Key employee retention

Executive bonus plans using life insurance

Business planning solutions from Nationwide®

Add life to your business

Small-business owners know there's more to running a successful company than just being good at what you do. You have to have the right professionals working with you to get the job done.

Do you have what it takes to retain the employees who mean the most to your business?

Maybe it's time to consider an executive bonus plan or a restrictive executive bonus arrangement (REBA) using life insurance.

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.

Executive bonus plans

Key employees can help create and sustain successful companies. And executive bonus plans using life insurance can help you recruit, reward and retain these key employees who have a life insurance need.

How it works

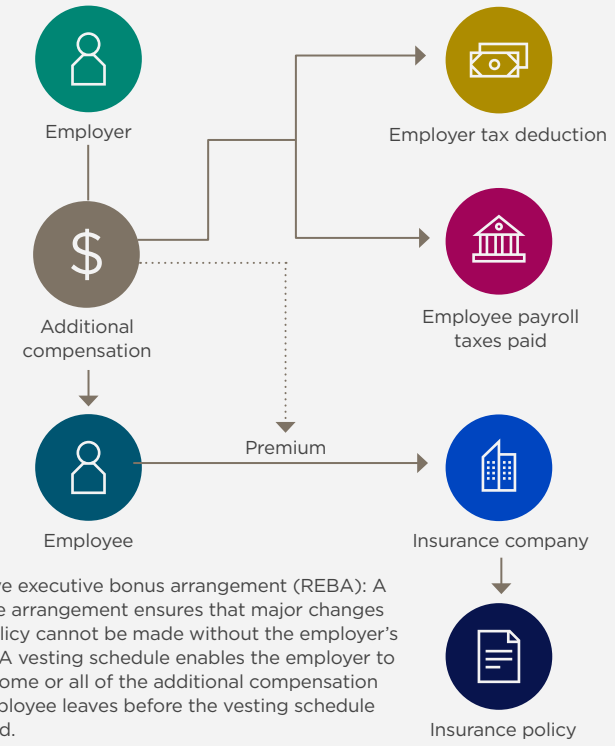
An executive bonus plan is a raise in pay, given to key employees with a life insurance need, that is channeled into a life insurance policy. It's owned by the employee and is subject to payroll taxes, including individual income, Social Security and Medicare taxes. But it's tax deductible for the employer.

The plan offers the promise of a death benefit for the employee's family, as well as a tax-efficient cash flow to supplement existing retirement assets while the insured is still alive. In fact, with proper planning, both the cash flow and the death benefit can be made free from six types of taxes.

The types of taxes:

- Federal income
- State income
- City income
- Capital gains
- Social Security
- Medicare

During the working years

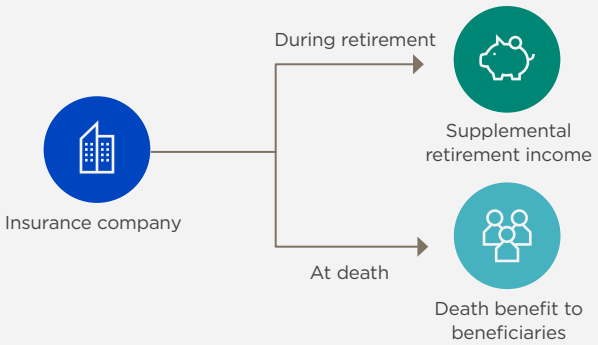


Restrictive executive bonus arrangement (REBA): A restrictive arrangement ensures that major changes to the policy cannot be made without the employer's consent. A vesting schedule enables the employer to recover some or all of the additional compensation if the employee leaves before the vesting schedule is satisfied.

Executive bonus: REBA restrictions do not apply.

Note: The employer could choose to use the double bonus program and give an additional bonus to cover the income tax due from the employee for the bonus of the insurance premium.

After the working years



REBA: After the restrictive arrangement expires and the vesting schedule is satisfied, the employee has complete control of the policy and access to cash values.

Executive bonus: REBA restrictions do not apply.

Benefits for employers

Executive bonus

- Bonuses are tax deductible to the business
- The employer has complete discretion in selecting which employees to reward
- There are no maximum or minimum contribution requirements
- No IRS approval is required
- The employer can end the plan at any time
- The plan is simple, straightforward and easy to implement
- No third-party administration is necessary
- The employee receives the compensation free and clear of any conditions, so the employer has no control over what happens once the bonus is paid

Restrictive executive bonus arrangement (REBA)

In addition to the following benefits, all of those listed for the executive bonus (at left) also apply.

- "Golden handcuffs" are created through a restrictive arrangement and vesting schedule
- A repayment obligation allows the employer to recover some or all of the additional compensation if the employee leaves before fully vesting
- A restrictive arrangement requires employer approval for major changes to the policy

For employees

Benefits of using either plan

- The life insurance policy funding the executive bonus plan is owned by the employee
- Tax due on the bonus to the employee can be covered by an additional bonus from the company
- Cash values accumulate tax deferred
- Tax-preferred cash flow can be received from the policy through withdrawals and loans
- The employee controls the policy, including selecting the beneficiary and allocating the policy investments
- The employee chooses when to make retirement withdrawals and how much they will be
- No early withdrawal penalties before age 59½
- No required minimum distributions
- An opportunity to accumulate retirement income and death benefit protection within one life insurance policy

Drawbacks of using either plan

- The additional compensation from the employer will increase the employee's W-2 compensation for that calendar year, potentially increasing employee taxes for that year
- If the plan is funded with life insurance, the employee will need to be insurable
- If the employee leaves the employer prematurely, the policy may lapse if the employee cannot fund the policy on their own

Meet Rob

His story

Rob founded a home remodeling business specializing in luxury baths and kitchens. When the business began to take off, he hired Kenneth to help with project management and sales.

Kenneth proved to be a very talented salesperson and quite entrepreneurial in suggesting growth strategies. Over time, his role evolved, and he was promoted to Vice President of Sales.

Rob knows that Kenneth would like additional life insurance coverage for his family, and Rob would also like to find a way to reward and retain Kenneth, so he calls his investment professional, David, to discuss the situation.

His strategy

David explains that an executive bonus plan using life insurance can help meet Rob's key employee needs, as well as offer benefits to the company.

An executive bonus plan with life insurance offers Kenneth's family the survivor benefits they need in the event of his premature death. Or when Kenneth retires, he'll receive tax-efficient cash flow to supplement his retirement assets.

The benefit amount and payment timing are extremely flexible, giving Rob great freedom in rewarding Kenneth for superior performance. And, the executive bonus plan requires less administration and has none of the funding restrictions of a qualified plan.

If properly structured, the policy could also be used to meet long-term care needs if they arise.

A few things to keep in mind

- This strategy does not guarantee returns or insulate the policyowner from losses, including loss of principal
- 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 benefit 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

Call your investment professional today for more information on executive bonus plans using life insurance, as well as any of these other business planning options:

- Buy/sell agreements
- Insurance-based income solutions
- Key person insurance
- Nonqualified deferred compensation plans
- Split dollar plans
- Supplemental executive retirement plans (SERPs)

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is on your side

• 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% tax penalty.

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

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