Helping you recruit, reward and retain the best people
In this guide, Nationwide® assumes that the employer purchases variable life insurance on a select employee or group of employees in order to informally fund the nonqualified deferred compensation plan. Be sure to choose a strategy and product that are suitable for the long-term goals of both the business and its employees. 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 costs of insurance, underlying fund expenses and administrative fees. Investing involves risk, including possible loss of principal.
Attract the great people your business needs to succeed.

Your company’s success depends on your ability to attract the most talented employees you can. Once you find them, you need to keep them from leaving for a better offer.

That’s why we created this guide for you. It will explain how a nonqualified deferred compensation plan can help your business succeed. Here’s a summary of what it covers:

- Why qualified plans may not be enough 2
- How nonqualified deferred compensation plans help 4
- Your plan design options 8
- Plan financing options 10
- How Nationwide* makes this easier for you 14

Let’s get started.
Qualified plans may not be enough for you or your key employees.

With a qualified plan such as a 401(k), you have a great way to help the majority of your employees prepare for retirement. They can save pretax compensation and let it potentially grow tax deferred until they need it for retirement. But a qualified plan may not fully prepare you and your key employees for retirement.

### Limitations of qualified plans

<table>
<thead>
<tr>
<th>For your business</th>
<th>For your key employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minimum coverage rules(^1)</td>
<td>Contribution limits</td>
</tr>
<tr>
<td>Nondiscrimination requirements</td>
<td>10% penalty tax on withdrawals prior to age 59(\frac{1}{2})</td>
</tr>
<tr>
<td>Top-heavy testing</td>
<td>Required minimum distributions</td>
</tr>
</tbody>
</table>

\(^1\) Generally, at least 70% of all non-highly compensated employees must participate in the qualified plan (IRC Section 410(b), 1986, as revised).

### The percentage of income deferred decreases as income increases.

As you reward your key employees and their salary levels increase, the percentage of compensation that they can defer into a qualified plan rapidly decreases.

- Someone with a $100,000 salary who contributes the $19,000 maximum into a 401(k) plan is saving a respectable 19% of compensation for retirement.
- But someone with a $350,000 salary who makes that same $19,000 maximum contribution is saving only a little over 5% of compensation.

What’s worse is that nondiscrimination testing for the 401(k) plan may even prevent your highly compensated employees from contributing the maximum amount otherwise permitted.

![Chart showing percentage of compensation deferred vs. compensation level](chart.png)

*This hypothetical example does not represent any specific client or client situation.*
### Contribution limits for 2018

<table>
<thead>
<tr>
<th>Plan Type</th>
<th>Employee Limits</th>
</tr>
</thead>
</table>
| **401(k) deferrals**                          | • $19,000 maximum employee deferral  
• $6,000 catch-up contribution (if age 50 or older) |
| **SEP IRA**                                    | • $56,000 or 25% of compensation, whichever is less, maximum employer contribution  
• $19,000 or 25% of compensation, whichever is less, maximum employee elective deferral plus $6,000 catch-up contribution (if age 50 or older) for SARSEP participants |
| **SIMPLE 401(k)**                              | • $13,000 maximum employee deferral  
• $3,000 catch-up contribution (if age 50 or older) |
| **Defined contribution and defined benefit plans** | • $56,000 annual contribution limit (including employee deferrals)  
• $225,000 maximum annual benefit payout from defined benefit plans  
• $280,000 eligible compensation limit |

*Nationwide and its representatives do not give legal or tax advice. Please consult with your attorney or tax advisor for answers to specific questions.*
A nonqualified deferred compensation plan can help you do much more.

The Employee Retirement Income Security Act (ERISA) includes what is called the “top hat exemption,” which requires that a plan is unfunded and maintained primarily to offer deferred compensation to a select group of managers or highly compensated employees. Your nonqualified deferred compensation plan allows your employees to supplement their retirement savings by deferring some or all of their current compensation into it—before taxes.

