BUSINESS INSURANCE

Supplemental Executive Retirement Plan (SERP)

As a business owner, you understand top employees expect fringe benefits. Many successful businesses provide "golden handcuff" plans to pay a lucrative fringe benefit to a key employee only if he or she stays with the company until retirement. One of these tailored, enhanced retirement benefits is a Supplemental Executive Retirement Plan (SERP).

How does it work?

A SERP is a written agreement between an employer and a key employee. As the employer, you promise to pay the employee a retirement income stream or lump sum benefit if he or she stays with the company until retirement. You also may provide a pre-retirement or survivor benefit under the SERP if the employee dies before reaching retirement age.

Funding a SERP

Life insurance is the ideal informal funding mechanism for many SERP agreements. You can informally fund the agreement by purchasing business-owned life insurance on the key employee. As a business-owned policy, the company has total control over the policy and flexible, tax-advantaged access to its cash value and income tax-free death benefit. The company can then use the policy to help meet its obligations under the SERP.

Beyond qualified plans

As a nonqualified plan, the SERP is flexible and allows employers to pick and choose participants among small, select groups of highly compensated employees. A SERP has only minimal reporting requirements, and there are no contribution limits.

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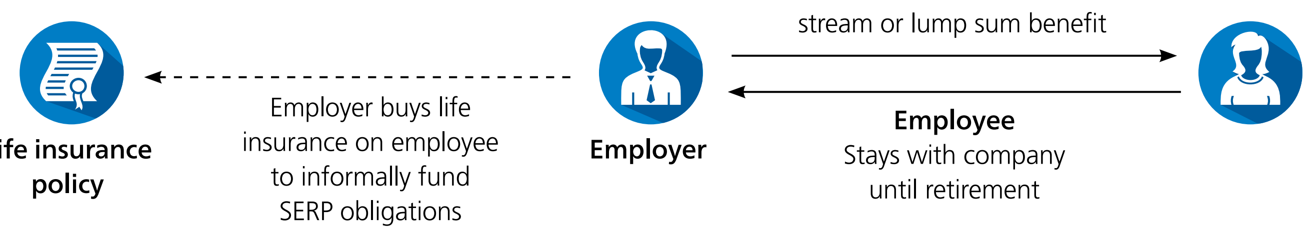
Tailored benefits for executives



Ohio National Financial Services®

The benefits

- SERPs can be a powerful tool when used to retain key employees: as a "forfeitable" plan, the employee only receives a benefit if he or she stays with the company until retirement. Because of this, SERPs are often referred to as "golden handcuff" plans.
- When structured properly, employees are not currently taxed on promised SERP benefits. Rather, the employee is taxed – and the employer takes an income tax deduction – when the benefits are paid to employees under the plan (typically at retirement or attaining a specific age).
- As owner of the policy, the employer maintains maximum control over life insurance policy cash values.
- SERPs can be a supplemental benefit plan, offering employers more flexibility over plan design and participant selection than qualified plans.

Additional considerations

- For all business-owned life insurance policies, it is essential to obtain proper notice and consent from the insured before the policy is issued.
- Because a SERP is a legal contract, consult an attorney to draft the agreement. You may also need to consult a third-party administrator or specialty CPA to manage the tax and accounting procedures applicable to SERPs.
- SERPs should only be offered to a select group of management or highly compensated employees.
- In order to ensure tax deferral, assets informally funding a SERP agreement must be subject to the employer's creditors.
- The policy must not be a modified endowment contract ("MEC") to obtain tax-favored access to policy cash values.
- Nonprofit organizations can also establish a SERP. However, a special rule applicable to non-profits accelerates taxes owed by the employee on SERP benefits in the first year of retirement, regardless of the benefit duration period. Consult your tax advisor to discuss how this rule may apply to your particular case.

Learn more by requesting our brochure, "Provide Tailored Retirement Benefits for Your Executives" (Form 2303), from your Ohio National financial professional today.

Policy loans, if taken, reduce the death benefit. If policy loan interest is not paid and the policy terminates, a taxable event may occur. Loans and withdrawals from life insurance policies that are classified as modified endowment contracts may be subject to tax and, if taken prior to age 59½, a 10 percent federal tax penalty may apply.

This flier provides general information that should not be construed as specific tax or legal advice nor the law of any particular state. You should seek the advice of a qualified tax or legal professional for your specific situation.

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