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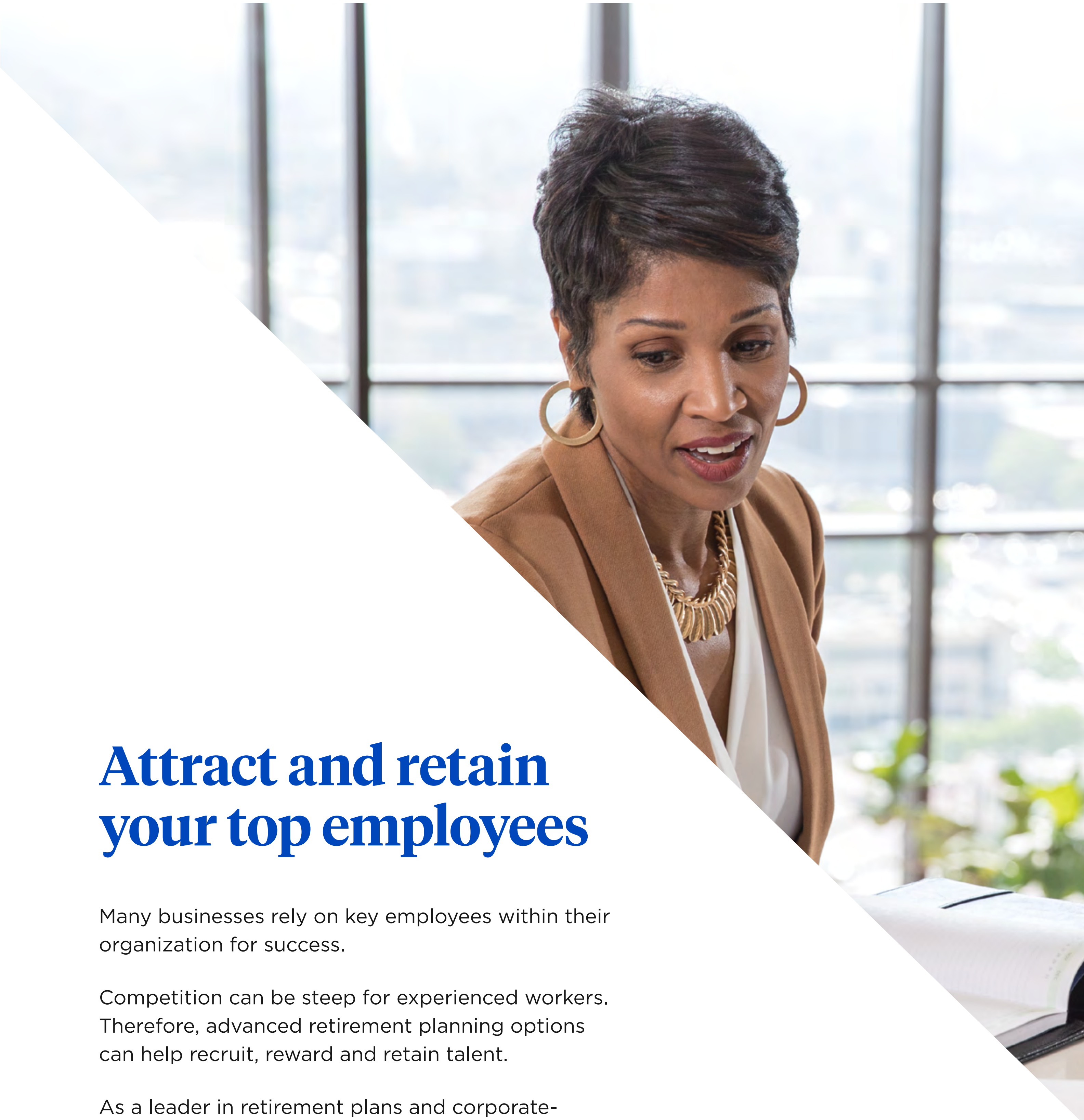
401(k), Cash Balance and Nonqualified Deferred Compensation Plans

Combining plans can help maximize retirement benefits



Attract and retain your top employees

Many businesses rely on key employees within their organization for success.

