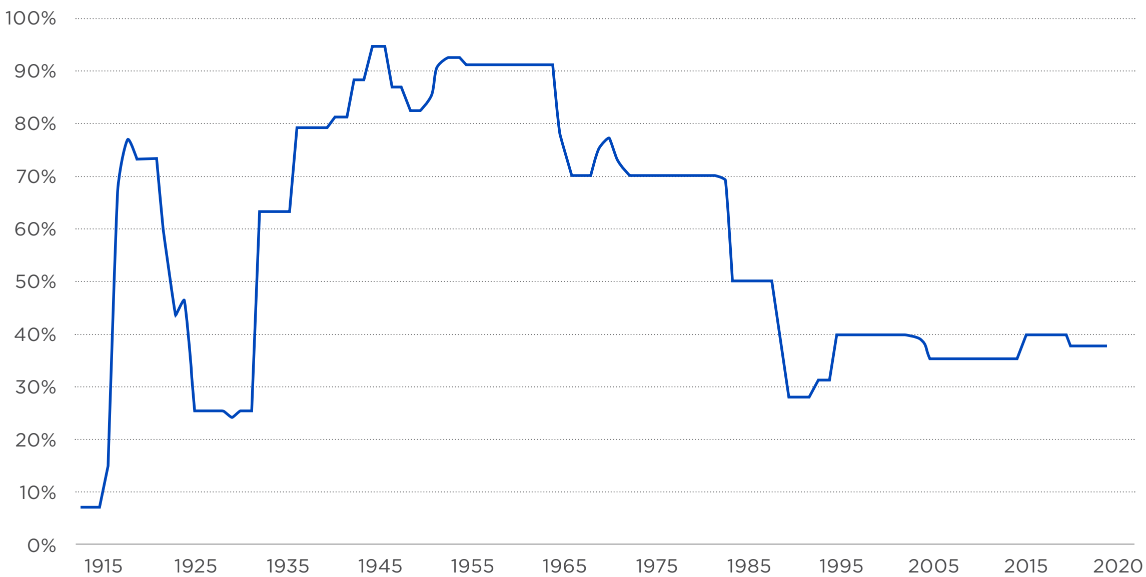
Insurance-based income solution | Sales idea

Nationwide®
is on your side

Show clients the value of tax-free income in retirement

Tax rates have gone up and down over time, and there's no reason to think that trend is going to stop. Add in the uncertain short- and long-term economic impact from the pandemic and you obviously have a more challenging time to be planning for taxes. That's why you should regularly review retirement needs with your clients — especially those with high incomes — and consider having them invest with after-tax dollars now in order to be in a "tax-preferred" position at retirement.

Highest Marginal Income Tax Rates in the United States[1]



[1] "Historical Highest Marginal Income Tax Rates," Tax Policy Center, Urban Institute and Brookings Institution, taxpolicycenter.org/statistics/historical-highest-marginal-income-tax-rates (downloaded March 17, 2021).

Questions to ask yourself

- Will the current and subsequent administrations change the tax codes?
- How long can the current tax rates hold up in the ongoing economic uncertainty?
- Will tax rates be affected by the aging population, growth in entitlement spending (Social Security and Medicare) and rising deficits?
- Do you expect interest rates to remain at historic lows?

Life insurance can help diversify retirement income

You have a variety of ways to help your clients save for retirement. If they're already maximizing qualified plan contributions, consider life insurance as a complement to their financial portfolio because of its tax advantages. You'll be diversifying their portfolio from a tax perspective and creating more flexibility for dealing with specific tax considerations down the road.

