Key employee retention

Split dollar plans using life insurance

Business planning solutions from Nationwide®

Add life to your business

You finally have the staff you've always wanted for your company — now how do you keep them?

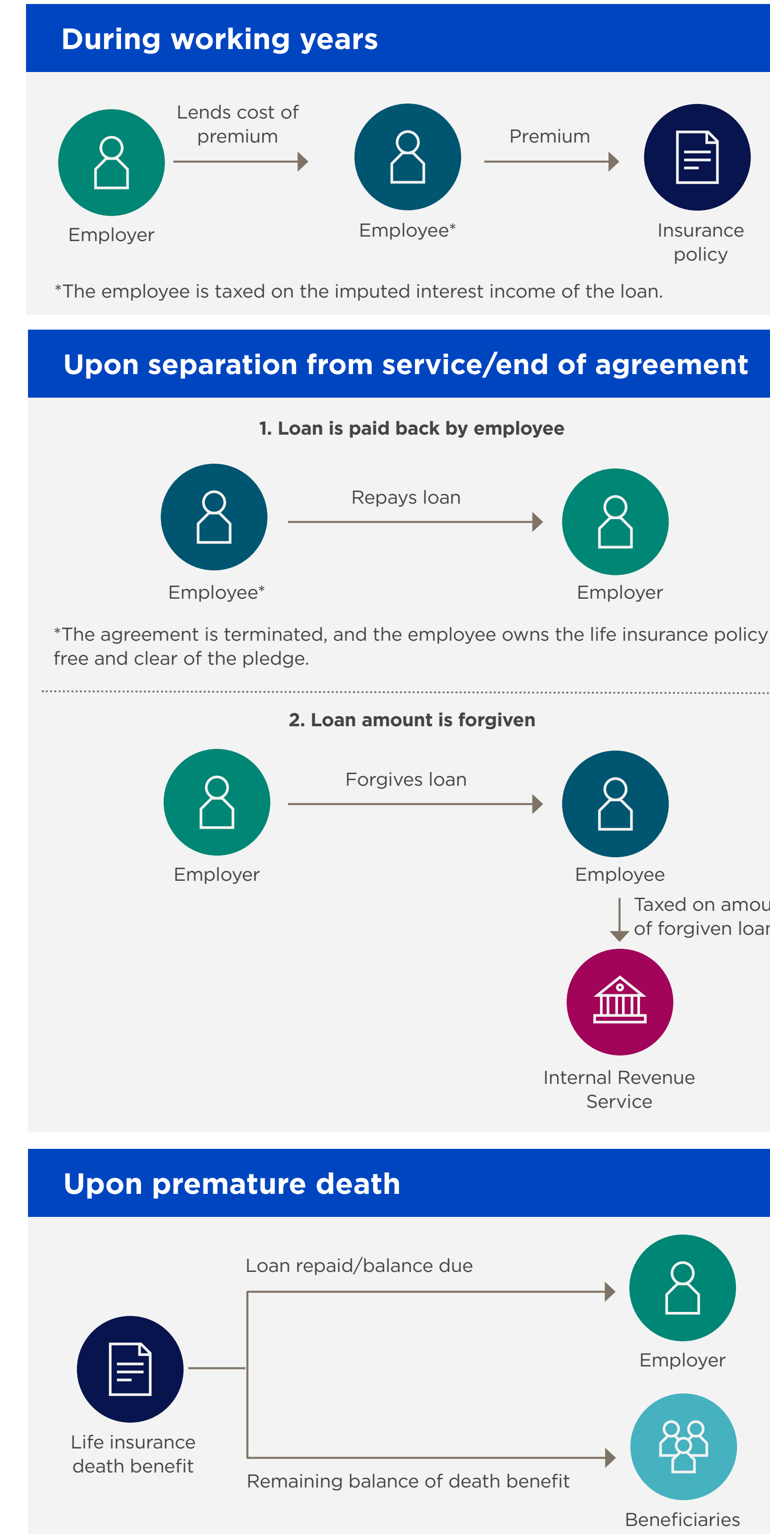
A split dollar plan using life insurance from Nationwide® might be just what you need to add a little staying power to your company.

