribution timing* is the feature that has the greatest impact on the appeal of the plan for participants.

Plan Features That Most Impact the Appeal of a NQDC Plan

	% Ranked Among Top 3 Features	% Ranked as Top Feature	Currently Offer
Flexible distribution timing	67%	32%	32%
High quality notional investment lineup	55%	23%	64%
Employer financial contribution (e.g., match)	55%	15%	70%
Default on employee bonus	50%	12%	57%
Rabbi Trust	43%	10%	35%
No contribution limit	28%	10%	27%

* The form and timing of distributions must be elected at the time of the deferral election and generally cannot be accelerated.



What plan features do you believe most increase the appeal of a NQDC plan for employees? Rank order up to three plan features.



And which of the following plan features do you currently offer as part of your NQDC plan? Base: Total (N=200)

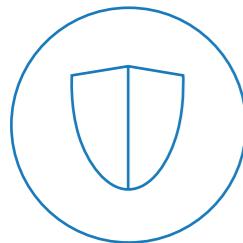




The Role of the NQDC Plan Provider

Plan providers can help plan sponsors address their NQDC challenges by delivering expertise, bundled solutions and access to dedicated representatives.





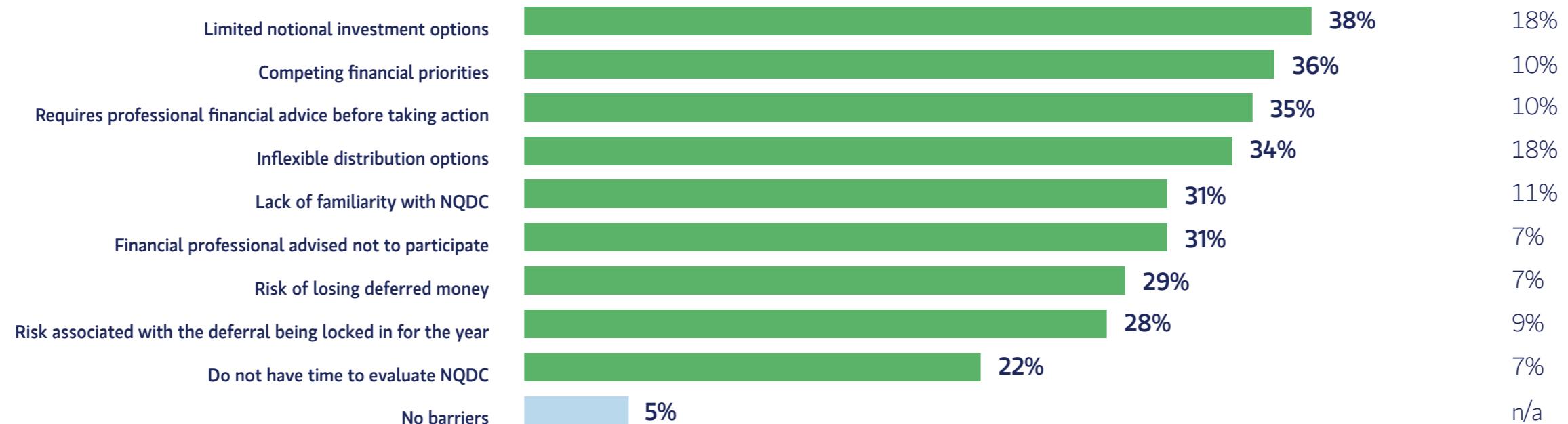
Despite NQDC Popularity, Many Barriers to Participation Exist

Employers cited an array of reasons why eligible employees may choose to not participate in a NQDC plan. While some of these reasons can be influenced by plan design features or education and advice offered by the plan sponsor, others—such as competing financial priorities and risk of losing deferred money—are part of the fundamental decision employees face about whether it makes sense for them personally to defer income.

Top Barriers to NQDC Plan Participation

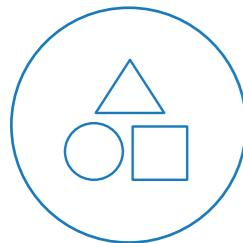
% Ranked Among Top 3 Features

% Ranked as Top Barrier

**Q**

What are the top barriers to eligible employees participating in the NQDC plan? Rank order up to three barriers. Base: Total (N=200)