Competition can be steep for experienced workers. Therefore, advanced retirement planning options can help recruit, reward and retain talent.

As a leader in retirement plans and corporate-owned life insurance, Nationwide has developed a number of solutions to help America prepare for and live in retirement. We've designed this guide to help your business clients create a holistic approach for retirement and determine which solution(s) is most appropriate based on their goals and objectives.

The 401(k) plan is a popular benefit for many employees

Employer-sponsored qualified retirement plans are the retirement savings vehicles for most Americans. This usually begins with offering a 401(k) plan, because this plan design has become a building block for retirement plans. It's a versatile option for businesses of all sizes and industries. It allows both the employee and the employer to contribute to an employee's retirement account.

Many employers will find that offering a 401(k) plan will meet most of their needs.

And because the 401(k) salary deferral feature is added to a profit-sharing plan, the plan can offer:

- Employer-matching contributions
- Discretionary profit-sharing contributions

Cash balance or nonqualified deferred compensation plans may complement traditional 401(k) benefits

In order to address the unique savings challenges of highly compensated employees, employers may want to consider offering additional savings vehicles. Nationwide offers other plan designs that can be positioned to complement the 401(k) plan, such as a cash balance plan or a nonqualified deferred compensation (NQDC) plan. These solutions may provide employees with a tax-efficient means of saving and the employer with favorable tax advantages.

Who may this be right for?	
Cash Balance	**Nonqualified Deferred Compensation (NQDC)**
• Highly profitable companies • Older business owners who want to accelerate their retirement savings • Professional firms (legal, medical, etc.)	• Highly profitable companies • Key non-owner employees • Employers wanting to recruit, reward and retain key talent • Highly compensated employees and/or select management who contribute the maximum amount to their 401(k) plan

Multiple benefits can work together

See the plan types below with their salary deferral and employer contribution limits. Each plan provides employers and employees with tax-advantaged benefits.

Plan Type	Maximum Amounts	Details
401(a) profit sharing	**$57,000**[1]	This limit includes any deferrals under a 401(k) feature, but not catch-up contributions. The deferral limit is $19,500. For those who have attained age 50, they can defer up to an additional $6,500 in catch-up contributions for a total of $26,000.
Cash Balance	**$207,000**[2]	This allows employers who have an additional need to save increased amounts for their own retirement.
NQDC	**Up to 100% of salary**	It gives an employer the opportunity to provide a supplemental savings vehicle for highly compensated employees.

Note: This image is for illustrative purposes only, and it is based on a 55-year-old individual.

[1] This limit is the lesser of $57,000 or 100% of compensation and includes all employee (excluding catch-up contributions) and employer contributions, as well as any forfeitures allocated to a participant's account.
[2] "Contribution Limits Table," CashBalanceDesign.com/resources/contribution-limits/ (accessed Feb. 18, 2020).

Let’s explore your options

Let these questions help get you started:

- Are you confident that you, your leaders and your employees are adequately prepared for retirement?
- Are your highly compensated employees contributing the maximum allowed in their 401(k)?
- Do you have employees who would probably benefit from additional retirement plan options?

Use the checklists below to help identify which features and benefits are most important to you.

Employer Impact				
Objectives	**Desired Plan Feature** (check all that apply)	**401(k)**	**Cash Balance**	**Nonqualified Deferred Compensation**
Immediate tax deduction		✓	✓	
No restrictions on contribution amount				✓
Employer and employee contributions allowed		✓		✓
Ability to select eligible participants				✓
No restriction on vesting schedule				✓
Sensitivity to changes in the market			✓	
Protection from creditors		✓	✓	
Funding is optional		✓		✓