There are two types of split dollar arrangements created using life insurance: **collateral assignment/loan regime** and **endorsement/economic benefit regime**. Each has unique features that meet various objectives set by an employer.

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.

Collateral assignment split dollar arrangements

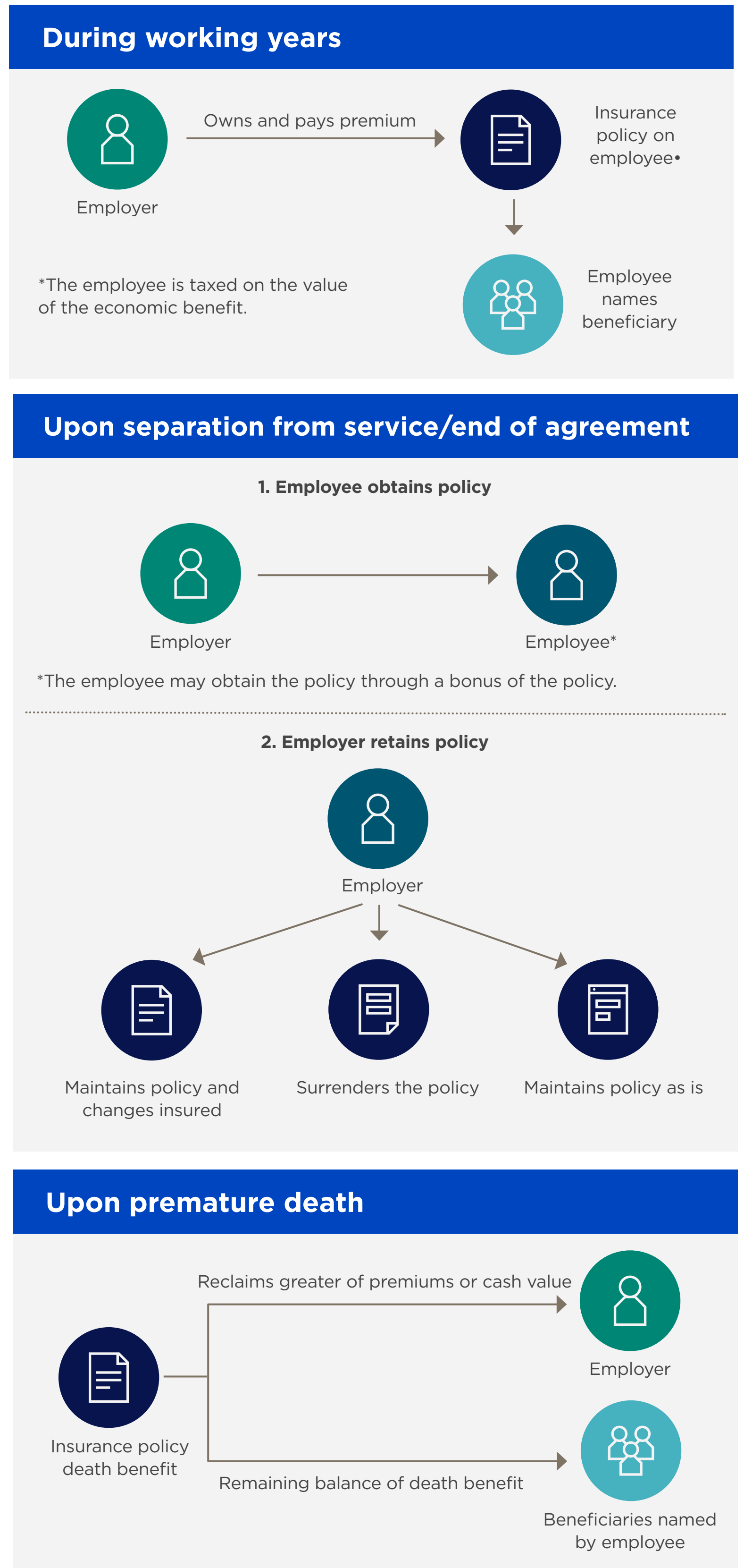
Under this arrangement, an employer will lend a key employee an amount of money to be used to pay the premium on a life insurance policy. The employee will pledge the policy as collateral for the loan. The employee gets the privilege of owning the policy and naming a beneficiary.