Taxable

Investments are generally taxed at income, capital gains or dividend tax rates

EXAMPLES:

CDs, stocks and most bonds

The taxable portion of Social Security benefits

Tax deferred

Assets grow tax deferred and taxes are paid when money is withdrawn

EXAMPLES:

401(k), 403(b)

Pension

Traditional IRA

Annuities

Tax free

Assets grow tax deferred and money can be withdrawn on a tax-free or tax-preferred basis[2]

EXAMPLES:

Cash value life insurance[3]

Roth IRA or 401(k)[4]

Certain municipal bonds[5]

Life insurance may offer even more efficient accumulation now

The recent passage of the Consolidated Appropriations Act of 2021 (the stimulus package) included changes to Internal Revenue Code Sections 7702 and 7702A. These code sections determine whether a policy qualifies as life insurance and how policy distributions are taxed. Also, the changes allow greater cash value growth potential for policies issued on or after January 1, 2021. By allowing more money to be paid into the policy per $1 of specified amount, life insurance becomes a more efficient accumulation solution for consumers looking for retirement planning options.

Recent changes allow your clients to:

Put more premium into a policy with the same death benefit, providing more tax-advantaged savings and growth potential

OR

Lower the death benefit for the same amount of original premium, which saves money in fees

For more details about the changes to Internal Revenue Code Sections 7702 and 7702A, take a look at our overview.

[2] Roth IRAs can offer tax-free distributions. Withdrawals made prior to age 59½ may become taxable and result in a 10% penalty if they are not considered a "qualified distribution" or one of the exceptions provided by the IRS.

[3] Loans and withdrawals from a life insurance contract are tax free. However, loans and withdrawals may affect the death benefit payable in particular instances and require additional premiums to keep the policy in force. Early surrenders may also be subject to charges and taxation.

[4] In order to receive the income tax-free distribution of gains from a Roth IRA, you must hold the asset for at least five years and not take distributions prior to age 59½. Similar to a traditional IRA, there are exceptions to the 10% federal tax penalty for withdrawals and the age 59½ requirement, such as higher education expenses, first-time home purchase, death, disability, certain qualifying medical expenses or health insurance premiums.

[5] While not all municipal bonds are exempt from federal and state income tax, generally the interest paid on municipal bonds is tax free.

How this could work in real life

Joe, who's 45, is looking to save additional money for retirement. He purchases a Nationwide® Indexed Universal Life Accumulator II 2020 policy and pays $25,000 for 20 years, while he's still working. The cash value grows tax deferred for 20 years. If Joe retires at age 65 and chooses to start taking income a year later, he can potentially take $70,608 in annual distributions a year for 20 years on a tax-free basis from the policy's cash value. And he has a death benefit in place to protect his family, should he pass away prematurely.[6]

Accumulation phase

Age	Year	Life insurance premium	Life insurance cash surrender	Life insurance tax-preferred income	Income tax-free death benefit	Tax-adjusted surrender value IRR[7]	Tax-adjusted death benefit IRR[7]
46	1	$25,000	$12,295		$427,290	-68.8%	2,298.9%
50	5	$25,000	$109,110		$532,594	-1.7%	75.7%
55	10	$25,000	$247,320		$702,398	4.4%	26.0%
60	15	$25,000	$406,983		$936,851	6.1%	15.4%
65	20	$25,000	$590,319		$1,253,773	6.9%	11.6%
		Total premium $500,000					

[6] This illustration is hypothetical and is based on a Nontobacco Preferred underwriting rating and a 5.96% assumed rate; the net premium payments are allocated as follows: 0% into the fixed interest strategy, 100% into the One-Year S&P 500 Annual Point-to- Point strategy; the death benefit is Option 2: Option 2 (increasing), switching to Option 1 (level) in year 21.

[7] The internal rate of return (IRR) is adjusted for the 30% tax bracket.

The above hypothetical illustration also assumes that the Nationwide IUL Rewards Program (conditional credit endorsement) requirements are met, and thus an additional 0.20% interest is credited to the policy annually starting in year 16.