It Can Be Difficult to Evaluate the Impact of a NQDC Plan

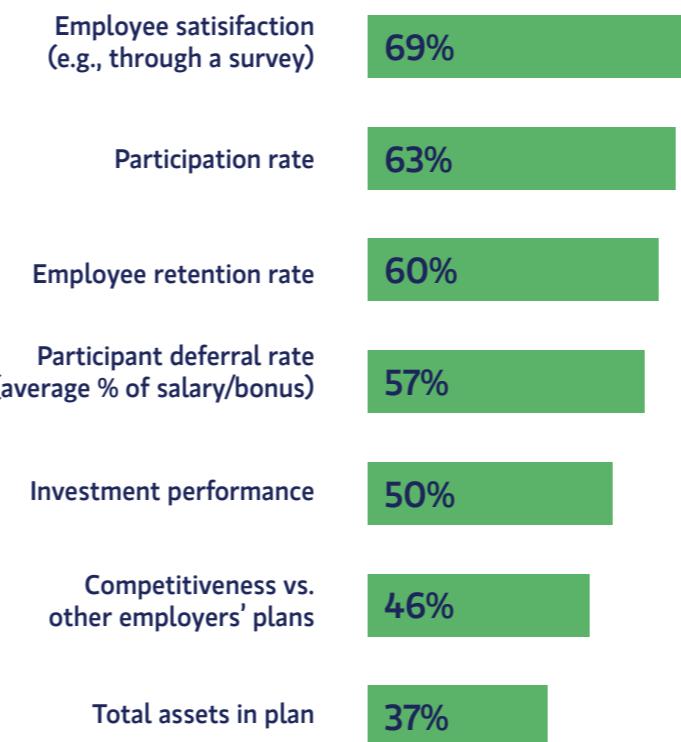
With any benefit, it's important for plan sponsors to determine whether the offering is achieving its intended purpose. Unlike with 401(k) plans, for which participation and savings rates are the key metrics that nearly all plan sponsors monitor, there is less agreement about the best way to measure the success of a NQDC plan.

The fact that a qualitative measure (employee satisfaction) is the most-cited method suggests that NQDC plan sponsors believe that these plans are designed to make their key employees feel well-taken care of—and hopefully results in retention.

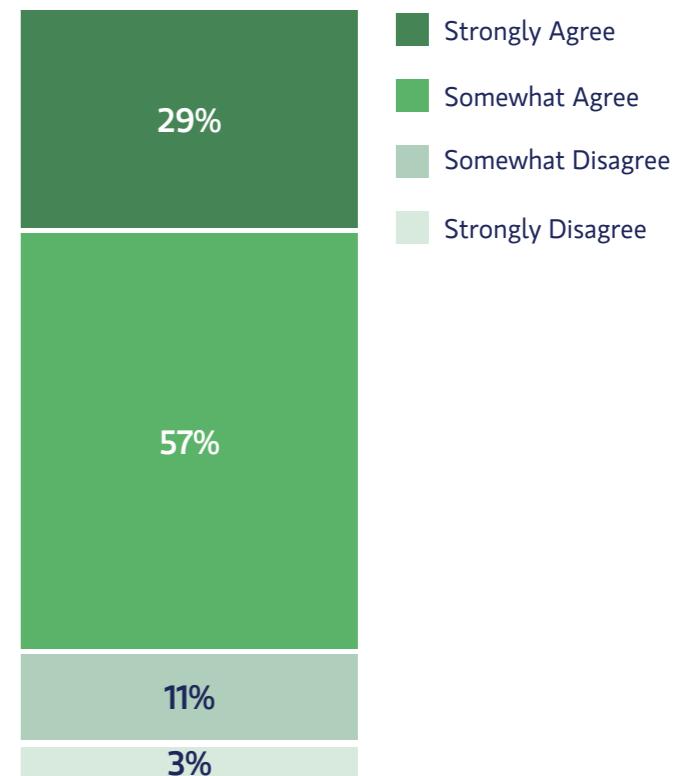


To what extent do you agree or disagree with the following statement: It is challenging to evaluate the impact the NQDC plan has on our company.

How a Firm Evaluates Success of Its NQDC Plan

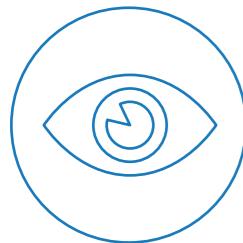


"It is challenging to evaluate the impact the NQDC plan has on our company..."



