



Supplemental Executive Retirement Plan

Presented by:

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The Ohio National Life Insurance Company
Ohio National Life Assurance Corporation
Ohio National Equities, Inc.
Member NASD/SIPC



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The Ohio National Life Insurance Company and Ohio National Life Assurance Corporation issue a variety of life insurance and annuity products. Product availability varies by state.



Increase Retirement Benefits For Your Key People

Please Be Advised:

- ◆ All specific legal and tax questions should be referred to your tax and legal advisers

Key Employees are Valuable!

◆ Your Goal:

- ◆ To tailor retirement benefits for select individuals and tie them to your business for the long term

Your Solution:

◆ Supplemental Executive Retirement Plan (SERP)

- ◆ *A properly structured SERP places "golden handcuffs" on select employees and executives.*

Attract

Retain

Reward

SERP Agreement Defined



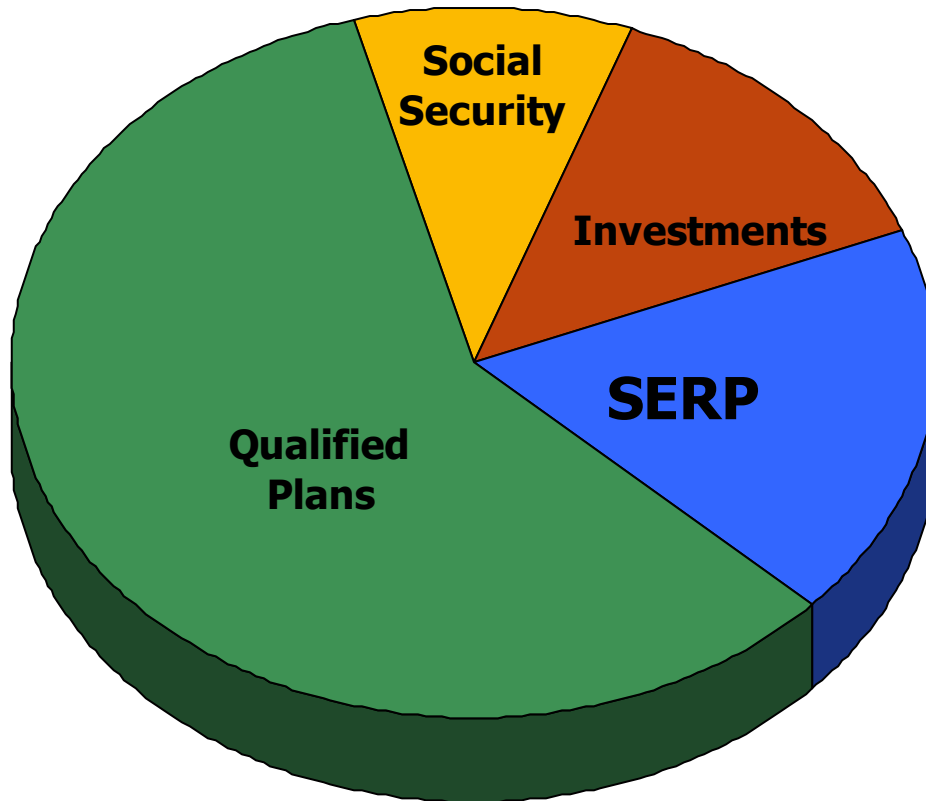
- ◆ An agreement between an employer and key employees to provide retirement and/or death benefits at a future date
- ◆ Nonqualified SERPs do not require IRS pre-approval to install

Retirement Planning for Executives



- ◆ Supplemental executive retirement plans helps complete the retirement planning picture for highly compensated employees

SERPs Complete the Picture



Benefits for Your Company

- ◆ Attracts the best of the best
- ◆ Places “golden handcuffs” on key people
- ◆ No IRS pre-approval required
- ◆ You are free to pick and choose participants
- ◆ The plan offers flexible benefits
- ◆ Your business can recover all costs of implementing the plan

Benefits for Your Employees

- ◆ Employees make no contributions to the plan
- ◆ Benefits can be tailored to fit employees' individual needs
- ◆ Plan can favor highly-compensated employees
- ◆ Plan serves as a tax-deferred retirement benefit

When Should I Use a SERP?



