




Nationwide®
is on your side

Business planning

Nonqualified deferred
compensation



How can you keep your
most valuable employees?





Add life to your business

You built your company from the ground up, and your employees have been with you every step of the way. So how do you help make sure they continue working for you — and not your competition?

Show them their true value with a nonqualified deferred compensation plan using life insurance.

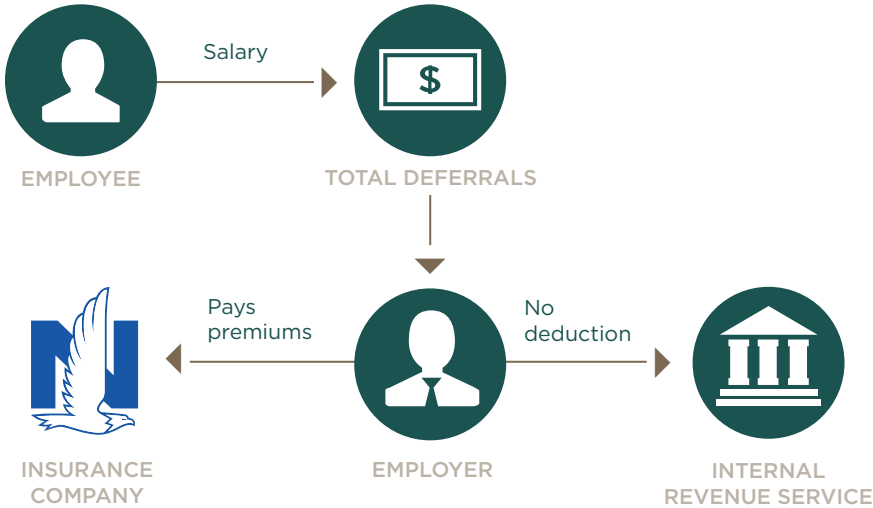
Be sure to choose a product that meets long-term life insurance needs, especially if personal situations change — for example, marriage, birth of a child or job promotion. Weigh objectives, time horizon and risk tolerance, as well as any associated costs, before investing. Market volatility can lead to the need for additional premium in the policy. Variable life insurance has fees and charges that include underlying fund expenses and costs that vary with sex, health, age and tobacco use. Riders that customize a policy to fit individual needs usually carry an additional charge.

Recruit, reward and retain

How it works

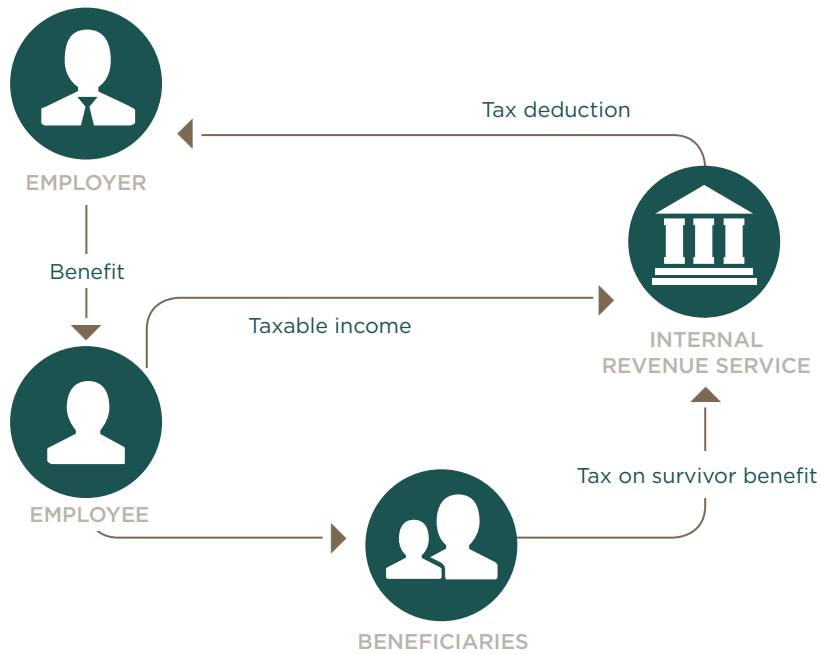
For many people, the savings offered by qualified plans alone may not provide enough funds to maintain their current standard of living in retirement. But nonqualified deferred compensation plans funded with life insurance can be used to help key employees supplement their retirement income — providing an excellent tool to help you recruit, reward and retain key talent.

