



**Nationwide®**  
is on your side

Business planning

Nonqualified deferred  
compensation

How can you keep your  
most valuable employees?



# Add life to your business

You built your company from the ground up, and your employees have been with you every step of the way. So how do you help make sure they continue working for you — and not your competition?

*Show them their true value with a nonqualified deferred compensation plan using life insurance.*

Be sure to choose a product that meets long-term life insurance needs, especially if personal situations change — for example, marriage, birth of a child or job promotion. Weigh objectives, time horizon and risk tolerance, as well as any associated costs, before investing. Market volatility can lead to the need for additional premium in the policy. Variable life insurance has fees and charges that include underlying fund expenses and costs that vary with sex, health, age and tobacco use. Riders that customize a policy to fit individual needs usually carry an additional charge.

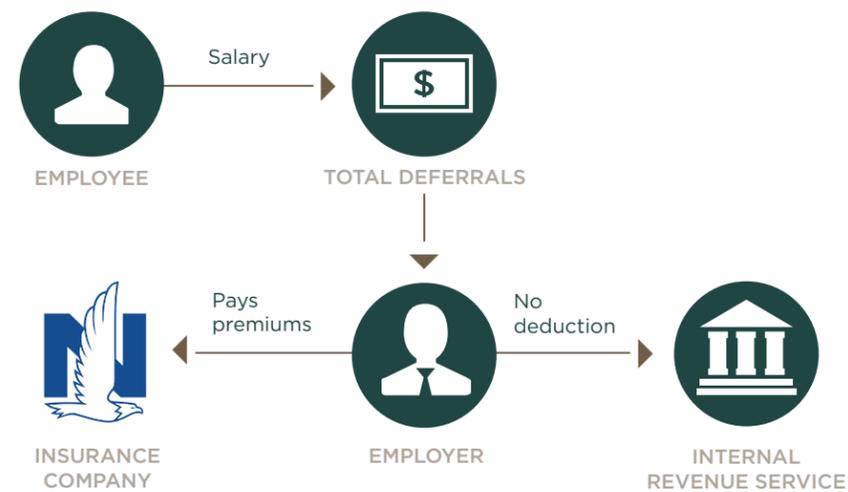
# Recruit, reward and retain

## How it works

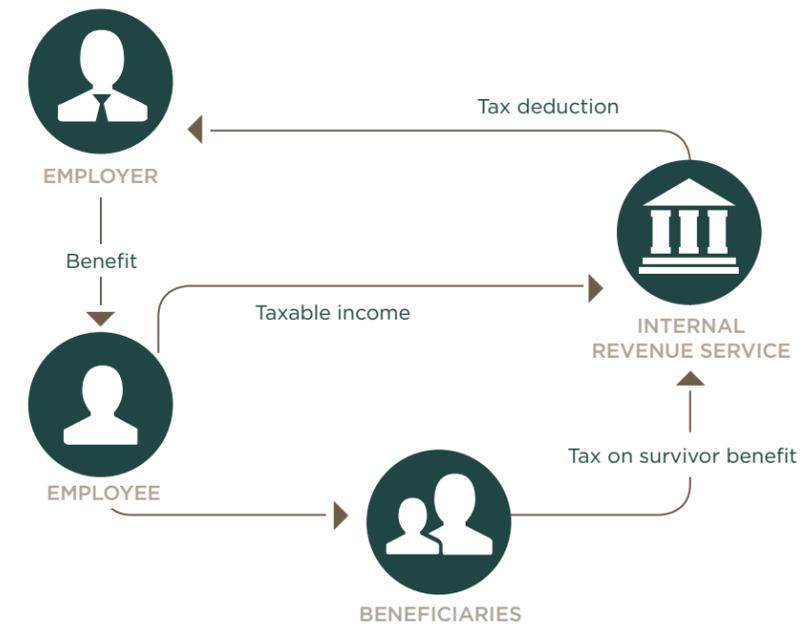
For many people, the savings offered by qualified plans alone may not provide enough funds to maintain their current standard of living in retirement. But nonqualified deferred compensation plans funded with life insurance can be used to help key employees supplement their retirement income — providing an excellent tool to help you recruit, reward and retain key talent.

With nonqualified deferred compensation plans, the employer gives a key employee or group of key employees the ability to defer some of their salary and bonus compensation on a pretax basis. There are no formal funding vehicles required for these plans. But, for the purposes of this brochure, we'll assume corporate-owned life insurance as the funding vehicle because of the tax advantages it can offer.

### Preretirement Deferral Cash Flow



### Postretirement Benefit Cash Flow





## For your business

Make a commitment to your valued employees for the long term — reward them for their stake in the future success of your business through a nonqualified deferred compensation plan.