- ◆ To help retain key employees
- ◆ As a substitute for qualified retirement plans
- ◆ As an additional benefit to qualified retirement plans
- ◆ To defer taxation on income for highly paid employees
- ◆ To provide a “forced” retirement savings plan



SERPs vs. Qualified Retirement Plans



	SERP	Qualified Plans
Contributions Currently Tax Deductible by Employer	No	Yes
Contributions Currently Taxable to Executive	No	No*
Employer Deducts Payment of Retirement Income	Yes	No
Executive Taxed on Retirement Income	Yes	Yes
Government Reporting Requirements	Minimal	All
Ability to Select Participants	Yes	No
Contributions Currently Vested	No	Yes

*Unless life insurance is used with a qualified retirement plan.

A Substitute for Qualified Retirement Plans



- ◆ Government rules can be cumbersome
 - ◆ Mandatory employee participation
 - ◆ Funding requirements
 - ◆ Strict vesting schedules
 - ◆ Disclosure and reporting
 - ◆ Administrative costs

Nonqualified SERPs aren't subject to many government rules.

SERPs are Selective

- ◆ SERPs favor a select group of highly compensated employees and executives

Rule of thumb: Employees and executives in the top 10% of all salary paid are potential candidates for a SERP.

Government Filings are Minimal

- ◆ Employer need only file an ERISA statement with the Department of Labor



- ◆ A sample ERISA statement is available from your Ohio National adviser

Forfeiture Provision

- ◆ Typically provides for the forfeiture of all benefits should the employee voluntarily terminate employment prior to meeting age and/or service requirements

*Places "golden handcuffs"
on the employee.*

An “Unfunded” Plan

- ◆ In order to receive favorable tax treatment and avoid current taxation to the employee, the plan must remain unfunded

The funding asset must remain an asset of the corporation subject to the claims of company creditors.



How it Works

A Typical SERP
Follows Five Basic Steps

Step One

- ◆ The company agrees to pay the employee an annual retirement income
- ◆ The agreement may add a death benefit if the employee dies before retirement



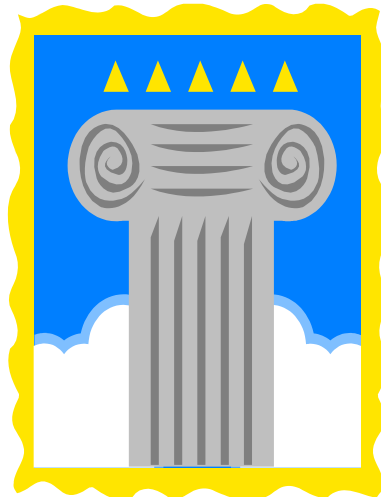
Step Two

- ◆ The company informally funds its obligation by purchasing life insurance on the life of the employee



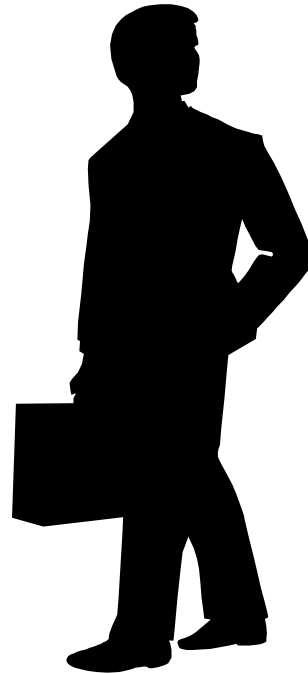
Step Three

- ◆ The company owns and controls the policy, including cash values and receives all policy proceeds including death benefits



Step Four

- ◆ At the employee's retirement, the company pays promised retirement benefits from insurance policy cash values



Step Five

- ◆ If the employee dies prematurely, the employee's beneficiary receives benefits according to the terms of the agreement



SERP Mechanics



Business

Premiums



Step 2

Policy Benefits



Step 3



ONFS



Step 4

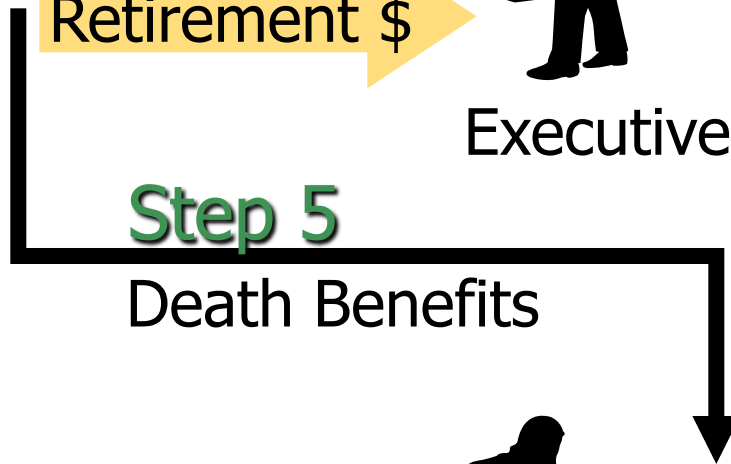
Retirement \$



Executive

Step 5

Death Benefits



Beneficiary

Tax Aspects



Tax Aspects: Employer

- ◆ Benefit payments are deductible for the employer in the year they are:
 - ◆ Credited to the employee's account
 - ◆ Set apart for the employee
 - ◆ Made available to the employee