Preretirement Deferral Cash Flow Diagram



With nonqualified deferred compensation plans, the employer gives a key employee or group of key employees the ability to defer some of their salary and bonus compensation on a pretax basis. There are no formal funding vehicles required for these plans. But, for the purposes of this brochure, we'll assume corporate-owned life insurance as the funding vehicle because of the tax advantages it can offer.

Postretirement Benefit Cash Flow Diagram





For your business

Make a commitment to your valued employees for the long term — reward them for their stake in the future success of your business through a nonqualified deferred compensation plan.

Potential benefits include:

- Serves as both a recruiting and retention tool for valued employees
- Requires less administration and fewer funding requirements than traditional qualified plans
- Enables the business to select who receives benefits, when they receive them and how much they receive, unlike qualified plans
- Premiums can be paid by the business, the valued employee or both
- A tax deduction is received when an employee receives distributions from the plan
- The death benefit from the life insurance funding can be used as a cost-recovery mechanism

Possible drawbacks include:

- No immediate tax deductions
- Plan document and ongoing administration required

Depending upon structure, these types of plans may be complex as far as legal issues and taxes are concerned. Be sure to consult your legal and/or tax advisors for answers to any questions you have. Nationwide® and its representatives do not provide legal or tax advice.



For your valued employees

By rewarding valued employees with a nonqualified deferred compensation plan, your business gains loyalty and productivity.

Potential benefits include:

- Recognition of key employees' contributions to your business
- Tax deferral of potential earnings until the employee receives compensation under terms of the plan
- Providing a supplemental source of retirement income
- Unlimited employer and employee deferrals (as long as the plan document provides for them)
- Provisions for the plan may provide a supplemental death benefit to the employee's successors

Possible drawbacks include:

- Plan assets are subject to the claims of the employer's creditors
- Employer contributions are not required
- If funding with life insurance, the employee may be subject to underwriting process and guidelines



Meet Joe and Gretchen

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.

Their story

Joe and Gretchen, both in their early 50s, are the highly successful owners of JAG Marketing, the metropolitan area's largest marketing communications agency. While they've worked hard for 20 years to build the business, they know a large part of their success is due to their seven account executives (AEs) who bring in new accounts and expertly handle current accounts. The AEs all have a tenure of at least a decade. Even though turnover has always been low, Joe and Gretchen recognize how competitive their industry is and want to ensure they don't lose any of their key talent.

JAG Marketing already provides an excellent benefits package, but Joe and Gretchen know that great benefits are commonplace at most of their competitor firms. They want an added advantage to help retain the AEs so crucial to the firm. JAG Marketing's success in recent years has also generated profits they plan to reinvest into the business, but have not yet decided exactly how to allocate the funds. They agree they should immediately discuss these issues with Scott, the firm's investment professional.

Their strategy

After reviewing their concerns, Scott explains that retention is a key reason companies install nonqualified deferred compensation plans. And since the company could be adversely affected by the loss of any of the AEs, using life insurance policies to fund the plans may be just the strategy they need.

This plan allows them to pay scheduled benefits to select employees in exchange for future services to the firm. And since JAG Marketing will own the policies, they can control which employees receive benefits, how much they receive and when they'll receive them, unlike their qualified 401(k) plans.

Scott adds that if the plans are structured properly, the select employees could also make their own contributions into the policies. Also, if one of the covered employees passes away while with the firm, JAG Marketing can use the death benefits from the policy to recover costs or even to provide the employee's family with survivor benefits. They can also use the money to recruit replacement talent.

After some discussion, Joe and Gretchen decide that a nonqualified deferred compensation plan may be just what they need.

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



Call your investment professional today for more information on nonqualified deferred compensation plans, as well as any of these other business planning strategies:



A couple of things you should keep in mind:

- This strategy does not guarantee returns or insulate the policyowner from losses, including loss of principal
- If informally funded with corporate-owned life insurance (COLI), the death benefit is paid directly to the company
- 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
- Any investment purchased by the company for purposes of informal funding is a general asset of the company and may not be specifically tied to any executive benefit; any income received by the employee from the deferred compensation plan will be taxed as ordinary income at the time it is received; the company will receive a tax deduction when the executive receives distributions from the plan, not when income is deferred

- Buy/sell agreements
- Executive bonus plans and restrictive executive bonus arrangements (REBA)
- Insurance-based retirement plans
- Key person insurance
- Split-dollar plans



• 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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