How does your firm evaluate the success of its NQDC plan?
Base: Total (N=200)





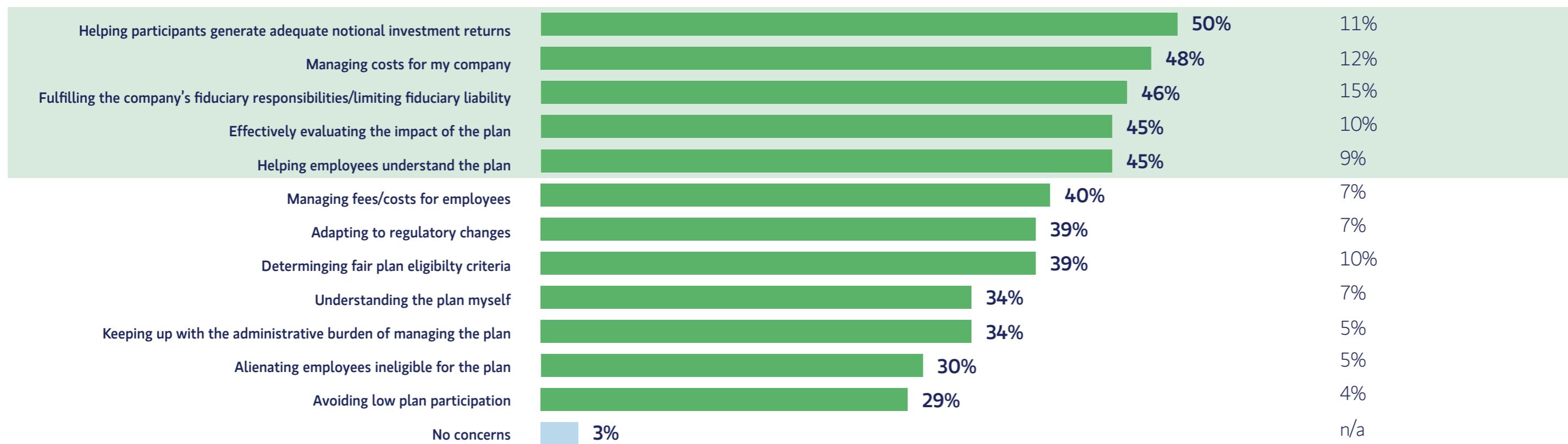
Plan Sponsors' Top Concerns Involve Acting in Employees' Best Interests

Employers' concerns related to running a NQDC plan touch on a wide range of priorities. Several of the most-cited concerns center around acting in employees' best interests (e.g., generating adequate notional investment returns, fulfilling fiduciary responsibilities and educating employees about the plan). Managing costs, both for the company's sake and for employees' benefit, also emerged as common concerns.

Main Concerns With a Company's NQDC Plan

% Ranked Among Top 5 Concerns

% Ranked as Top Concern



When it comes to your company's NQDC plan, what are your main concerns? What (figuratively) keeps you up at night? Rank order up to five concerns. Base: Total (N=200)





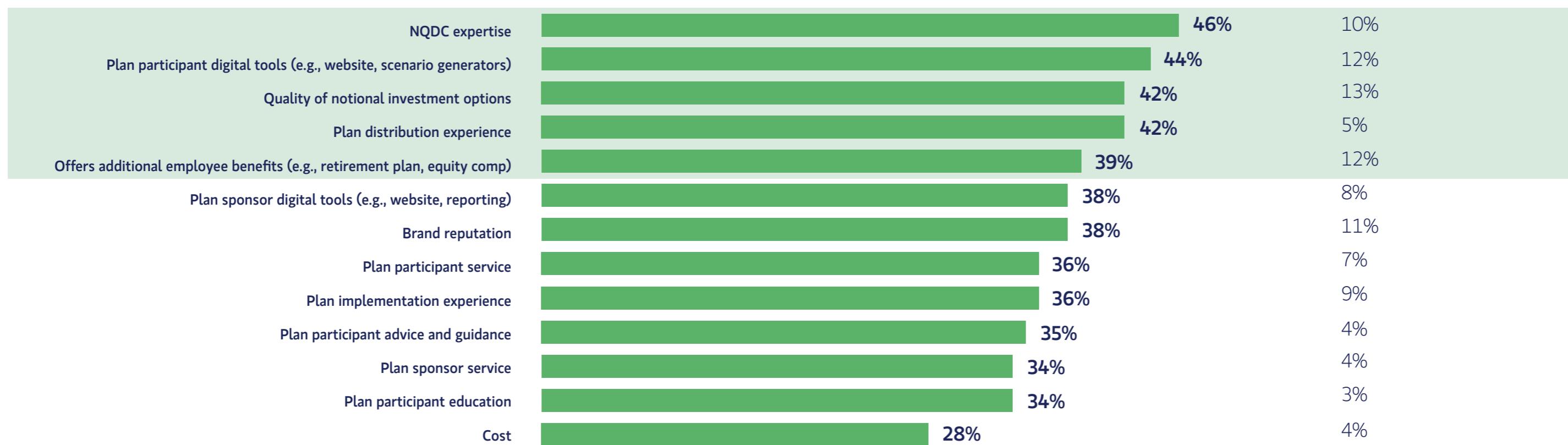
Plan Sponsors Seek Broad Capabilities from NQDC Plan Providers

To address concerns and create a NQDC plan that is tailored to the company's needs, employers are seeking plan providers with a diverse set of experience and specialties. Given the relative lack of understanding among participants about NQDC plans and the high degree of flexibility with the plan design, the ideal plan provider combines NQDC experience, robust digital resources, quality notional investment options and complementary benefit offerings.