Distribution phase[8]

Age	Year	Life insurance premium	Life insurance cash surrender	Life insurance tax-preferred income	Income tax-free death benefit	Tax-adjusted surrender value IRR[7]	Tax-adjusted death benefit IRR[7]
66	21		$826,412	$70,608	$1,183,165	7.0%	10.8%
70	25		$722,441	$70,608	$900,733	7.3%	8.7%
75	30		$556,000	$70,608	$610,010	7.6%	7.8%
80	35		$333,393	$70,608	$381,604	7.7%	7.8%
85	40		$28,727	$70,608	$85,775	7.7%	7.9%

Total tax-preferred distributions
$1,412,160
(20 x $70,608 = $1,412,160)

Greater income potential

When compared to before the changes to IRS Sections 7702 and 7702A, this illustration resulted in an **additional $78,729** for Joe over the 20-year distribution period.

[8] Please keep in mind that if Joe passes away after he starts taking distributions, it will affect the death benefit available for his family.

This is a hypothetical scenario; actual results may vary.

We're here to support you and your clients

At Nationwide, we've designed our indexed universal life products and services to provide more of what you and your clients want.

Indexed interest strategies help boost growth potential in a variety of market conditions, including a One-Year High-Cap Multi-Index Monthly Average with a 20% cap

The Nationwide IUL Rewards Program® credits additional interest at an annualized rate of 0.20% starting in year 16, as long as requirements are met[9]

Our **Multi-Index Monthly Average** indexed interest strategy is easy for clients to implement and may reduce the frequency of allocation changes

The **Automated Income Monitor** makes it easy for clients to set up and monitor an income stream

Alternative loans offer clients policy loans with more growth potential, flexibility and ease of management

Let us help you make the most of tax-preferred planning.

To find out more and get your questions answered, call our Life Insurance Solutions Center at 1-800-321-6064.

[9] To receive the Nationwide IUL Rewards Program benefit, net accumulated premium payments (the total premium paid minus any policy loans, unpaid loan interest charged and partial withdrawals) must satisfy a net accumulated premium test on designated dates. The test amount is specified in the policy.

Nationwide®
is on your side

• Not a deposit • Not FDIC or NCUSIF insured • Not guaranteed by the institution
• Not insured by any federal government agency • May lose value

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This material is not a recommendation to buy, sell, hold or roll over any asset, adopt an investment strategy, retain a specific investment manager or use a particular account type. It does not take into account the specific investment objectives, tax and financial condition, or particular needs of any specific person. Investors should discuss their specific situation with their financial professional.

Guarantees are subject to the claims-paying ability of the issuing insurer. 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 the costs of the policy and understand that life insurance has fees and charges that vary with sex, health, age and tobacco use. Riders that customize a policy to fit individual needs usually carry an additional charge.

Indexed universal life insurance policies are not stock market investments, do not directly participate in any stock or equity investments and do not receive dividends or capital gains. Past index performance is no indication of future crediting rates. Also, be aware that interest crediting fluctuations can lead to the need for additional premium in your client's policy.

Federal tax laws are complex and subject to change. Neither Nationwide nor its representatives give legal advice, so please consult an attorney or tax advisor for answers to specific questions.

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To receive the Nationwide IUL Rewards Program benefit, premium payments must meet or exceed a test of the net accumulated premium (the premium paid minus any amounts taken as loans or partial surrenders) at the start of policy year 16; earlier for issue ages 51 or older. Once the requirement is met, the benefit is applied monthly — at an annualized rate of 0.20% from then on — as long as the policy is in force. The benefit is calculated every month by multiplying the accumulated value, minus any indebtedness, on the date of calculation by the credit percentage. The Nationwide IUL Rewards Program includes pro rata interest on any accumulated value taken from an index segment for loans or partial withdrawals.

Any money which is removed from an indexed strategy segment during an interest-crediting period for any reason (e.g., withdrawal, certain loans, policy surrender, to pay policy charges or expenses, etc.) is not credited with any index-linked interest for that interest-crediting period.

As with most universal life policies, the cash value is determined by the sum of premiums paid net of any loads, deductions of policy charges, plus interest credited. Policy charges are deducted monthly and include a flat administrative fee, an expense charge based on the face value issued, cost of insurance charges and charges for any rider.

Life insurance is issued by Nationwide Life Insurance Company or Nationwide Life and Annuity Insurance Company, Columbus, Ohio.

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