LIFE INSURANCE

EXECUTIVE BONUS PLAN

Reward and retain your key people with a powerful fringe benefit plan

Ohio National Financial Services®

Enhance your company's benefit package
for select employees and yourself

Reward and retain your key people

To attract and keep innovative, quality people, you need to offer quality fringe benefits. Fringe benefits don't have to be difficult or complicated to offer value. In fact, a simple plan can often be the best plan.

An executive bonus plan lets you purchase life insurance on yourself and selected key executives. Besides providing cash value life insurance, this plan can meet an executive's financial needs, on a tax-deferred basis, for:

- Retirement income;
- Estate liquidity;
- College funding;
- Death benefit protection.

Benefits for you and your key employees

Executive bonus plans are popular because they don’t discriminate against highly compensated executives.

Benefits for you:

- Reward your key employees in a tax-deductible way;
- Select participants without worrying about discrimination rules;
- Create a plan without the need for IRS approval;
- Create a plan that is simple to administer;
- Encourage executive loyalty.

Benefits for your key employees:

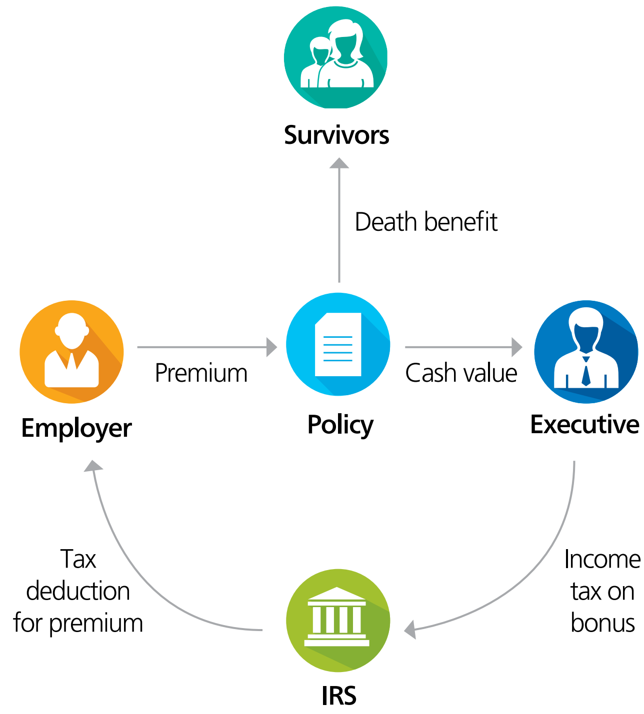
- Own a life insurance policy;*
- Accumulate cash value for retirement;
- Accumulate cash value on a tax-deferred basis;
- Receive income-tax-free benefits during life (under current tax laws);
- Provide a cash death benefit for beneficiaries.

*Executives could agree not to change ownership or borrow against the policy without your consent (through a custodial executive bonus agreement, discussed later in this guide).

How an executive bonus plan works

With an executive bonus plan, key employees own life insurance on their life and your business pays the premium directly or indirectly through a salary bonus.

The bonus amount is typically deductible by your business as an ordinary and necessary expense. The same bonus amount is taxable to the employee as ordinary income just like any other cash bonus. In addition, you always have the option to increase bonus payments to offset your employee's income tax liability.



An alternative to qualified retirement plans

Qualified retirement plans are federally approved plans that have several major tax benefits. Employer contributions can be deducted for income tax purposes, but when funds are distributed at retirement, they will typically be subject to income tax. In addition, qualified retirement plans have strict reporting requirements and rules guarding against discrimination.

An executive bonus plan includes the best features of a qualified plan and eliminates its worst features. When considering an executive bonus plan, take into account the following:

- An employer cannot be the beneficiary of the life insurance policy;
- The premium amount is additional compensation for the executive;
- A written agreement between the employer and the executive should be established;
- The executive must pay income tax on the amount of the premium paid by the employer. The employer could bonus the extra money needed to pay the tax, or the tax could be paid by policy loans or withdrawals.

Executive bonus incorporates the best features of a qualified plan	Executive bonus avoids the worst features of a qualified plan
Serves as tax-deductible business expense	Allows for choice of participants
Ability to provide benefits for retirement, disability and death	Eliminates government filings and paperwork
Accumulates funds on a tax-deferred basis	Overcomes the "reverse" discrimination that pension plans have against highly compensated individuals

Plan alternatives

Executive bonus plans allow for almost unlimited flexibility in design to help highly compensated executives deal with limitations created by governmental regulations and limitations of qualified plans.

