Business survival planning

Protect your company with a buy/sell arrangement

Business planning solutions from Nationwide®

Add life to your business

What would happen to your business if something happened to you? The death or long-term disability of a small business owner may lead to turmoil, customer erosion and disruption in revenue. A buy/sell arrangement funded with fixed or variable life insurance can help prevent these problems from potentially damaging your business.

Buy/sell arrangements can take many forms, but two typical structures are **cross-purchase plans** and **entity redemption plans**.

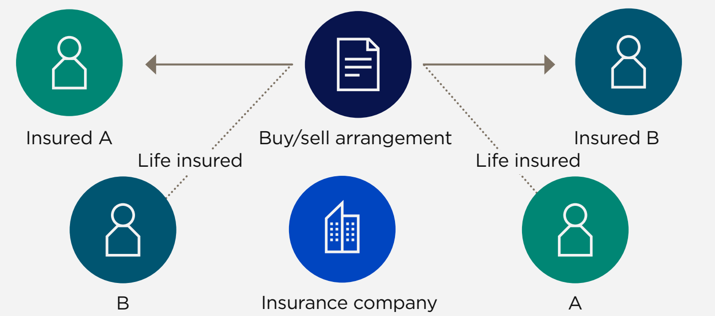
Be sure to choose a strategy and product that are suitable for the long-term goals of both the business and its employees. Weigh objectives, time horizon and risk tolerance, as well as any associated costs, before investing. Market volatility can lead to the need for additional premium in the policy. 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.

How cross-purchase plans work

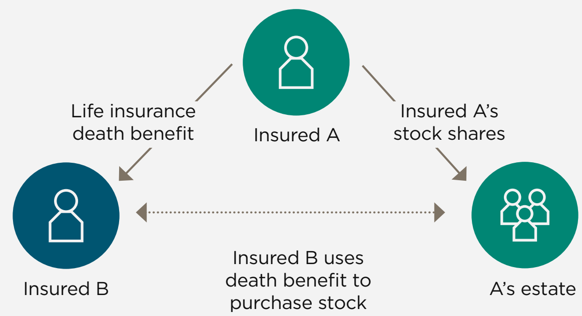
Cross-purchase plans

Each owner purchases a life insurance policy on the other owner(s), and when an owner dies, the surviving owner(s) use(s) the death benefit to purchase the deceased's share of the business.

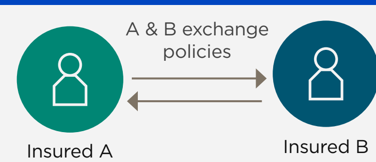
During lifetime



Upon the death of insured A



Upon retirement



- Insured A takes his or her respective policy
- Insured B takes his or her respective policy

If at retirement the insureds "exchange" the policies, there may be tax implications. The taxable amount is equal to the excess of the value of the contract received over the adjusted basis in the contract.

Also, once the policies are exchanged, Insured A no longer has an interest in Insured B's policy, and Insured B no longer has any interest in Insured A's policy.

At death

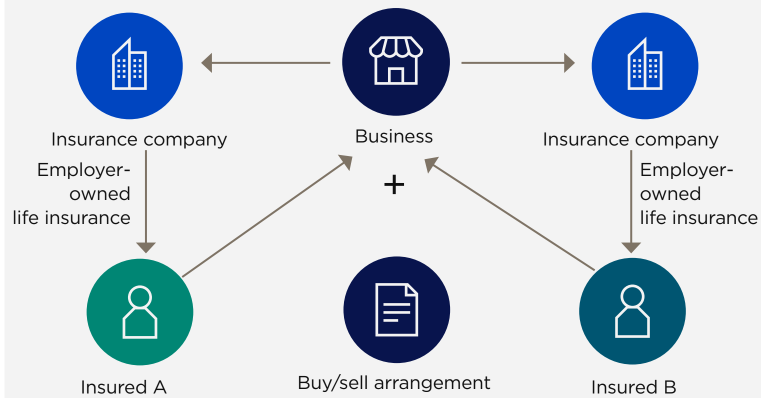
Assuming the policies have been exchanged:

This guide assumes that the buy/sell arrangement is funded with permanent life insurance.