Most Important NQDC Plan Provider Qualities

% Ranked Among Top 5 Provider Qualities

% Ranked as Top Quality

**Q**

As the plan sponsor, what NQDC plan provider qualities are most important to you? Rank order up to five provider qualities. Base: Total (N=200)





Bundled Retirement Services May Help Plan Sponsors Capitalize on NQDC Opportunities

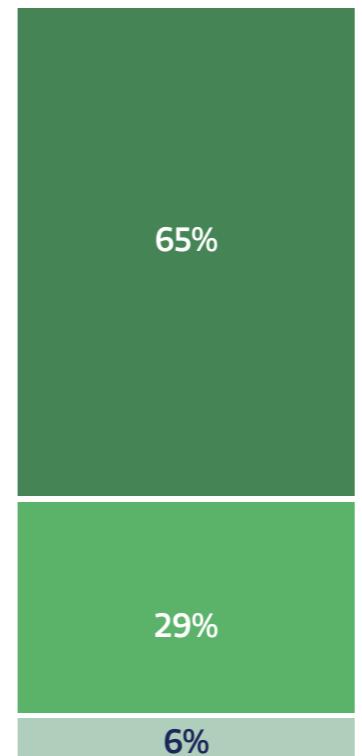
NQDC plans aren't offered in a vacuum. Employers and employees consider these benefits in the context of the suite of retirement plan offerings.

It isn't surprising that nearly two-thirds of respondents prefer working with partners that offer multiple types of retirement benefits. Accessing bundled services reduces complexity while providing an opportunity to educate participants on how multiple benefits may complement one another.

Q

Ideally, do you prefer using a single provider for multiple employee benefits (i.e., bundled services) or different providers for each? Base: Total (N=200)

Preference for Bundled Retirement Services vs. Different Providers



- Bundled: One provider for multiple benefits
- Different provider for each benefit
- No preference





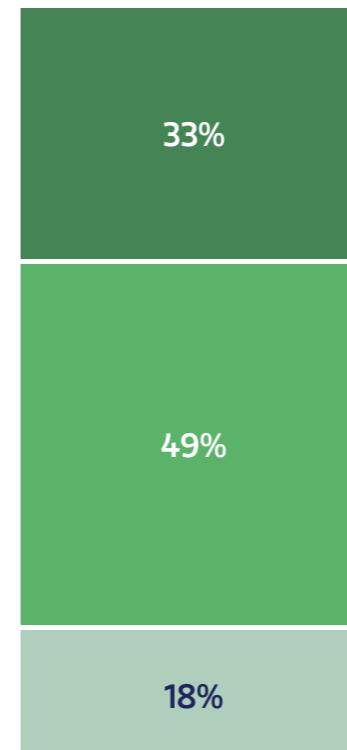
Dedicated Reps Have Value, Particularly for Participants

Offering dedicated support personnel can be one of the most effective ways NQDC plan providers help employees and plan sponsors navigate their options and get the most from the plan.

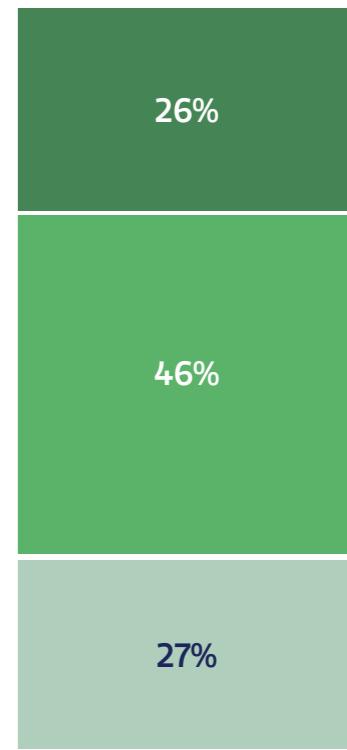
Plan sponsors said that having dedicated representatives is particularly important to support employees, highlighting senior executives' desire to have a professional guide them through these complex decisions. Enterprise-sized companies are especially focused on offering dedicated reps to their employees: 47% of enterprise companies said this offering was critical compared with 33% of all companies.