### Potential benefits include:

- A tool to recruit and retain valued employees
- Less administration and fewer funding requirements than traditional qualified plans
- Flexibility to select who receives benefits, when they receive them and how much they receive, unlike qualified plans
- The option for premiums to be paid by the business, the valued employee or both
- A tax deduction when an employee receives distributions from the plan
- The ability to use the death benefit from the life insurance funding as a cost-recovery mechanism

### Possible drawbacks include:

- No immediate tax deductions
- A plan document and ongoing administration are required

Depending on the structure, these types of plans can be complex as far as legal issues and taxes are concerned. Be sure to consult your legal and/or tax advisors for answers to any questions you have. Nationwide® and its representatives do not provide legal or tax advice.



## For your valued employees

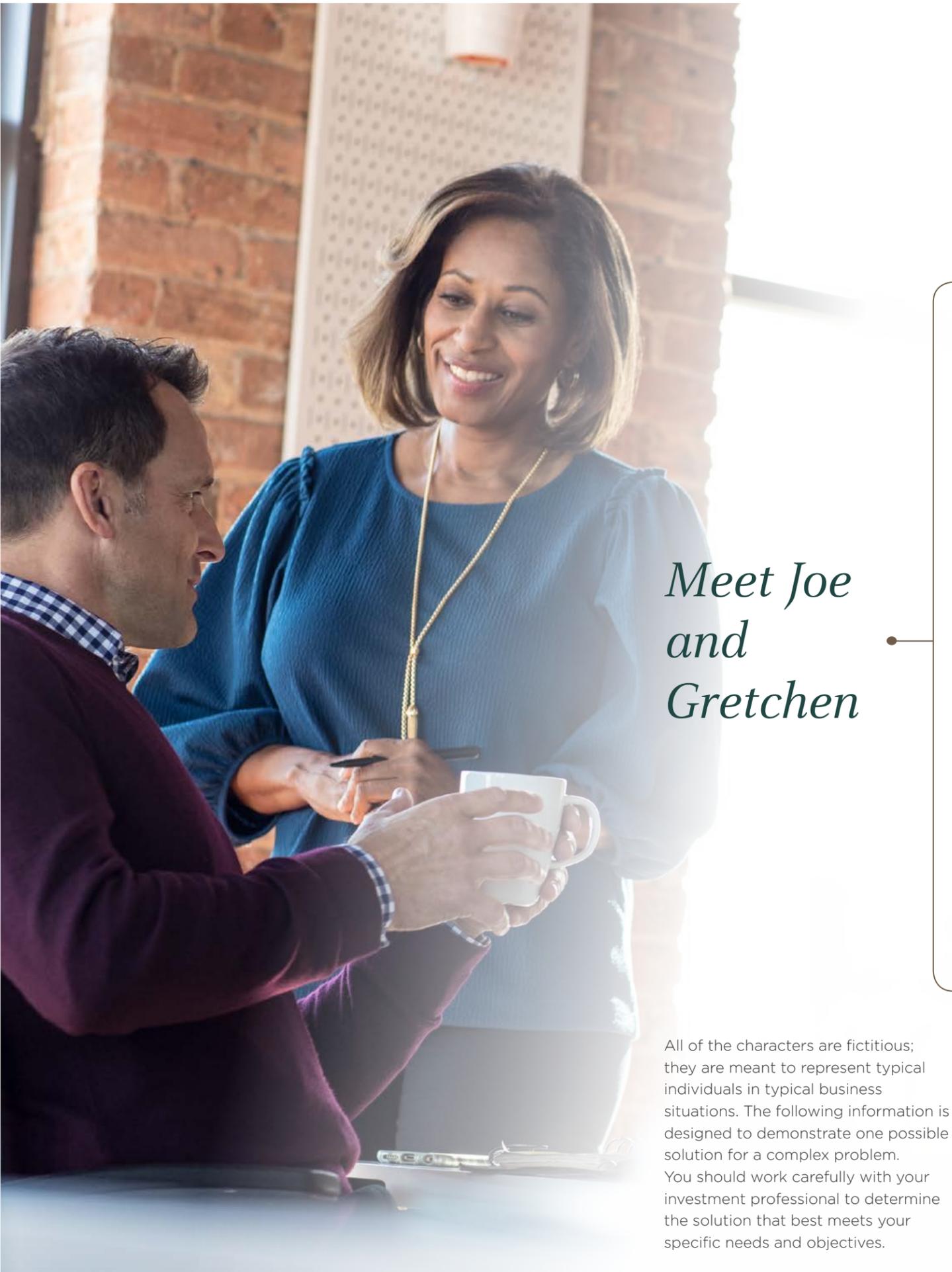
By rewarding valued employees with a nonqualified deferred compensation plan, your business gains loyalty and productivity.