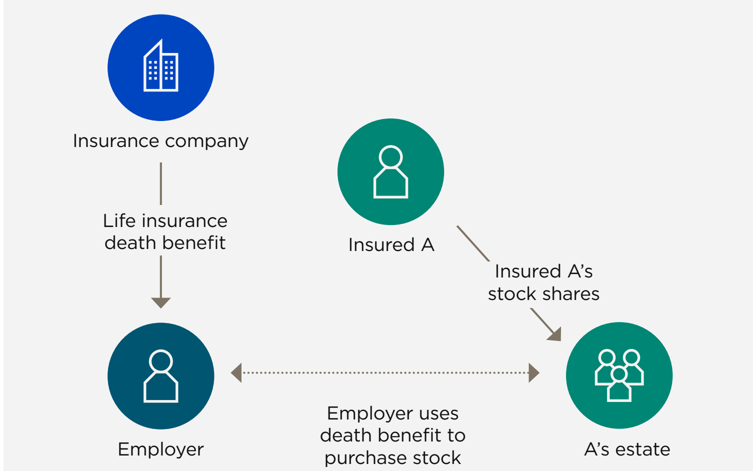
How entity redemption plans work

Each owner enters into an arrangement with the business for the sale of their respective interests to the business; the business purchases separate life insurance contracts on the lives of the owners, pays the premiums and is the owner and beneficiary. When an owner dies, their shares of company stock will pass to their estate, and the company may purchase them with proceeds from the life insurance policy.

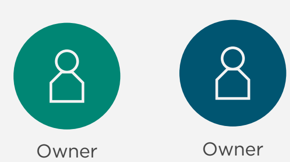
During lifetime



Upon the death of insured A



Upon retirement



The retiring business owner may purchase the policy from the business, cash out the policy in a taxable distribution, or receive the policy as part of the purchase price for his or her interest in the business. Alternatively, the business may retain or surrender the policy.

Who benefits from this strategy?

Benefits to you and your family

- Promotes an equitable and orderly transfer of the business as an asset
- May offer estate tax advantages
- Reduces the chances of being forced to sell the business in order to generate cash
- Guarantees the deceased owner's loved ones a buyer for an asset they may have no interest or experience in managing

Benefits to your business partners

- Allows them to buy company shares they may not have been able to afford otherwise within the existing ownership group
- Assures an orderly transition upon premature death of a business partner
- Provides all relevant details pertaining to price, circumstances for sale and potential buyers
- Assures the remaining owners that the deceased's share of the business will not pass to someone unsuitable
- Assists in the continuity for customers, creditors and suppliers of the business

Benefits to your employees

- Provides assurance that there will be an orderly transition of leadership in the unfortunate event of death of an owner
- Promotes employment security on behalf of the employees that the business will continue
- Possibly provides development opportunities for key employees to assume new roles within the company

Meet Terrence and Michael

Their story

The law firm of Jackson and Messina was founded 12 years ago by Terrence Jackson and Michael Messina. Over the years, the firm has grown from the two original partners to include nine additional staff attorneys. Today, the firm specializes in everything from probate and estate planning to criminal law and litigation.

The success of the firm has enabled the partners to adequately save for retirement; however, each of them has started to worry about what would happen to the firm if one of them became ill or prematurely passed away. They'd like to see the firm remain intact and have business continue as usual, but it may be difficult for the remaining partner to come up with the funds needed to make that happen. They'd also like to ensure that their families, who depend on the income from the firm, will be taken care of.

Their strategy

Terrence and Michael decide to talk to their investment professional, Naomi. After they explain their concerns to Naomi, she suggests a cross-purchase buy/sell arrangement. This type of arrangement uses life insurance to protect small businesses and the families of their owners.

In Terrence and Michael's case, it would allow each of them to purchase enough life insurance on the other to buy the deceased's shares of the firm from their estate upon death. The price of the firm would be predetermined, so they each can be assured their family will receive a fair price.

An added bonus of this arrangement is it can be structured to allow the policy's potential cash value to be used by either one to buy the company from the other if one of them decides to retire.

With a buy/sell arrangement funded with life insurance from Nationwide, both Terrence and Michael can feel confident that their firm and their families will be cared for if one of them should pass away.

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

A few things to keep in mind

- This strategy does not guarantee returns or insulate the policyowner from losses, including possible 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 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

Call your investment professional today for more information on buy/sell arrangements, as well as any of these other business planning options:

- Executive bonus plans and restrictive executive bonus arrangements (REBAs)
- Insurance-based income solutions
- Key person insurance
- Nonqualified deferred compensation plans
- Split dollar plans
- Supplemental executive retirement plans (SERPs)

Nationwide®
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

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/prospectus or call 1-800-848-6331.

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% early withdrawal federal tax penalty. All individuals selling this product must be licensed insurance agents and registered representatives.

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NFM-2838AO.12 (03/22)