Importance of Dedicated Reps from NQDC Plan Provider in Driving Plan Participation

To support employees



To support plan sponsors



Q How important are each of the following in driving NQDC plan participation?
Base: Total (N=200)

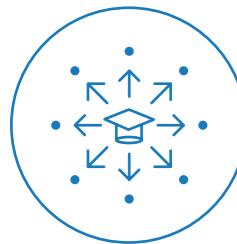




Education, Advice and Guidance

Some plan sponsors believe education and advice are very important—and there is room for improvement in both content and delivery.



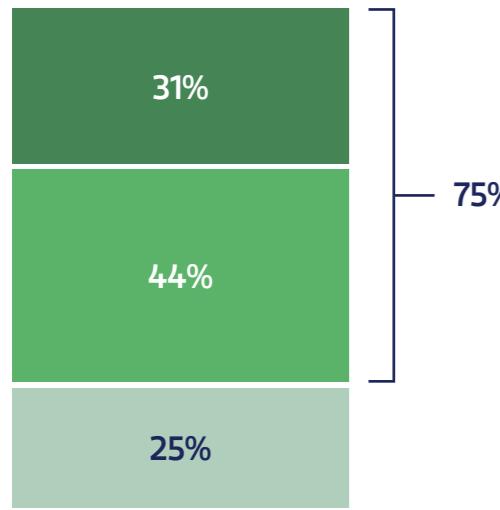


Education and Advice Are Important Drivers of Participation

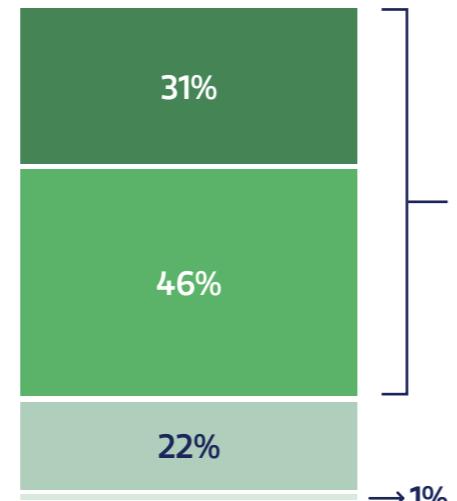
Given the complex decisions employees face when it comes to NQDC participation and the many questions they have, education, advice and guidance play a large role in driving participation—and there is opportunity for plan providers to do a better job delivering these resources.

Three-quarters of plan sponsors view NQDC advice and guidance as either critical or valuable in driving plan participation. But only about half of respondents are very satisfied with their providers' capabilities in these areas.

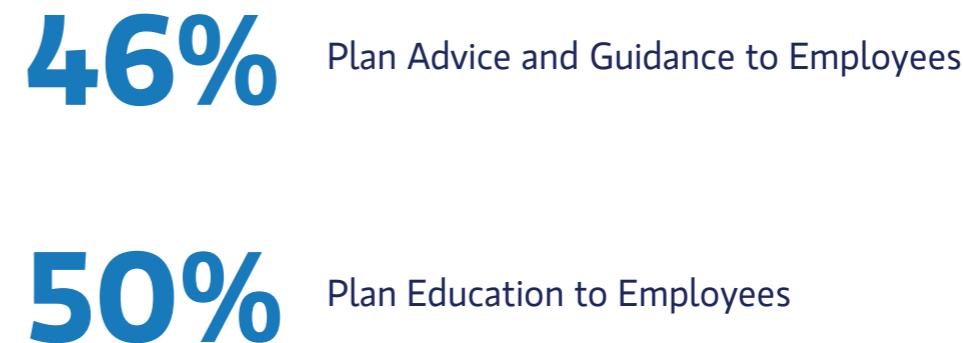
Importance of NQDC Plan Education in Driving Plan Participation



Importance of NQDC Plan Advice and Guidance in Driving Plan Participation



Percent of NQDC Plan Sponsors Who Are Very Satisfied With the Support Their Employees Receive From Plan Providers



Q How important are each of the following in driving NQDC plan participation?

Q How satisfied are you with the NQDC plan advice and guidance offered by your plan provider to employees (e.g., helping employees understand if they should participate)?