Employee Impact				
Objectives	**Desired Plan Feature** (check all that apply)	**401(k)**	**Cash Balance**	**Nonqualified Deferred Compensation**
Allows for pretax deferrals		✓		✓
No restriction on deferral amount				✓
Risk of taxable refund of deferrals if contribution limit is exceeded or nondiscrimination testing is failed		✓		
In-service withdrawals after attaining age 59½ allowed without an additional 10% early withdrawal tax		✓		✓
Ability to select form of payment when amounts become payable		✓	✓	
Restrictions on when amounts can be distributed		✓	✓	✓
Ability to take out loans from the plan		✓	✓	
Must begin receiving payments at age 72[3] unless still employed		✓	✓	
Ability to roll money into IRA or transfer to new employer's plan		✓	✓	
Employee account sensitive to changes in the market		✓		✓
Protection from personal creditors prior to distribution		✓	✓	✓
Plan must be formally funded		✓	✓	

[3] The required minimum distribution (RMD) is the minimum amount the IRS requires to be withdrawn each year from a retirement plan. RMDs begin in the calendar year following the year the plan participant reaches age 72, or age 70½ if the participant turned that age prior to 2020.

Let's get into the details

Now that you know the basics about these plans, consider the details below to make decisions about combining them to help maximize retirement plan options.

401(k)

A type of qualified profit-sharing plan with a salary deferral feature

Plan Features	• For 2020, this limit is the lesser of $57,000 (combined total for all employer/employee contributions (excluding catch-up contributions) as well as any forfeitures allocated to a participant's account in all qualified defined contribution plans and 403(b) plans of the same employer) or 100% of the participant's includible compensation; this limit may be updated annually for cost of living adjustments • Employer contributions can be discretionary and/or matching (based on employee's 401(k) deferral) • Employees may defer up to $19,500 per plan year, up to 100% of compensation • Employees age 50 (by the end of the calendar year) or older are permitted to defer up to an additional $6,500 in catch-up contributions • Employer contributions may be subject to a vesting schedule • Participant loans and hardship distributions are permitted if allowed in the plan document • If employee separates from service, the vested portion may be rolled over to an IRA or other eligible retirement plan • Distributions may be made under specific conditions allowed within the plan document, including: – Participant (employee) must be at least 59½ years old – Participant (employee) becomes disabled (as defined by IRC) – Distribution is paid to the beneficiary as a result of participant's death – Distribution qualifies as an in-service withdrawal – Qualified domestic relations orders – Separation from service	
Benefits	**For the employer:** • Great way for employers to attract and retain employees • The employer may make tax-deductible contributions to the plan • Small businesses (fewer than 100 participants) may be eligible for a tax credit up to 50% of the first $1,000 of startup administration and education expenses for the first three years of a new retirement plan	**For the employee:** • Permits employees to save for retirement on a tax-deferred basis • Creditor protected • Portability of benefits • Often includes employer contributions in addition to salary deferrals
Works Best for:	**Employers who:** • Would like to offer employees a straightforward pretax (or post-tax) means to save for retirement • Want the flexibility to make contributions at the employer's discretion	

Cash Balance

This is a defined benefit plan that establishes a specified benefit at normal retirement age for employees, but it resembles a defined contribution plan in establishing a separate “hypothetical” account for each eligible employee.

<table>
<tr><td>Plan Features</td><td colspan="2">• At least annually, the employer contributes a principal credit and interest credit to each participant’s hypothetical account; the participant’s account balance at retirement is then distributed as a lump sum or converted into an annuity
• The plan must be funded by the employer with assets held in trust for the exclusive benefit of plan participants
• For 2020, the contribution is the lesser of the amount needed to fund an annual annuity at retirement equal to $230,000 or 100% of the employee’s highest three years’ (consecutive) compensation</td></tr>
<tr><td>Benefits</td><td>For the employer:
• Some flexibility in plan design, allowing greater benefits to highly compensated employees with smaller contributions to other employees
• Allows an employer to create substantial retirement benefits for the owner and the company’s employees
• Can be used in conjunction with a defined contribution plan to maximize deductible contributions
• The employer makes currently tax-deductible contributions to the plan with tax-deferred growth</td><td>For the employee:
• Income tax deferral until distribution
• Can roll over to IRA or other eligible retirement plan
• Easier to understand than other defined benefit arrangements
• Creditor protection
• May be offered in addition to a 401(k) or profit-sharing plan to maximize retirement benefits</td></tr>
<tr><td>Works Best for:</td><td colspan="2">Employers who:
• Want to invest more in retirement benefits than with a 401(k) plan only
• Are willing to contribute at least 5% to employees each year
• Have consistent cash flow
• Have an older business owner (over age 40) who wants to increase his retirement benefits or make up for neglecting retirement savings in prior years</td></tr>
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Nonqualified deferred compensation