### Potential Benefits and Risks for Your Key Employees

<table>
<thead>
<tr>
<th>Benefits</th>
<th>Risks</th>
</tr>
</thead>
<tbody>
<tr>
<td>They can save more for retirement. This is in addition to what they defer into a qualified plan, and there aren’t any contribution limits.</td>
<td>They’re relying on the stability of their employer. Life insurance policies purchased to informally fund the plan are considered general assets of the company and are subject to the claims of creditors.</td>
</tr>
<tr>
<td>They may reduce their current taxable income. Deferrals are pretax, so they can delay paying taxes on more of their current compensation.</td>
<td>They can’t change deferral elections midyear. Their elections are irrevocable during the year and can be changed only at annual enrollment.</td>
</tr>
<tr>
<td>Their savings grow tax deferred. This increases the potential to grow, because taxes aren’t reducing them every year.</td>
<td>Distributions are subject to income tax. Income tax will be payable when employees receive distributions.</td>
</tr>
<tr>
<td>They may increase their retirement income. All of this works together and creates the potential for more income when they retire.</td>
<td></td>
</tr>
</tbody>
</table>
# POTENTIAL BENEFITS AND RISKS FOR YOUR BUSINESS

## BENEFITS
- **You can attract the talent you need.** Offering more than just the normal benefits and addressing key employees’ unique concerns can encourage them to consider your company.
- **You can give them incentive to stay.** For any amounts the company credits to employees’ accounts, you can apply a vesting schedule.
- **You choose who gets to participate.** Unlike a qualified plan, you don’t have to offer it to everyone.
- **You have flexibility in funding it.** You can use your employees’ deferred amounts or company cash to informally fund the plan.
- **You own and control the assets.** This gives you more flexibility when it comes to financing the plan.

## RISKS
- **You don’t get an immediate tax deduction.** The company takes an income tax deduction later when it makes distributions to employees.
- **You must maintain records.** Nonqualified deferred compensation plans require a plan document and ongoing administration.
See how a nonqualified deferred compensation plan works.

Your company and the employee enter into a legal agreement that defines the plan’s features, benefits and requirements.

The employee elects to defer a specific dollar amount or percentage of future compensation and chooses how those deferrals should be allocated among a variety of deemed investment choices.

Your company may make matching contributions based on a formula or discretionary contributions as outlined in the agreement.

All contributions are credited to the employee’s deferred compensation account, along with any gains or losses.

The employee takes distributions to supplement retirement income, and your company then takes a tax deduction.
REMEMBER THESE IMPORTANT POINTS:

About taxes

• Your company takes an income tax deduction when it distributes money to the employees

• Your employees pay income taxes at ordinary rates when they receive the distributions (employment taxes are due when amounts are deferred or vested)

About ownership

• Your company, or potentially a trust, owns any assets that offset the liability established by the plan, and the assets are subject to the claims of your company’s creditors

• Your employees have no ownership rights in the plan assets and become general, unsecured creditors of your company with respect to the benefits you owe them under the plan

About earnings

• Your employees bear the risk that deferred amounts will not be credited with earnings and that they may lose principal

About cost

• Additional details can be found on the cost summary sheet, which is available upon request

Variable products are sold by prospectus. Consider the investment objectives, risks, charges and expenses. The product and underlying fund prospectuses contain this and other important information. Investors should read them carefully before investing. To request a copy, go to nationwide.com or call 1-800-848-6331.
You have flexibility in how you design your plan.

Your nonqualified deferred compensation plan must fit your company’s needs, so let’s look at some ways we can help you customize it.