Double bonus

With this design alternative, the employer *bonuses* all of the premium, plus an additional sum, to cover the income tax due by virtue of the executive bonus plan. Because the executive is reimbursed for the tax outlay, he or she doesn't have to reach into his or her own pocket or use the life insurance policy as a tax payment source.

Executive contribution

Another alternative of an executive bonus plan allows the executive to *add* to the premium. Once the employer determines a premium amount, the executive may contribute his or her own money to supplement the fringe benefit plan.

Custodial executive bonus

The third variation of a standard executive bonus plan, a custodial executive bonus plan, adds the element of *employer control*. The employer and executive enter into a separate agreement that details the restrictions placed on the executive's ability to exercise policy ownership rights. During the term of the plan, the executive needs the employer's consent to access the policy's cash value.

The custodial arrangement is used when an employer is concerned about the employee leaving and perhaps using the cash value buildup to start a competitive business venture.

Typically, restrictions remain in place until the executive reaches a stated retirement age or satisfies a length-of-service requirement. Once the required conditions have been met, the executive is free to exercise all ownership rights without any employer restriction. *At no time* does the employer ever *own* the policy in a custodial executive bonus plan or have any reversionary rights.

Comparison of fringe benefit plans

	Qualified plan	Executive bonus	Custodial executive bonus
Contributions deductible by employer	Yes	Yes	Yes
Contributions taxable to executive	Table 2001 cost*	Yes	Yes
Receipt of retirement income taxable to executive	Yes	No	No
ERISA requirements	Yes	No	No
Employer control	Yes	No	Yes

* assuming the use of life insurance

Tax issues

As stated earlier, one of the primary advantages of an executive bonus plan is its simplicity. The tax consequences of an executive bonus plan are straightforward and easy to understand.

Income tax

IRC Section 162 permits an employer to take deductions for ordinary and necessary business expenses. This includes deductions for reasonable salaries or other compensation for personal services.

Special attention should be given to an executive bonus plan when the executive also is a *shareholder in a closely held corporation*. In this situation, the bonus should be designated clearly as compensation for services performed by the executive and be reasonable in amount.

At retirement, the executive can take annual withdrawals or loans from the policy. If the policy is structured correctly, the money will be received income tax-free. The amount of income available at retirement will depend on the amount of premiums paid over the years, as well as the executive's age and health at the time the policy is purchased.

Note: All specific tax and legal questions should be referred to your legal counsel and accountant.

Estate tax

An executive who participates in an executive bonus plan typically will own the life insurance policy that is part of the plan. As the owner, the life insurance proceeds will be included in the executive's estate at the time of death.

To remove the policy from the executive's estate, it would be necessary for the insured to transfer the policy to a third party, i.e., the executive's children or an irrevocable life insurance trust.

If the transfer of a life insurance policy is made within three years of the insured's death, the policy is drawn back into the insured's estate.

Gift tax

If the insured executive is the original owner of the policy and assigns all rights to a third party, a gift has been made. The value of this gift will be the fair market value of the policy – typically, the policy's cash value, as of the transfer day.

Would you be interested in a selective plan that may allow for a tax deduction when rewarding key employees?

How to begin

To establish a plan, decide which of your executives are vital to your business and gather the following information:

- Name, gender and date of birth of the executive(s) to be covered;
- Amount of coverage desired or premium commitment;
- Tax brackets of business and individual executive(s).

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

Major independent analysts of the insurance industry give Ohio National high ratings for claims-paying ability and financial strength. (For details, go to www.ohionational.com/About Ohio National/Financials and Ratings.)

Mutual heritage

Because of Ohio National's mutual company heritage, the management view is long term. Thus, we are free from the pressure for short-term results – driven by the 90-day earnings cycle, for example – that stock companies (including most major insurers) are under. Ohio National's emphasis has always been on prudent, conservative long-term management in the best interests of our policyholders.

Outstanding professional representation

More than 10,000 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.

High-performance products

Ohio National has a long tradition of maintaining remarkably competitive individual life insurance, retirement plans and annuity products.

Get started today!

The true value of any business is the employees, particularly the ones who provide the key skills essential to success. Finding and retaining these individuals ensures the ongoing success of the business today and preserves its value for the future.

Life changes. We'll be there.®

Our mission is to make a difference in your life by helping you achieve financial security and independence today – and for generations to come.

For more information, contact your Ohio National financial professional today.

Life insurance and annuities are issued by The Ohio National Life Insurance Company and Ohio National Life Assurance Corporation. Product, product features and rider availability vary by state. Issuers not licensed to conduct business in New York.

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