A nonqualified deferred compensation plan is an employee benefit plan that allows a group of select management or highly compensated employees to defer current compensation on a pretax basis to a later tax year. An employer may also credit employees' accounts with discretionary and matching contributions.

Please note that some life insurance products may involve some market risk, including the possible loss of principal. 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. 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.

Plan Features	• The employer and employee enter into an agreement whereby the employee elects to defer compensation on a pretax basis, and the employer promises to pay the employee the value of the deferred amount plus earnings in a future tax year • When the employer pays benefits to employees from the plan, the company takes a tax deduction and the employee recognizes the distributed amount as ordinary income • The employer may credit matching and discretionary amounts to the employees' accounts • If the employer credits employees' accounts with a matching or discretionary amount, the employer may attach a vesting schedule to them as a retention tool • The employer purchases a life insurance policy on each employee who is eligible to participate in the plan and pays the premiums on these company-owned policies with the compensation deferred by employees • The employee's account balance and the cash values within the life insurance policy grow tax deferred • When the employee passes away, the employer collects a tax-free death benefit to offset the cost of the plan

Benefits	**For the employer:** • The plan may be offered to a select group of employees as a way to supplement the benefits provided through a qualified plan • The plan does not impact the amounts that can be contributed to a qualified plan • The plan is a tool to reward and retain a group of select employees in a discretionary manner • Easy implementation and ongoing administration by a third-party administrator • The company-owned life insurance may provide income tax-free death benefits that can be used to offset the cost of the plan, recruit the deceased employee's replacement, or replace lost profits due to the key employee's death	**For the employee:** • Current taxable compensation may be reduced • There are no contribution limits (a contrast from qualified plans) • There are no required minimum distributions at age 72 • There are no additional 10% early withdrawal taxes for withdrawals prior to age 59½ • Income taxes on deferred compensation are paid when benefits are distributed from the plan • Employees' accounts are credited with earnings that are taxed only when amounts are distributed from the plan
Works Best for:	**Employers who:** • Would like to offer a benefit that can provide supplemental retirement income to a select group of employees • Are not seeking an immediate tax deduction for deferred compensation or company contributions • Want to use employer contributions as a retention tool	**Employees who:** • Would like to reduce their current taxable income • Are looking for a tax-deferred vehicle in which to save for retirement • Would like to defer compensation above and beyond their employer-sponsored qualified plan

We're here to help you through every step of the benefits planning process. Once you've reviewed the plan features, feel free to call us with any questions you may have.

Retirement Plans Solutions Center: 1-800-321-6064

Nationwide® Business Solutions Group: 1-877-351-8808

Advanced Consulting Group: 1-888-767-7373

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This information was created to support the general promotion of life insurance, annuities and/or other products and services, which are described within, from Nationwide Life Insurance Company.

Keep in mind that different plan designs may have various tax implications. Federal income tax laws are complex and subject to change. Nationwide and its representatives do not give legal or tax advice. Please consult an attorney or tax advisor for answers to specific questions. This information is not intended to be used — and cannot be used — to avoid penalties under the Internal Revenue Code.

Please note that some life insurance products may involve some market risk, including the possible loss of principal. 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. 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.

Variable products are sold by prospectus. Carefully consider the investment objectives, risks, charges and expenses. The product and underlying fund prospectuses contain this and other important information. Investors should read them carefully before investing. To request a copy, go to nationwide.com/prospectus or call 1-800-848-6331.

Products are issued by Nationwide Life Insurance Company or Nationwide Life and Annuity Insurance Company, Columbus, Ohio. Nationwide Investment Services Corporation, member FINRA, Columbus, Ohio.

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