<table>
<thead>
<tr>
<th><strong>Plan eligibility</strong></th>
<th>You decide who can participate in the plan. It can include full-time or part-time employees, or independent contractors, provided they are part of a top-hat group.</th>
</tr>
</thead>
</table>
| **Employee deferrals** | You may let your employees defer up to 100% of compensation, which can include:  
  • Base salary  
  • Annual bonuses  
  • Long-term incentives  
  • Performance-based compensation  

You may also limit deferrals to less than 100% and exclude certain types of compensation. |
| **Employer deferrals** | Your company may credit amounts on behalf of the employees, and they may be based on:  
  • Performance  
  • A percentage of salary  
  • A straight dollar amount  
  • A hybrid (for example, performance combined with a percentage or dollar amount)  

You may make these on a discretionary basis and decide whether an employee can make voluntary deferral contributions. |
| **Plan deferral cycle** | Employees make annual elections for base salary deferrals during annual enrollment prior to the beginning of the year when they earn the income. They make elections for performance-based compensation no later than six months before the end of the performance period. (Performance-based compensation is compensation earned during a period of not less than 12 consecutive months that is contingent upon written criteria established within 90 days of the start of the performance period.) |
| **Crediting earnings, gains and losses** | Employees’ accounts are credited with earnings and losses based on their elections from among a broad range of options chosen by the company. |
### Vesting schedule

Employee deferrals are always 100% vested, but company contributions may vest in a number of ways:

- 100% vesting
- Cliff vesting
- Graded vesting
- Custom vesting

You may also base the vesting on length of employment, age and/or contribution dates.

### Plan distributions

Your employees may receive distributions under the following circumstances:

- Separation from service (voluntary or involuntary)
- Death
- An unforeseeable emergency or hardship
- At a specified time prior to separation from service
- A change in control of your company

### Distribution options

Employees may elect to receive benefit payments in a lump sum or annual installments.

### Rabbi trust

You may want to place the assets of the plan in a rabbi trust. This may make your employees feel more comfortable, because assets held by the trust can be used only to pay plan distributions to employees. However, any assets held by the trust are subject to claims of the company’s creditors in the event of insolvency or bankruptcy.

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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 employee 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 employee receives distributions from the plan, not when income is deferred. Nonqualified deferred compensation plans involve less administration and fewer funding requirements than qualified plans. If informally funded with corporate-owned life insurance (COLI), the death benefit is paid directly to the company (or the trust, if applicable). All deferrals are assets of the company and are subject to the claims of the company’s creditors.
You have several plan financing options.

The benefits you’ll pay to employees under the nonqualified deferred compensation plan are considered an unfunded company liability. The company promises to pay benefits in the future, and you can do that out of current cash flow when payments are due. As a result, you have several financing options.

**Unfinanced**

You don’t have to set aside assets or finance the future benefit payments. Instead, deferrals into the plan remain company assets that you can use for day-to-day operations. When employees are due benefits in the future, you can pay them out of company assets.

<table>
<thead>
<tr>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Deferrals provide a source of cash for current business operations</td>
<td>• Future benefit payments may be a strain on future operations</td>
</tr>
<tr>
<td></td>
<td>• Employees may see this as an added risk</td>
</tr>
</tbody>
</table>

**Taxable investments**

You could invest deferrals into taxable investments, such as mutual funds. That’s one way to match an asset with the liability you’re accruing because of the employee deferrals.

<table>
<thead>
<tr>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Professional money management</td>
<td>• Taxable investments such as mutual funds may have taxable distributions such as dividends and long-term capital gains; gains on the sale of the investments will be taxable</td>
</tr>
<tr>
<td>• A wide array of investment options</td>
<td></td>
</tr>
</tbody>
</table>
**Business-owned annuities**

You could also invest deferrals into annuities, which help protect your key employees from outliving their assets by converting the money saved into a series of periodic payments.

