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The New Wealth Transfer

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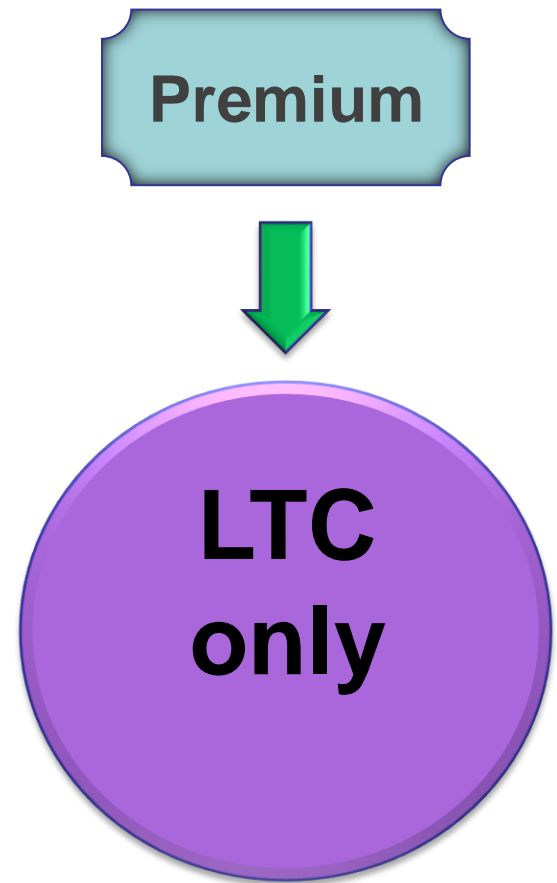
Long-term care solutions.....

- LTC coverage helps preserve income and assets
 - Spares healthy spouse from loss of lifestyle/financially
 - Helps preserve retirement income and financial legacy for heirs
- Among the numerous solutions available today
 - **Traditional** long-term care policy
 - Life insurance with **long-term care rider**
 - Living benefit
 - **Long-term care** with life insurance
 - Linked benefit



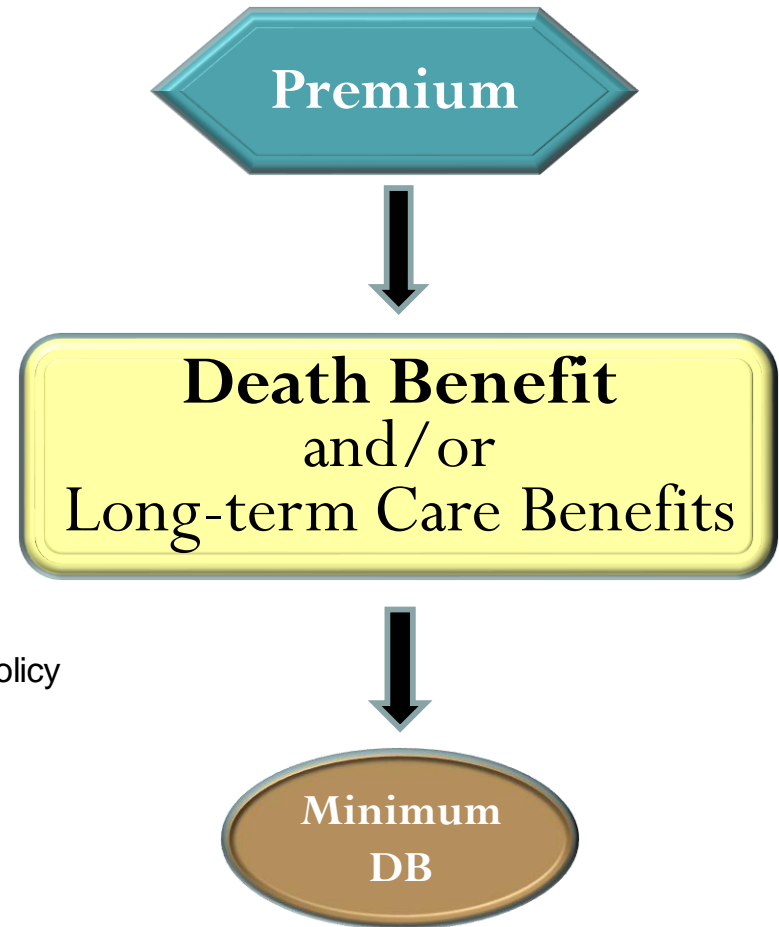
Traditional LTC Insurance

- The most economical solution in general
- Covers long-term care only
- State Partnership policies available
- Most flexible and customizable of the plans
- Cost-of-living adjustment
 - 3% to 5%, or CPI
- Indemnity and Reimbursement plans available
- Purchases most LTC, possible loss of premiums
- Premiums not guaranteed
- Life pay premiums often the only option



Life Insurance with LTC Rider...

