LIFE INSURANCE

SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN (SERP)

Tailored Retirement Benefits for Your Executives

FOR USE WITH THE GENERAL PUBLIC

Ohio National Financial Services®

A Supplemental Executive Retirement Plan (SERP) provides tailored retirement benefits for highly compensated individuals.

What is a SERP?

Many business owners enhance their employee fringe benefits to place golden handcuffs on their key employees. A Supplemental Executive Retirement Plan (SERP) is a nonqualified plan that can provide enhanced retirement benefits for select executives.

The appeal of nonqualified supplemental retirement plans is the ability to tie quality executives to a business by making retirement benefits conditional and too worthwhile to leave behind. As such, the promised benefits can help keep quality key people with a business for the long term.

How SERPs work

- The company contractually agrees to pay the executive an annual retirement income. The agreement may specify that if the executive dies before retirement, an annual benefit will be paid to the executive's beneficiary.
- The company informally funds its obligation by purchasing insurance on the life of the executive. The company pays the entire premium to Ohio National and is the policy owner and beneficiary.
- The company controls the cash value of the policy during the executive's lifetime and receives the entire proceeds upon the executive's death.
- At retirement, the company pays benefits from the current cash flow or cash value of the policy.
- Upon the executive's death, the executive's beneficiary receives benefits according to the terms of the agreement.

Advantages of a SERP

For the company:

- The plan places "golden handcuffs" on key people.
- IRS approval is not needed to install the plan, and only minimal Department of Labor (DOL) reporting requirements apply.
- The business is free to select the eligible participants.
- The plan offers flexible benefits.
- The business may be able to recover costs, depending on the design.

For the executive:

- There is no plan cost; the employer makes contributions.
- Benefits can fit individual needs and provide retirement security.
- No reverse discrimination exists for highly compensated employees as there could be in a qualified plan.
- The plan serves as a tax-deferred retirement benefit.

An enhancement to qualified plans

Qualified plans have lost a great deal of appeal for executives because government regulations restrict the amount of money a highly paid person can contribute to a plan. Additionally, Social Security benefits favor lower-paid employees.

A SERP reverses the disadvantages of qualified plans and Social Security, and can be a perfect supplemental benefit plan for selected executives.

A nonqualified SERP allows you to be selective in offering this benefit. It can include only top executives or officers – your key employees. Qualified plans are more restrictive, and meeting eligibility requirements can be expensive. Also, the after-tax cost of the currently deductible payments for qualified plans is non-recoverable. If a vested executive decides to leave your company, the money is gone as well.

With a nonqualified SERP, however, your company not only retains control of the funds, but can have cost recovery from the death proceeds, depending on the design.

An additional advantage – nonqualified plans fall outside the usual reporting requirements of the federal government.

Comparison of SERPs vs. Qualified Plans	SERP	Qualified Plan
Contributions are Currently Deductible by Employer	No	Yes
Contributions are Currently Taxable to Executive	No	Economic benefit costs only*
Employer Deducts Payment of Retirement Income	Yes	No
Executive Taxed on Retirement Income	Yes	Yes
ERISA Reporting Requirements	Minimal	All
Employer Control	Yes	Yes
Employer Cost Recovery	Yes	No
Ability to Select Participants	Yes	No

** assuming the use of life insurance*

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Life insurance: The ideal funding medium

Cash value life insurance can be the ideal funding medium for a SERP. Through a concept known as cost recovery, a company can fund the plan to recover all of its costs.

When a company pays insurance premiums, there is also a cost for the use of its money during the course of the plan.

When the executive retires, the business pays an income to the retiree.

At the executive's death, Ohio National pays the income tax-free life insurance proceeds to the company.* These proceeds can be used to reimburse expenses and perhaps provide a gain.