### Potential benefits include:

- Recognition of key employees' contributions to your business
- Pretax salary deferrals
- Tax-deferred growth on earnings
- A supplemental source of retirement income
- Unlimited employer and employee deferrals (as long as the plan document provides for them)
- A supplemental death benefit to the employee's successors if included in the plan's provisions

### Possible drawbacks include:

- Plan assets are subject to the claims of the employer's creditors
- Employer contributions are not required
- If funding with life insurance, the employee may be subject to the underwriting process and guidelines



## Meet Joe and Gretchen

All of the characters are fictitious; they are meant to represent typical individuals in typical business situations. The following information is designed to demonstrate one possible solution for a complex problem. You should work carefully with your investment professional to determine the solution that best meets your specific needs and objectives.

### *Their story*

Joe and Gretchen, both in their early 50s, are the highly successful owners of JAG Marketing, the metropolitan area's largest marketing communications agency. Although they've worked hard for 20 years to build the business, they know a large part of their success is due to their seven account executives (AEs) who bring in new accounts and expertly handle current accounts. The AEs all have a tenure of at least a decade. Even though turnover has always been low, Joe and Gretchen recognize how competitive their industry is and want to ensure they don't lose any of their key talent.

JAG Marketing already provides an excellent benefits package, but Joe and Gretchen know that great benefits are commonplace at most of their competitor firms. They want an added advantage to help retain the AEs so crucial to the firm. JAG Marketing's success in recent years has also generated profits that they plan to reinvest into the business, but they have not yet decided exactly how to allocate the funds. They agree they should immediately discuss these issues with Scott, the firm's investment professional.

### *Their strategy*

After reviewing their concerns, Scott explains that retention is a key reason that companies implement nonqualified deferred compensation plans. And because the company could be adversely affected by the loss of any of the AEs, using life insurance policies to fund the plans may be just the strategy they need.

This plan allows them to pay scheduled benefits to select employees in exchange for future services to the firm. And because JAG Marketing will own the policies, they can control which employees receive benefits, how much they receive and when they'll receive them, unlike their qualified 401(k) plan.

Scott adds that if the plan is structured properly, the select employees could also make their own contributions into the plan. Also, if one of the covered employees passes away while with the firm, JAG Marketing can use the death benefits from the life insurance policy to recover costs or even to provide the employee's family with survivor benefits. They can also use the money to recruit replacement talent.

After some discussion, Joe and Gretchen decide that a nonqualified deferred compensation plan may be just what they need.

As you review this hypothetical example, please note that it is not intended to represent any specific client or client situation. The assumptions we've used are for illustrative purposes, and actual results may vary.



## A few things you should keep in mind:

- This strategy neither guarantees returns nor insulates the policyowner from losses, including loss of principal
- If informally funded with corporate-owned life insurance (COLI), the death benefit is paid directly to the company
- The death benefit and any guarantees are subject to the claims-paying ability of the issuing insurance company
- Nationwide and its representatives do not give legal or tax advice; you should consult your legal or tax advisor for answers to specific tax questions
- Loans and partial withdrawals will reduce the death benefits payable to beneficiaries, and withdrawals above the available free amount will incur surrender charges
- Surrender charges vary by issue age, sex, underwriting rate class and product; these charges decline over time, so please see the prospectus for details
- Any investment purchased by the company for purposes of informal funding is a general asset of the company and may not be specifically tied to any executive benefit; any income received by the employee from the deferred compensation plan will be taxed as ordinary income at the time it is received; the company will receive a tax deduction when the executive receives distributions from the plan, not when income is deferred

Call your investment professional today for more information on nonqualified deferred compensation plans, as well as any of these other business planning strategies:

- Buy/sell agreements
- Executive bonus plans and restrictive executive bonus arrangements (REBAs)
- Insurance-based income solutions
- Key person insurance
- Split dollar plans



• Not a deposit • Not FDIC or NCUSIF insured • Not guaranteed by the institution • Not insured by any federal government agency • May lose value

Throughout this brochure, we discuss access to money via loans and partial withdrawals. This assumes the contract qualifies as life insurance under Section 7702 of the Internal Revenue Code (IRC) and is not a modified endowment contract (MEC) under Section 7702A. As long as the contract meets non-MEC definitions under Section 7702A, most distributions are taxed on a first-in/first-out basis. Loans and partial withdrawals from a MEC will generally be taxable, and if taken prior to age 59½, may be subject to a 10% federal tax penalty.

All individuals selling this product must be licensed insurance agents and registered representatives.

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NFM-1849AO.14 (12/19)