Q How satisfied are you with the NQDC plan education offered by the plan provider to your employees? Base: Total (N=200)

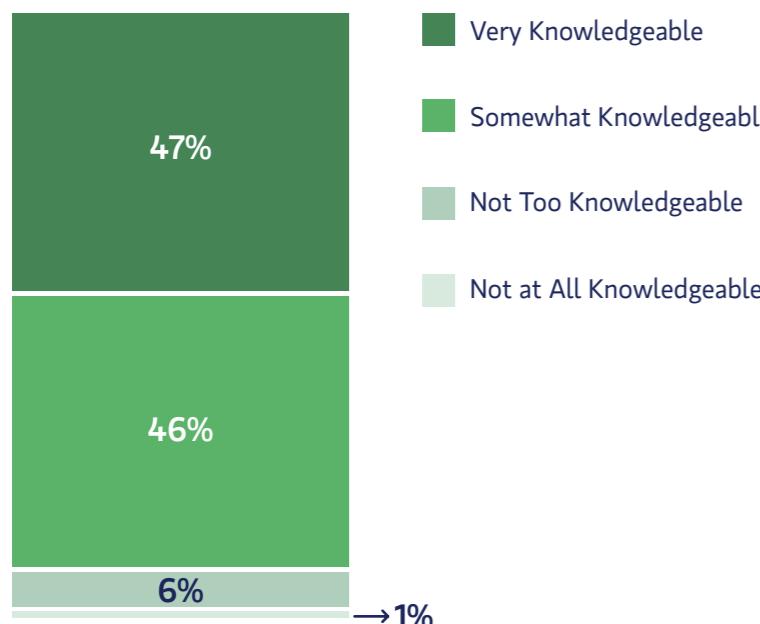




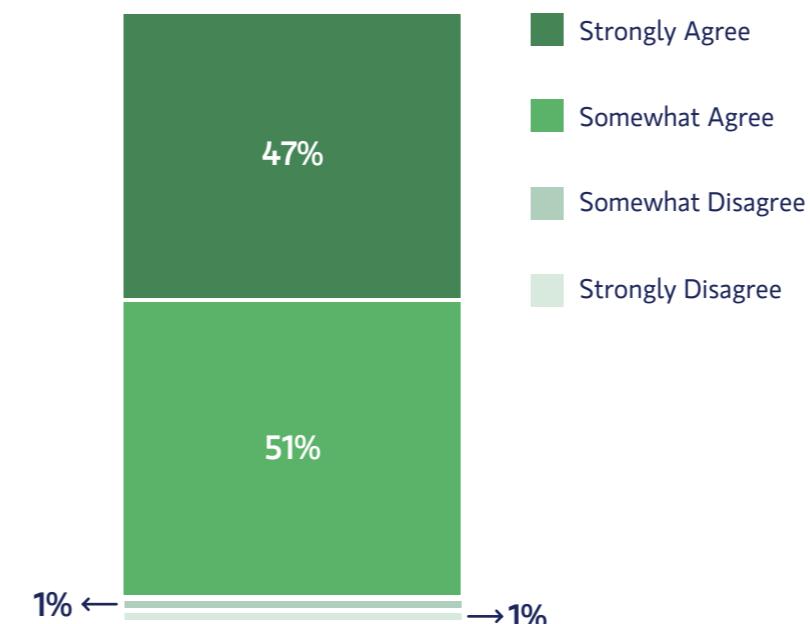
Plan Sponsors Recognize the Need to Further Educate Participants

Less than half of respondents described their employees as being very knowledgeable about NQDC plans. An equal portion of respondents strongly agree that they could do a better job of educating their employees. Given the tax implications of deferral decisions and the high degree of flexibility among plans, many eligible participants—who often are senior executives with busy schedules—may need a high-touch approach to evaluating their options.

Employee NQDC Knowledge Level



"We could do a better job of educating employees about our NQDC plan..."



Q How knowledgeable do you believe your firm's employees are about NQDC plans?

Q How knowledgeable are you about NQDC plans?

Q To what extent do you agree or disagree with the following statement: We could do a better job of educating employees about our NQDC plan. Base: Total (N=200)





