



Executive bonus plan

Plan sponsor guide

Attract and keep
the best people
for your business

NATIONWIDE® BUSINESS SOLUTIONS GROUP

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.

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

We'll help you win the war for talent.

It seems as though the war for talent isn't going away. In good economic times and bad, attracting and retaining the best people you can is critical to your company's success. That's especially true for the leaders in the organization, and an executive bonus plan is a great tool you can use when designing their incentives.

We created this guide to help you understand executive bonus plans and how to use them to compete and win. Here's a summary of what it covers:

| | |
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| Why qualified plans might not be enough | 2 |
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Let's get started.

Qualified plans might 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 might not fully prepare you and your key employees for retirement.

| Limitations of qualified plans | |
|-------------------------------------|-----------------------------------|
| For your business | For your key employees |
| Minimum coverage rules ¹ | Maximum contribution caps |
| Nondiscrimination requirements | 10% penalty for early withdrawals |
| Top-heavy testing | Required minimum distributions |

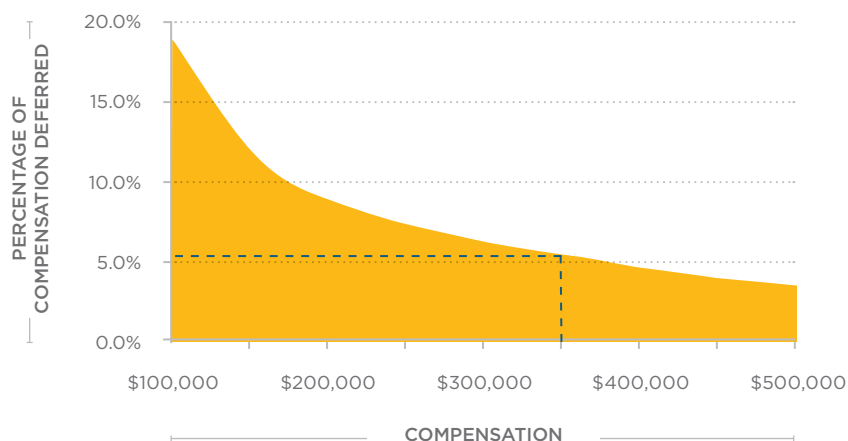
¹ Generally speaking, at least 70% of all non-highly compensated employees must participate in the qualified plan. IRC Section 410(b), 1986, as revised.

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 401(k) plan nondiscrimination testing — which requires that highly compensated employees, as a group, do not contribute significantly more than non-highly compensated employees — might prevent your key employees from making the maximum contribution.



This hypothetical example does not represent any specific client or client situation.

Contribution limits for 2018

| | |
|---|--|
| 401(k) deferrals | <ul style="list-style-type: none">• \$19,000 maximum employee deferral• \$6,000 catch-up contribution (if age 50 or older) |
| SEP IRA | <ul style="list-style-type: none">• \$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) | <ul style="list-style-type: none">• \$13,000 maximum employee deferral• \$3,000 catch-up contribution (if age 50 or older) |
| Defined contribution and defined benefit plans | <ul style="list-style-type: none">• \$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.

An executive bonus plan can help you do much more.

An executive bonus plan is a raise in pay that you give your key people by depositing money into life insurance policies insuring them. Your employees own the policies and name their own beneficiaries. It's really quite simple, and it provides powerful benefits beyond what the employees get with a qualified plan.

The potential benefits for your business:

- You can attract the key people the business needs
- You can give them incentive to stay by making it a restricted executive bonus arrangement (see details on the next page)
- You choose who gets to participate
- You can end the plan at any time — no IRS approval necessary
- Your premiums are tax deductible

The potential benefits for your key employees:

- They can invest more for retirement — beyond qualified plan limits
- Their earnings grow tax deferred
- They later receive tax-preferred income
- They can leave an income tax-free death benefit to their beneficiaries
- They own and control the policy — it's not subject to creditor claims

Important to remember:

- The premiums must be considered reasonable compensation when added to all other compensation for the employee
- Premiums are taxed as ordinary income to the employee, and the business can deduct them as an expense

Another name, but the plan is the same.

You'll also hear people talk about Section 162 Bonus Plans. That's just another name for the executive bonus plans we're talking about. Section 162 of the Internal Revenue Code outlines your ability to receive a deduction for offering this great benefit.