- Life insurance need – legacy/protection
 - LTC with a return to someone
 - Premiums, LTC/DB can be guaranteed*
 - Variety of premium schedules
 - Variety of base insurance products
 - Substantial death benefit leverage
 - Guaranteed minimum death benefit
 - Little customization
 - Generally, the least LTC coverage
- *Assuming no loans or withdrawals were taken from the policy

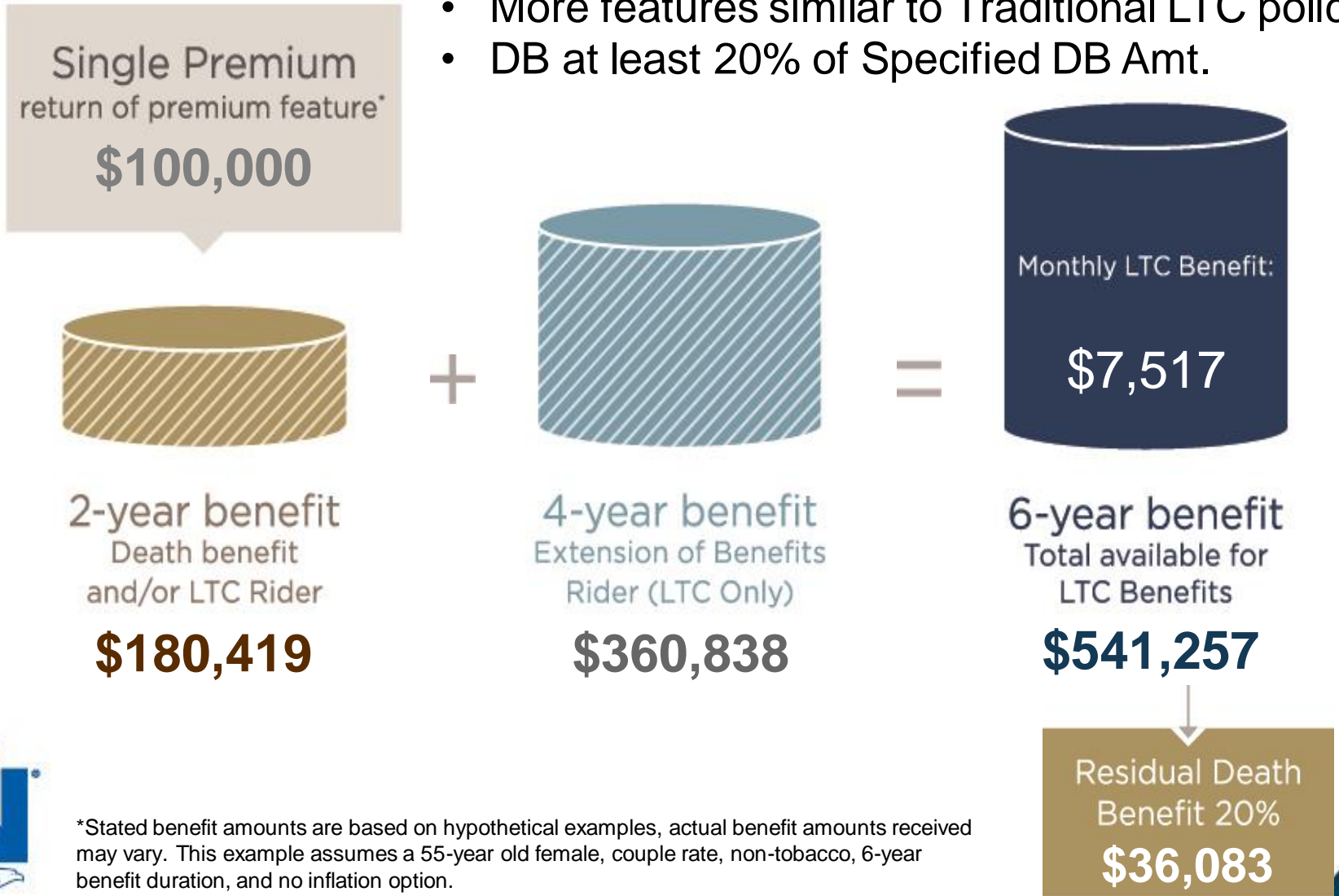


LTC Riders also available on Survivorship Life



Linked Benefit LTC Insurance

- Return of Premium Feature (to owner)
- More features similar to Traditional LTC policy
- DB at least 20% of Specified DB Amt.



*Stated benefit amounts are based on hypothetical examples, actual benefit amounts received may vary. This example assumes a 55-year old female, couple rate, non-tobacco, 6-year benefit duration, and no inflation option.