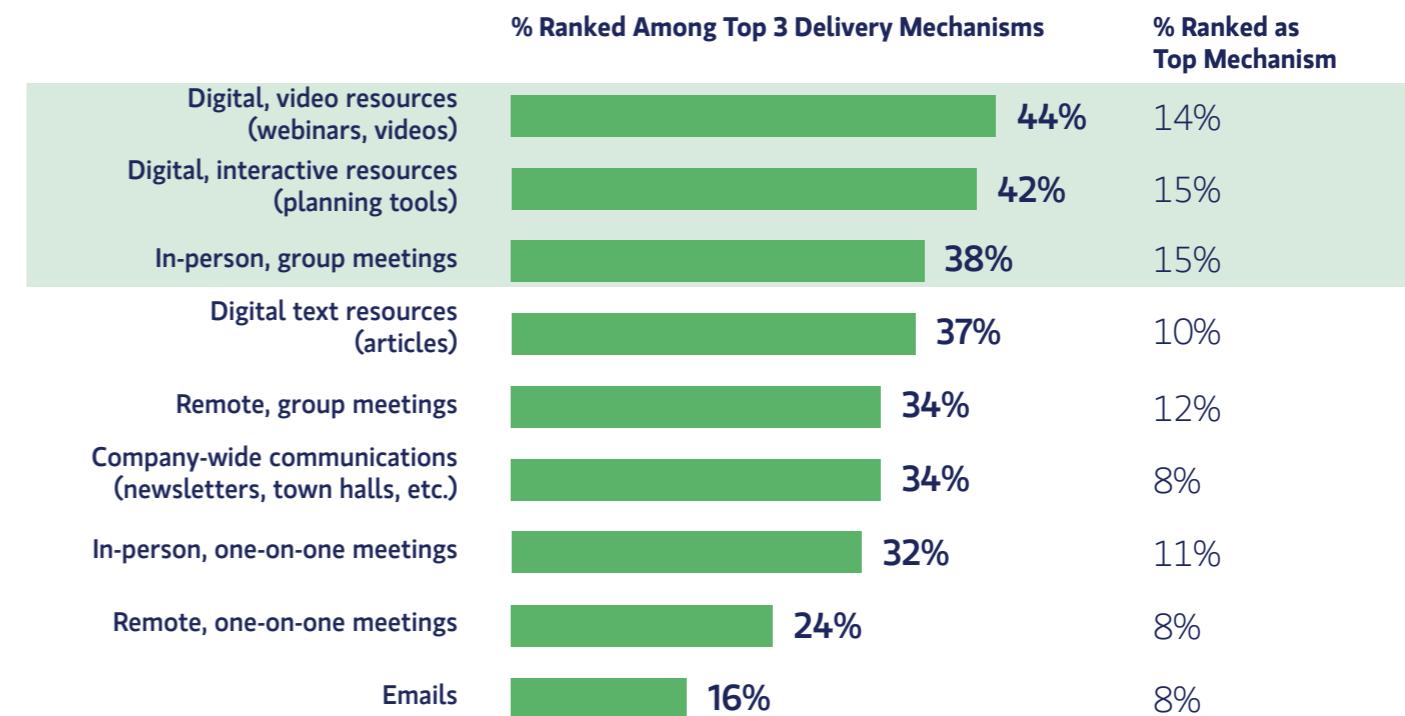
Education Needs to Cover a Wide Array of Topics—and Be Delivered Across Media

Plan sponsors indicated that employees need quality educational content that covers the fundamentals of how NQDC plans work and why they should consider deferring income outside of the 401(k) plan. Plan sponsors indicated that it's important to give employees multiple ways to access this information, with options that align employees' different learning styles and preferences.

Most Beneficial NQDC Education Topics for Employees



Most Preferred Ways for NQDC Education to be Delivered to Employees



Q Which NQDC education topics would be most beneficial to your employees?
Rank order up to 3 topics.

Q What are your most preferred ways for NQDC education to be delivered to employees? Rank order up to 3 approaches. Base: Total (N=200)





Most Plan Sponsors Believe Participation in a NQDC Plan Should Be Part of an Employee's Holistic Financial Plan

NQDC deferral decisions can have significant tax and cash flow implications for employees. Plan sponsors agree that participation may best be positioned within the context of an individual's holistic financial plan.

Thus, plan sponsors are increasingly comfortable with Financial Advisors from plan providers reaching out to employees to offer advice on how the NQDC plan fits into the employee's broader financial picture.

