Supplemental executive retirement plan

Plan sponsor guide

Nationwide®
is on your side

Helping you recruit, reward and retain the best people

NATIONWIDE® BUSINESS SOLUTIONS GROUP

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, defined benefit supplemental executive retirement 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 administration 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. Keep the key employees who can help your business succeed by providing them with a nonqualified, defined benefit supplemental executive retirement plan (SERP).
The guide will cover:

Let's get started.

Qualified plans may not provide enough post-retirement income for your key employees

A qualified plan such as a 401(k) is a great way to help most of your employees prepare for retirement. Employees can save a portion of their compensation on a pretax basis. The savings grow tax deferred until money is withdrawn from the plan. But a qualified plan may not fully prepare your key employees for retirement.

Limitations of qualified plans

For your business	For your key employees
Minimum coverage rules[1]	Limit on contributions
Nondiscrimination testing	10% tax penalty for early withdrawals
Top-heavy testing	Required minimum distributions
Maximum vesting schedule	

[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.

Compare these two employees:

	Key employee	Employee
Annual salary	$200,000	$85,000
401(k) annual deferral	$18,000	$18,000
Annual deferral as a percentage of compensation	9%	21%
Projected accumulation at the end of 20 years[2]	$700,000	$700,000
Estimated pretax annual distribution at retirement, payable in 20 installments	$56,000	$56,000
Post-retirement income replacement ratio	**28%**	**65%**

[2] Assumptions: Each continues to defer the maximum amount allowed, which grows by 2% each year, earning 5% annually.

How can a SERP help?

You can help your highly paid key employees increase their post-retirement income replacement ratio by establishing a defined benefit SERP designed to meet your needs and those of your key employees.

You have flexibility in how you design the plan

Your defined benefit SERP must fit your company's needs. You decide

- The benefit formula:
  - A stated dollar amount
  - Based on years of service, compensation or a combination of both
  - A target retirement income equal to a percentage of final compensation
- When benefits will be paid
- How benefits will be paid (lump sum, annual installments, etc.)
- When benefits will vest

For example:

You have a key employee who is 45 years old. He has worked for you for five years and earns $200,000 a year. You would like this employee to stay with the company for at least another 15 years (until he's 60).

To give him incentive to stay, you enter into a SERP agreement with the key employee. You'll pay an annual benefit of $100,000 for 10 years starting at age 60. The total value of the benefit will accrue on a pro-rata basis over the employee's remaining 15 years of service, and the accrued benefit will be vested at all times.

For your business

A defined benefit SERP is an effective way to make your key employees feel valued and less likely to leave for one of your competitors.

POTENTIAL BENEFITS INCLUDE:	POSSIBLE DRAWBACKS INCLUDE:
Provides a robust recruiting and retention tool. Allows you to discriminate in favor of your highly paid key employees. Allows you to decide when a benefit will be paid, how much will be paid and in what manner it will be paid. Requires less reporting and administration than a qualified defined benefit plan. Allows the company to receive a tax deduction when benefits are paid to the employee. If funded with corporate-owned life insurance, tax-free death benefits may serve as a plan cost-recovery mechanism.	Offers no immediate tax deduction when the plan is established or informally funded. Requires a written plan document and annual administration.

This type of plan may be complex as far as legal and tax issues are concerned. Please be sure to consult your legal and tax advisors for answers to any questions you have. Nationwide and its representatives do not provide legal or tax advice.

For your key employees

A defined benefit SERP can help your key employees maintain their current lifestyle in retirement.

POTENTIAL BENEFITS INCLUDE:	POSSIBLE DRAWBACKS INCLUDE:
Offers the satisfaction of being recognized and rewarded as a key employee. Provides employees with a supplemental source of retirement income without having to defer their own compensation.	Leaves open the possibility that employees may not receive their benefits if the employer becomes insolvent or declares bankruptcy.

Financing the defined benefit SERP

The benefits you will pay to employees under the defined benefit SERP are considered an unfunded liability on the company's books. You have several options when it comes to offsetting that liability and providing a source of cash from which to pay benefits.

Unfinanced

You are not required to set aside assets to fund the future benefit payments. Those benefits can be paid out of then-current cash flow.

Advantages	Disadvantages
• Does not tie up cash which may be needed for other purposes	• Employees may feel more secure knowing that assets have been earmarked to pay their future benefits • Payment of benefits in the future will need to come from general assets of the business

Taxable investments

You could use taxable investments (e.g., mutual funds) to offset the accruing liability of the future benefits. Those assets could then be liquidated to pay benefits as they become due.

Advantages	Disadvantages
• Professional money management • A wide array of investment options • Employees may feel more secure knowing that there are assets specifically earmarked to pay their benefits	• Gains/dividends are taxable each year to the company • Transaction fees and taxes are due when assets are sold

Corporate-owned life insurance

You could purchase cash value life insurance on the employees who are eligible to participate in the plan. Because the company is the owner and beneficiary of these policies, they are usually referred to as corporate-owned life insurance policies or "COLI."

Advantages	Disadvantages
• No income tax on policy gains if held until the death of the insured • The company may receive tax-free death benefits to offset the costs of the plan if policies are held until the death of the insured • Some products may provide more predictable earnings than taxable investments	• Life insurance has fees and charges, including the cost of insurance • Premium payments are not deductible

Any assets purchased by the company for the purpose of informally funding a SERP will be general assets of the company, and employees will have no greater interest in those assets than any other unsecured general creditor of the company.

Let us help you recruit, reward and retain the best people for your business

Your key employees may not be able to save enough in a qualified 401(k) plan to maintain their lifestyle during retirement. Talk to your advisor today about helping them supplement their post-retirement income by establishing a defined benefit SERP.

Nationwide®

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

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