Three factors make a gain possible if established properly:

1. Cash value inside a permanent life insurance policy can grow tax-deferred each year of the plan. If the policy is retained until death, taxes on the earnings inside the policy can be avoided completely.
2. The business is entitled to deduct the benefit payments it makes to the retiree or his or her family.
3. Life insurance proceeds are paid income tax free to the company.

The combination of these favorable tax factors make life insurance an attractive funding vehicle for SERPs.

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*Assumes IRS guidelines are met, including written notice to and consent from the insured before the policy is issued.

Favorable tax consequences

For the company:

Although the company does not receive a deduction for its premium payments, the benefits paid to the executive can be deducted. Plus, the life insurance cash value can grow on a tax-deferred basis and at the executive's death, the proceeds will be received income tax-free.*

For the executive:

In a properly designed SERP no portion of the company's contribution is currently taxable to the executive. The executive doesn't pay any income tax until he or she receives benefits. When received, the payments are taxed as ordinary income.

This tax treatment applies provided the executive does not have constructive receipt of the life insurance cash value. The key elements of constructive receipt are timing and control. If an individual gains control over the policy, then the executive will be currently subject to income tax on the value.

A properly designed SERP avoids the constructive receipt issue. The business retains control of the policy and only gives the executive a promise to pay income at retirement and/or death.

Rabbi Trusts

While the executive should not be given control over the life insurance policy, it is possible to build in some protection for the executive through the use of a Rabbi Trust.

A Rabbi Trust (so named for the first taxpayer to raise the issue) strengthens the employer's promise to pay benefits by protecting the executive from future management changes, but not from the company's insolvency or bankruptcy.

The use of a Rabbi Trust provides assurance to an executive that, short of bankruptcy, the employer will have the necessary funds set aside to fulfill its obligation, while also avoiding current income taxation for funds placed in the trust.

*Assumes IRS guidelines are met, including written notice to and consent from the insured before the policy is issued.

Why Ohio National?

You have a number of excellent companies to choose from for your business insurance. Ohio National is in the top rank of life insurers serving the small business market:

Financial strength

Ohio National's financials, annual report and ratings tell the story of our solid, stable, well-performing organization.

Company heritage

Ohio National has been servicing policyholders for more than 100 years. We are committed to building long-term relationships with our customers and providing them with financial solutions as their needs change over time.

Outstanding professional representation

Thousands of financial professionals across the country have chosen to contract with Ohio National. They are well-trained, experienced financial professionals who, in many cases, have multiple licenses and professional designations in financial services.

Exceptional products and solutions

Our company offers industry-leading products – all backed by solid financial strength including a full portfolio of life insurance, disability income insurance and annuity products to help meet the needs of individuals and business owners.

Get started today!

If you have key executives you hope to retain long term, a SERP is a very useful method of doing so.

Tax-free distributions assume that the life insurance policy is properly funded and is not a Modified Endowment Contract (MEC). If a policy is, or becomes, a Modified Endowment Contract (MEC), distributions may become taxable and a 10 percent penalty assessed if taken prior to age 59½. Different rules apply in the first 15 policy years, when distributions accompanied by benefit reductions may be taxable prior to basis recovery.

Loans from policies that are not classified as modified endowment contracts are generally not subject to tax but may be taxable if the policy lapses, is surrendered, exchanged or otherwise terminated. Always confirm the status of a particular loan or withdrawal with a qualified tax advisor.

Cash value accumulation and dividends are not always guaranteed and are determined by the product selected and any guarantees included therein. Income tax-free death benefits, withdrawals and loans apply to Federal taxes only. State income taxes may apply. Loans and withdrawals will reduce the death benefit. It is important that you consult with your own qualified tax advisor regarding your particular situation.

Products are issued by and guarantees are based on claims-paying ability of The Ohio National Life Insurance Company and Ohio National Life Assurance Corporation. Product, product features and rider availability vary by state. Issuer not licensed to conduct business in New York.

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Ohio National Financial Services®
Life changes. We'll be there.®