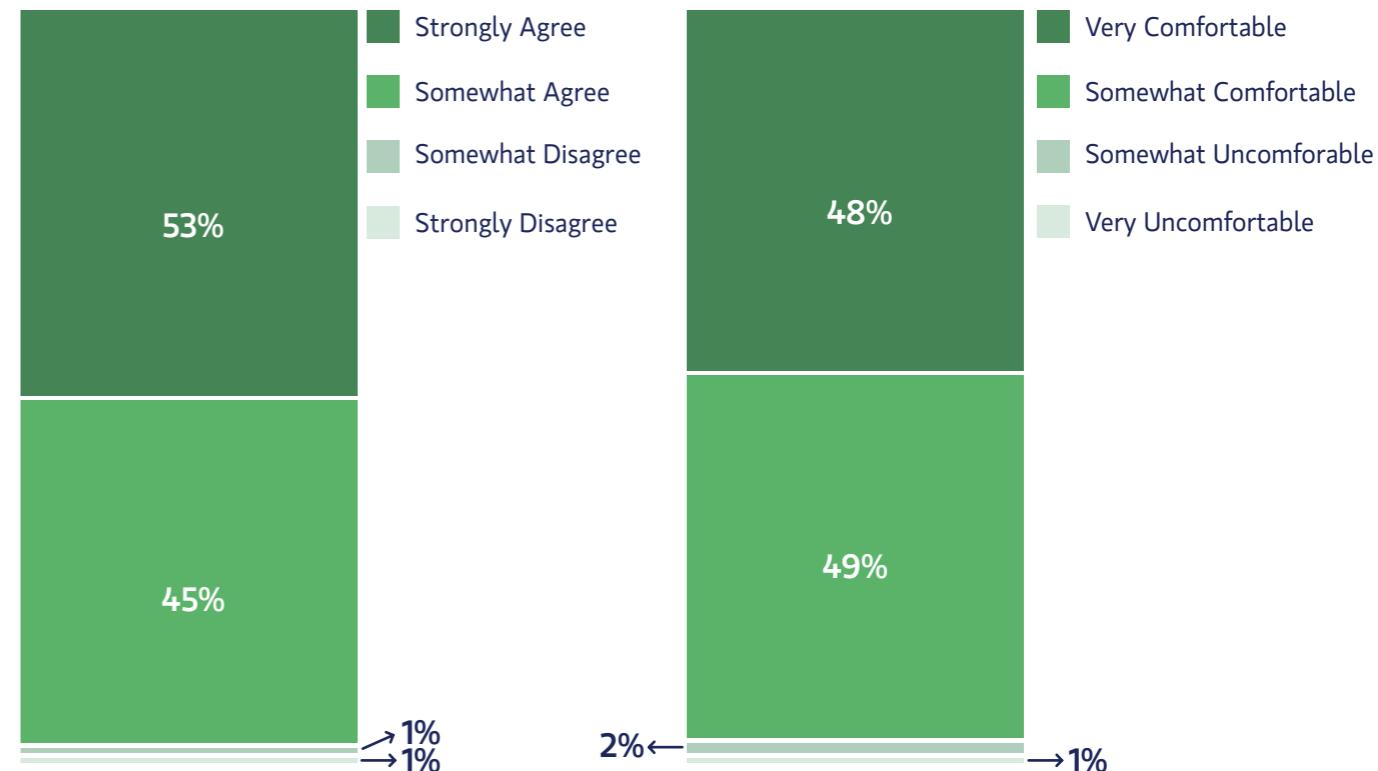
Q

To what extent do you agree or disagree with the following statement: It is imperative that participation in a NQDC plan be considered within one's holistic financial plan.

Q

How comfortable would you be with Financial Advisors from your NQDC provider proactively reaching out to employees to offer advice and guidance beyond their NQDC plan (e.g., support with holistic financial planning)? Base: Total (N=200)

"It is imperative that participation in a NQDC plan be considered within one's holistic financial plan..."



Solutions Designed for Your Company

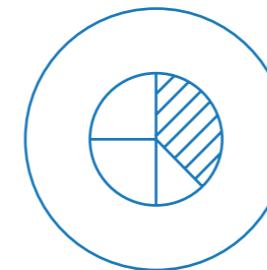
Access a range of NQDC services or pick the ones that best fit the needs of you and your employees.



Recordkeeping and Plan Design

We offer access to a recordkeeping platform specifically designed for the unique requirements of NQDC plans, along with a dedicated service team.

[LEARN MORE](#)



Portfolio Construction

We take the lead on manager selection and provide investment-related insights to help you informally fund your NQDC plan.

[LEARN MORE](#)



Wealth Management Services

We can provide education and access to a Financial Advisor to help participants achieve their goals.

[LEARN MORE](#)



Disclosures

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Nonqualified deferred compensation plans established by private sector employers are generally designed to comply with an exemption under ERISA, which exempts such plans from most (or potentially all) of ERISA's requirements for employee benefit plans. Failure to comply with an available exemption under ERISA will generally cause the plan to be subject to potentially onerous ERISA requirements and may result in adverse consequences if those ERISA requirements are not met.

Nonqualified deferred compensation plans are generally subject to section 409A of the Internal Revenue Code, along with other federal tax rules, which impose specific requirements on such plans (including, but not limited to, specific requirements concerning deferral elections and the time and form of distributions under the plan). Failure to satisfy these requirements can result in significant adverse consequences, including (but not limited to) inclusion in the employee's taxable income of all vested compensation deferred under the plan, plus interest and a 20% penalty tax.

This material does not reflect the impact of state and local income taxes. The state and local income tax treatment of a nonqualified deferred compensation plan may differ from the federal tax treatment. You should consult with and rely on your own independent tax advisor.

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