More on restricted executive bonus arrangements.

You can increase the retaining power of your plan by making it a restricted executive bonus arrangement (REBA). That's simply the executive bonus plan we already described with the addition of two valuable elements:

A **restrictive endorsement** on the life insurance policy allows the employee to change the beneficiary or reallocate the investments in the policy, but anything else, such as withdrawing or borrowing from the policy, would require your consent.

A **vesting and repayment schedule**, which would require repayment of some or all of the bonuses if the employee leaves before the end of the vesting schedule, can be part of your agreement.

The flexibility in these plans also extends to the vesting schedule, which you can design in many different ways. We've included one of them below so you can see how this would work for such a plan.

Five-year cumulative bonus graded vesting schedule

| Employee leaves during year | Cumulative bonuses | Vested percentage | Repayment required |
|-----------------------------|--------------------|-----------------------------|--------------------|
| 1 | \$10,000 | 0% No complete years | \$10,000 |
| 2 | \$20,000 | 20% One complete year | \$16,000 |
| 3 | \$30,000 | 40% Two complete years | \$18,000 |
| 4 | \$40,000 | 60% Three complete years | \$16,000 |
| 5 | \$50,000 | 80% Four complete years | \$10,000 |
| 6 and after | N/A | 100% | |

Executive bonus payment options.

The flexibility continues with your bonus payment options. Here are three ways you might want to pay them:

| | | | | | | | | | |
|---|---|------------|-----------|-------------------------------------|------------|------------------------|------------|----------|-----------|
| <p>Before the bonus</p> | <table> <tr> <td>Gross pay:</td> <td>\$150,000</td> </tr> <tr> <td>Tax withholding (30%):</td> <td>- \$45,000</td> </tr> <tr> <td>Net pay:</td> <td>\$105,000</td> </tr> </table> | Gross pay: | \$150,000 | Tax withholding (30%): | - \$45,000 | Net pay: | \$105,000 | | |
| Gross pay: | \$150,000 | | | | | | | | |
| Tax withholding (30%): | - \$45,000 | | | | | | | | |
| Net pay: | \$105,000 | | | | | | | | |
| <p>Single bonus - \$25,000 bonus and employee pays tax, which lowers net pay</p> | <table> <tr> <td>Gross pay:</td> <td>\$175,000</td> </tr> <tr> <td>Life insurance premium withholding:</td> <td>- \$25,000</td> </tr> <tr> <td>Tax withholding (30%):</td> <td>- \$52,500</td> </tr> <tr> <td>Net pay:</td> <td>\$97,500</td> </tr> </table> | Gross pay: | \$175,000 | Life insurance premium withholding: | - \$25,000 | Tax withholding (30%): | - \$52,500 | Net pay: | \$97,500 |
| Gross pay: | \$175,000 | | | | | | | | |
| Life insurance premium withholding: | - \$25,000 | | | | | | | | |
| Tax withholding (30%): | - \$52,500 | | | | | | | | |
| Net pay: | \$97,500 | | | | | | | | |
| <p>Double bonus - \$25,000 bonus is increased to \$35,714 so employee's net pay stays the same</p> | <table> <tr> <td>Gross pay:</td> <td>\$185,714</td> </tr> <tr> <td>Life insurance premium withholding:</td> <td>- \$25,000</td> </tr> <tr> <td>Tax withholding (30%):</td> <td>- \$55,714</td> </tr> <tr> <td>Net pay:</td> <td>\$105,000</td> </tr> </table> | Gross pay: | \$185,714 | Life insurance premium withholding: | - \$25,000 | Tax withholding (30%): | - \$55,714 | Net pay: | \$105,000 |
| Gross pay: | \$185,714 | | | | | | | | |
| Life insurance premium withholding: | - \$25,000 | | | | | | | | |
| Tax withholding (30%): | - \$55,714 | | | | | | | | |
| Net pay: | \$105,000 | | | | | | | | |
| <p>Budget bonus - \$25,000 bonus is budgeted to cover a \$17,500 premium and the taxes; again, the employee's net pay stays the same</p> | <table> <tr> <td>Gross pay:</td> <td>\$175,000</td> </tr> <tr> <td>Life insurance premium withholding:</td> <td>- \$17,500</td> </tr> <tr> <td>Tax withholding (30%):</td> <td>- \$52,500</td> </tr> <tr> <td>Net pay:</td> <td>\$105,000</td> </tr> </table> | Gross pay: | \$175,000 | Life insurance premium withholding: | - \$17,500 | Tax withholding (30%): | - \$52,500 | Net pay: | \$105,000 |
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| Life insurance premium withholding: | - \$17,500 | | | | | | | | |
| Tax withholding (30%): | - \$52,500 | | | | | | | | |
| Net pay: | \$105,000 | | | | | | | | |

Examples always help.