Tax Aspects: Employee

- ◆ Benefits are taxable to the employee in the year they are:
 - ◆ Credited to the employee's account
 - ◆ Set apart for the employee
 - ◆ Made available to the employee

Actual physical possession of cash benefits is not required for income taxation to result. This is known as "constructive receipt."



Tax Aspects: Employee's Estate

- ◆ Death benefits are generally included in employee's taxable estate



Tax Aspects: Employee's Beneficiary

- ◆ Amounts received by beneficiary are included in income, but the beneficiary gets to take an income tax deduction for any estate taxes attributed to the payment



Social Security Taxes

- ◆ Benefits are subject to FICA taxes at the later of:
 - ◆ The time services are performed
 - ◆ At retirement
 - ◆ At any other time when the benefits are no longer subject to a substantial risk of forfeiture

No FICA taxes are due if employee earns more than the FICA wage base in the year of retirement (\$102,000 for 2008).



Design Alternatives

- ◆ SERPs for business owners
- ◆ Disability protection
- ◆ Death benefit only plans
- ◆ Section 457 plans
- ◆ Rabbi trusts

SERPs for Business Owners



- ◆ Applies to owners of C corporations
- ◆ Focus is on relative income tax brackets
- ◆ If a C corporation's tax bracket is lower than the owner's individual income tax bracket, then a SERP may make sense for the owner

Protect Against Disability

- ◆ The disability waiver of premium rider ensures the deferred compensation plan will remain intact in the event of disability



Design Alternative: Death Benefit Only Plan



- ◆ Does not provide retirement income to employee
- ◆ Pays income benefit to employee's beneficiary in the event of employee's death
- ◆ If properly structured, benefits are not included in the employee's estate
- ◆ Benefits are taxable to the employee's named beneficiary



Section 457 Plans

- ◆ Deferred compensation plans that allow non-profit organizations to provide supplemental retirement income to highly compensated employees
- ◆ There are two types of 457 plans:
 - ◆ Eligible Plans
 - ◆ Ineligible Plans

Eligible 457 Plans

- ◆ Have contribution limits (\$15,000 for 2006)
- ◆ Contributions are protected from claims of creditors
- ◆ Plan distribution rules are similar to those for qualified plans

Ineligible 457 Plans

- ◆ Similar to traditional nonqualified SERPs:
 - ◆ No contribution limits
 - ◆ Contributions are not protected from claims of creditors
 - ◆ Plan distributions are not subject to age restrictions
 - ◆ Limited to highly compensated employees

Security for Employees: Rabbi Trust

- ◆ Provides protection for employee against management changes



- ◆ How it works:

- ◆ SERP funds are placed in trust for the benefit of the employee and cannot be invaded by management, but must remain subject to the claims of company creditors

Security for Employees: Rabbi Trust



- ◆ Short of insolvency or bankruptcy, a rabbi trust protects an employee's SERP benefits from management changes
- ◆ Provides peace of mind for the employee

Life Insurance: The Ideal Funding Medium



- ◆ Cost Recovery:
 - ◆ Allows a company to recover all of its costs in setting up a SERP
 - ◆ Cost of retirement/death benefits
 - ◆ Cost of funding the plan
 - ◆ Opportunity costs



Three Factors Make Cost Recovery Possible



One:

- ◆ Cash values inside a life insurance policy can grow tax-deferred each year of the plan*

Two:

- ◆ The business is allowed to deduct benefit payments made to the employee or his/her family

Three:

- ◆ Life insurance death benefits are paid income tax-free*

**Possible alternative minimum tax (AMT) exposure may result for some C corporations. A tax specialist should be consulted to determine possible AMT exposure for you.*

Three Factors Make Cost Recovery Possible

- ◆ The combination of these favorable tax factors make a life insurance policy an attractive funding vehicle for SERPs



Get Started Today



Supplemental executive retirement plans funded with life insurance allow you to provide retirement benefits to highly compensated employees and tie them to your company for the long term – affordably!