<table>
<thead>
<tr>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Variable annuities offer professional money management and a wide array of investment options</td>
<td>• A business doesn’t enjoy the tax-deferred growth normally associated with annuities; it must report asset growth annually on its tax return</td>
</tr>
<tr>
<td>• Fixed annuities offer a set rate of return that’s guaranteed (as long as there are no loans or withdrawals)</td>
<td></td>
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</table>

An annuity is a contract between you and an insurance company, and it’s sold by prospectus. While it may take some time, you should read this document. It describes risk factors, fees and charges that may apply to you. Variable annuities have fees and charges that include mortality and expense risk charges, administrative fees, contract fees and the expense of the underlying investment options. Remember that the protections and guarantees we mentioned are subject to the claims-paying ability of the issuing company. Also, the underlying investment options in a variable annuity are not publicly traded mutual funds and are not available directly for purchase by the general public; they are available only through variable annuity or variable life insurance policies issued by life insurance companies.
Corporate-owned life insurance (COLI)

Although the main reason to purchase life insurance is the need for death benefit protection, in this arrangement, your company uses deferrals to pay premiums on corporate-owned life insurance policies. The policies insure the key employees and provide a stream of income during their lifetime.

<table>
<thead>
<tr>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Tax-deferred policy gains — increases in the policy cash value aren’t taxed</td>
<td>• Some plan designs may not qualify for guaranteed issue underwriting, so there is the potential for medical underwriting</td>
</tr>
<tr>
<td>• Tax-free death benefits — your company receives the death benefits tax free and can use them to offset plan costs</td>
<td>• Life insurance has fees and charges associated with it, including costs of insurance that vary with the sex, health and age of the insured, as well as underlying fund charges and expenses</td>
</tr>
<tr>
<td>• Variable universal life offers a wide array of investment options from well-known fund families</td>
<td></td>
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</tbody>
</table>

In this guide, Nationwide assumes that variable life insurance is purchased on a select employee or group of employees for the strategy. Life insurance has fees and charges that vary with sex, health, age and tobacco use. Riders that customize a policy to fit individual needs usually carry an additional charge.

Variable life is a type of permanent life insurance protection that features access to tax-deferred cash values and flexible payments. The cash value relies on market participation. The policy value goes up or down based on the performance of underlying investment options.

Underlying investment options are not publicly traded mutual funds or available to the general public. They are available only through variable annuity or life insurance policies issued by life insurance companies. Investing involves risk, including the possible loss of principal, and market volatility can lead to the need for additional premium in the policy.
### Comparing your financing options

<table>
<thead>
<tr>
<th></th>
<th>Unfinanced</th>
<th>Taxable investments</th>
<th>Business-owned annuities</th>
<th>Corporate-owned life insurance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Plan liability matching</td>
<td>•</td>
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<td>•</td>
<td>•</td>
</tr>
<tr>
<td>Wide array of investment options</td>
<td>•</td>
<td>•</td>
<td>•</td>
<td>•</td>
</tr>
<tr>
<td>Professional money management</td>
<td>•</td>
<td>•</td>
<td>•</td>
<td>•</td>
</tr>
<tr>
<td>Plan cost recovery</td>
<td></td>
<td></td>
<td>•</td>
<td></td>
</tr>
<tr>
<td>Tax-deferred gains</td>
<td></td>
<td></td>
<td></td>
<td>•</td>
</tr>
<tr>
<td>Tax-free death benefit</td>
<td></td>
<td></td>
<td></td>
<td>•</td>
</tr>
<tr>
<td>Preferential accounting treatment(^2)</td>
<td></td>
<td></td>
<td></td>
<td>•</td>
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</tbody>
</table>

\(^2\) Assumes a tax-paying C corporation: The annual cash surrender value increase of corporate-owned life insurance is recorded as income on the income statement and is treated differently from taxable investments under Accounting Standards Codification (ASC) 320 (formerly FAS 115). Under ASC 320, securities are considered “available-for-sale” securities and are reported at fair value with unrealized gains, net of deferred taxes, reported in a separate component of shareholders’ equity.

Variable products are sold by prospectus. Carefully consider the investment objectives, risks, charges and expenses. The product and underlying fund prospectuses contain this and other important information. Investors should read them carefully before investing. To request a copy, go to nationwide.com or call 1-800-848-6331.
We make all of this easier for you.