Paul owns a custom yacht-building business. He started it 20 years ago and has seen consistent growth in revenue and staff. One of his best hires over the years was Sean, who initially split his time between project management and sales. Now he runs the sales team and is a big reason the business is thriving.

The challenge:

- Paul wants another way to reward Sean for his great performance
- He also wants to give Sean a good reason to stay with his business



The solution:

- Paul offers Sean an executive bonus plan with a \$25,000 premium invested annually to help supplement Sean's retirement
- Sean's total annual bonus amount is actually \$35,714 to cover the additional taxes and keep his net pay the same as before the bonus
- Paul's business receives a deduction for the bonuses paid
- Paul includes a restrictive endorsement and a bonus repayment agreement with a five-year vesting schedule to keep Sean around

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

The plan meets both of their needs.

The restricted executive bonus arrangement helped Sean and Paul get what they wanted, and they're both thrilled.

Sean now has:

- Twice as much invested annually toward his retirement
- A policy he can tap into earlier if needed for his kids' college tuition
- More life insurance coverage to help provide for his family

And Paul has:

- A key employee who is happy staying right where he is
- A simple option that lets Paul deduct the bonus as an expense
- The flexibility to make changes as necessary in the future

We make it easier for you to offer an executive bonus plan.

We're serious about helping you find solutions for your business. That's why we've dedicated more than 50 people 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:

Specially designed products

We've designed life insurance products specifically to meet your needs. They include corporate pricing that gives key employees the opportunity to accumulate cash value more quickly, as well as other features that provide more flexibility for you and your employees.

Preferred group underwriting

In many cases, we can offer either guaranteed-issue underwriting, where all the key 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.

Smooth implementation

Our specialists will work with your insurance professional to conduct education and enrollment sessions for you and your key employees. If you want a restrictive endorsement for your plan, we'll provide all the necessary documents. We'll also review them and the life insurance applications to ensure a smooth start.

Reliable administration and support

We'll monitor your key employees' access to their cash value during the vesting period, and we'll provide annual reports for them and you. Of course, our customer service specialists are also ready to answer any questions about the policy that you or your employees may have.

Investment options

Asset allocation

Selecting the right mix of asset classes is an individual decision based on each person's time horizon and tolerance for risk. 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 — that will help them achieve their goals.

Nationwide Guided Portfolio Strategies

Nationwide consistently maintains a robust platform of investment options, and we're helping to 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.

24-hour web-based account information

Depending on the type of policy, your employees can go to our website whenever they want and get information. There they'll find a personalized account summary, service forms and details on recent transactions.

Our financial strength is reassuring.

It's important for you and your executives to know we'll be there when you need us. That's one reason we work so hard to maintain our strength and stability. Look at how the rating agencies rank us to see what we mean:

| Rating | Rating agency | Date issued | Date affirmed |
|---------------|-------------------|-------------|---------------|
| A+ "Superior" | A.M. Best | 10/17/02 | 10/2/17 |
| A1 "Good" | Moody's | 3/10/09 | 11/7/17 |
| A+ "Strong" | Standard & Poor's | 12/22/08 | 5/10/18 |

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 attract and retain the right people.

The top people in your organization most likely need to save more for retirement. If you can help them, you're bound to increase their loyalty to you. Contact your investment professional and find out whether an executive bonus plan is the right way to do it.



Nationwide®
is on your side

This material is not a recommendation to buy, sell, hold or roll over any asset, adopt an investment strategy, retain a specific investment manager or use a particular account type. It does not take into account the specific investment objectives, tax and financial condition or particular needs of any specific person. Investors should work with their financial professional to discuss their specific situation.

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