Endorsement split dollar arrangements

An employer will purchase and own a life insurance policy on a key employee, and the employee will have the opportunity to name a beneficiary.

The employee is taxed annually on the economic benefit, which is the age-based value of the death benefit less the amount due back to the employer.



For employers

Benefits of the plan:

- Both a recruiting and retention tool for valued employees
- Less administration and fewer funding requirements than qualified plans
- Ability to select who receives benefits, when they receive them and how much they receive, unlike qualified plans
- Lack of limits or rules associated with traditional qualified plans
- Low startup and administrative expenses
- Ability to recoup your business's investment when a valued employee quits, retires or dies
- Flexible plan design
- Capability to terminate the plan at any time

Drawbacks of the plan:

- May require compliance with employer-owned life insurance rules
- Requires a formal written contract to put the plan in place
- No guarantee the employee will remain with the company
- Requires monitoring and annual tax reporting to the employee

For employees

Benefits of the plan:

- The business makes premium payments for personal life insurance protection
- Flexibility in plan design to meet individual needs
- Income tax costs to employees can be covered by a bonus from the employer
- Ability to receive tax-free income via partial withdrawals and loans
- Opportunity for tax-deferred growth of cash values within the life insurance policy
- Income tax-free death benefit for beneficiary(ies)
- With proper planning, there may be an ability to exclude the value of the life insurance policy from the employee's estate

Drawbacks of the plan:

- If employment ends for any reason, the policy may be at risk of lapsing if the employee cannot make the premium payments
- Must qualify for life insurance coverage

Meet Dev

His story

Founded by Dr. Dev Bashar shortly after completing his residency 20 years ago, Bashar Medical Group (BMG) now employs 11 general practitioners as well as nurses, physical therapists, medical assistants, lab technicians and office staff. Though it started with just Dr. Bashar and Akiko, his wife, who is a nurse, the practice is now one of the best regarded in the city for top-notch medical care and the staff members' genuine compassion. However, finding the right mix of medical expertise and caring concern in the physicians he recruits has typically not been very easy, and turnover is a problem. Dr. Bashar would like to add a special benefit or two for the physicians to encourage them to stay at BMG.

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.

His strategy

Dev and Akiko decide to meet with their investment professional, Michael, to discuss their options. Dev explains his desire to retain physicians by offering an exclusive benefit. Michael mentions that one possible strategy often used to boost retention among key employees with a life insurance need is a split dollar plan. With this type of plan, BMG would purchase life insurance policies on several or all of its physicians. These policies would help protect the physicians' loved ones in the event of an untimely death, as well as provide a tax-advantaged way to save more for retirement.

The practice must be prepared to make premium payments on the life insurance policies used to fund the plan. The practice would have complete discretion in selecting employees as well as contributions and benefits. The plan can also be structured so that the employees make part of the premium payment and so that the practice's investment can be reimbursed if the employee quits, retires or dies. After the employee retires and, if necessary, reimburses the firm, he or she enjoys all the policy benefits. Because life insurance policies are involved, Michael reminds Dev and Akiko that the employees will have to qualify for the coverage.

Positive that this is a good approach, Dr. Bashar presents the idea to the physicians at their weekly update meeting. They all agree to meet with Michael to complete a life insurance application and schedule necessary medical requirements. Dr. Bashar feels confident that he's done what he can to retain BMG's physicians for years to come.

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 all 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 executive bonus plans, as well as any of these other business planning options:

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

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

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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