We’re serious about helping you find solutions for your business. That’s why we’ve dedicated more than 50 professionals to the task. It’s also why we’ve been able to establish Nationwide as the market leader in corporate-owned life insurance. Take advantage of our experience in this area and everything else we can offer you:

**A turnkey deferred compensation plan**

With The Nationwide Corporate Incentive Program®, we’ve brought together industry leaders in the deferred compensation market and combined their experience with ours. As a result, we can offer you an easy-to-use package that includes:

**Required documentation**

- Nonqualified deferred compensation plan document
- Customized plan adoption agreement

**Efficient participant enrollment**

- Participant education sessions
- Online enrollment

**Reliable administration**

- State-of-the-art website interface
- Daily asset-liability reconciliation
- Annual reports and benefit statements for you and your employees
- Ongoing assessments to help ensure you meet your plan goals
- Discretionary rabbi trust service
- Customer service specialists ready to answer your questions
Specially designed products

Because of our focus on businesses such as yours, we’ve designed a variable universal life insurance product specifically to meet your needs. Our policy lets you invest in the market by selecting from more than 100 underlying investment options from brand-name money managers.

The underlying investment options are not publicly traded mutual funds or available to the general public. They are available only through variable annuity or life insurance policies issued by life insurance companies. Investing involves risk, including the possible loss of principal, and market volatility can lead to the need for additional premium in the policy.

Investment options

Asset allocation
Selecting the right mix of asset classes is an individual decision based on each person’s tolerance for risk and time horizon. We have the tools your employees will need to help determine their risk tolerance, identify their investor profile and find the allocation model—from conservative to aggressive—to help them achieve their goals.

Nationwide Guided Portfolio Strategies
Nationwide consistently maintains a robust platform of investment options, and we help simplify investment decision-making with Guided Portfolio Strategies. Your employees can choose from seven different model portfolio allocations, each containing a set of funds selected by Nationwide Fund Advisors and offering exposure to many different asset classes.

Plan administrative costs

When you choose one of these products for your plan, we may also be able to reduce or completely eliminate the plan’s administrative costs. This reduction in cost will vary depending on the policy premium or cash value.

Preferred group underwriting

In many cases, we can offer either guaranteed-issue underwriting, where all the employees are automatically approved; or simplified-issue underwriting, where we review the employees individually based on a limited set of requirements. We’ll let you know early in the process how we’ll need to handle this for your business.
Our financial strength is reassuring.

It’s important for you and your employees to know that we’ll be there when you need us. That’s one reason we’ve worked so hard to establish:

- Diversified sources of earnings and cash flow
- A strong balance sheet
- A sound and disciplined investment policy
- A long history of maintaining a quality investment portfolio

We’re proud of all of this and the reassurance it can provide for you and your employees. We’re also proud of our ratings, which reflect how we’re doing:

<table>
<thead>
<tr>
<th>Rating</th>
<th>Rating agency</th>
<th>Date issued</th>
<th>Date affirmed</th>
</tr>
</thead>
<tbody>
<tr>
<td>A+ “Superior”</td>
<td>A.M. Best</td>
<td>10/17/02</td>
<td>11/16/18</td>
</tr>
<tr>
<td>A1 “Good”</td>
<td>Moody’s</td>
<td>3/10/09</td>
<td>11/7/17</td>
</tr>
<tr>
<td>A+ “Strong”</td>
<td>Standard &amp; Poor’s</td>
<td>12/22/08</td>
<td>5/10/18</td>
</tr>
</tbody>
</table>

These ratings and rankings reflect rating agency assessment of the financial strength and claims-paying ability of Nationwide Life Insurance Company and are subject to change at any time. They are not intended to reflect the investment experience or financial strength of any variable account, which is subject to market risk. Because the dates are updated only when there is a change in the ratings, the dates above reflect the most recent ratings we have received.
Let us help you recruit, reward and retain the best people for your business.

Many of the employees at your company probably need to save more for retirement. If you can help them, you’re bound to increase their loyalty to you. Talk to your advisor today and find out whether a deferred compensation plan is the right way to do it.