Agenda

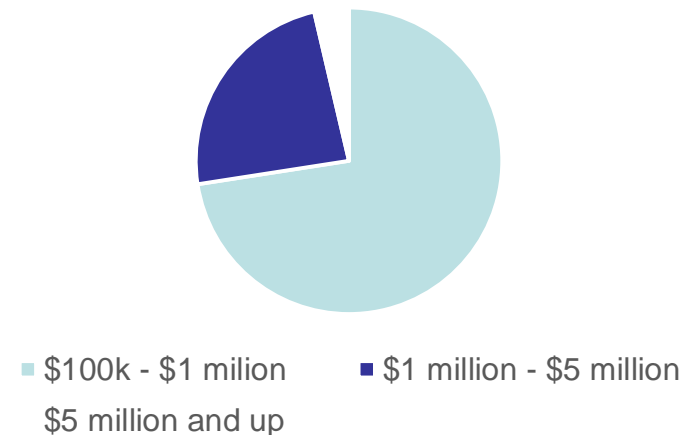
- Estate planning for the mass affluent
 - Trends in wealth and health in America over the past 20 years
- Estate tax planning for the high net worth



Wealth in America

	<u>Number of Households*</u>	<u>Average Age**</u>
\$100,000 - \$1,000,000	31.2 million	58
\$1,000,000 - \$5,000,000	10.23 million	63
\$5,000,000 +	1.573 million	67

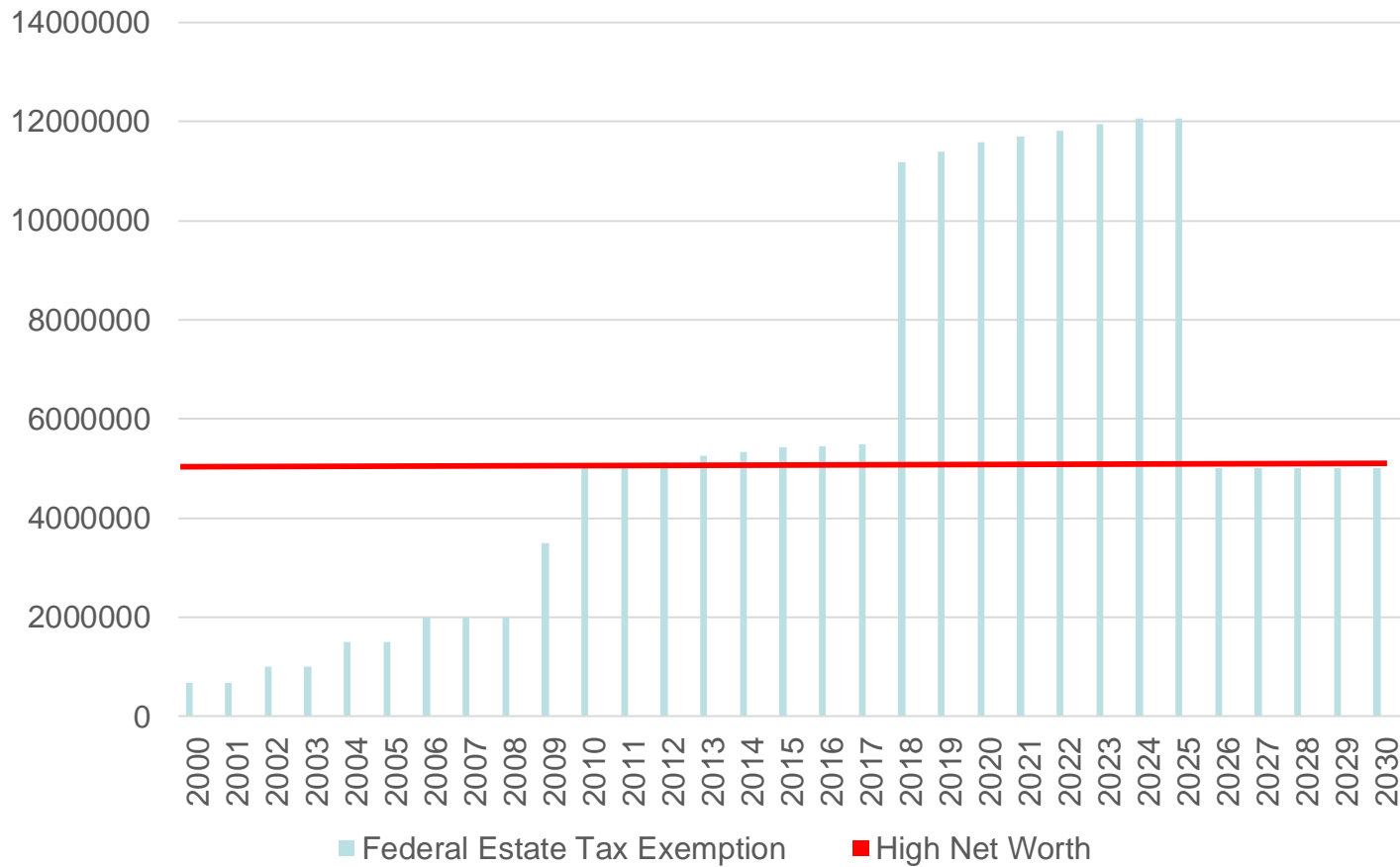
American Wealth



* Spectrum Group, Market Insights Report 2019

** Spectrum Group, Market Insights Report 2015, March 2016 Press Release

Wealth in America & the Federal Estate Tax Exemption



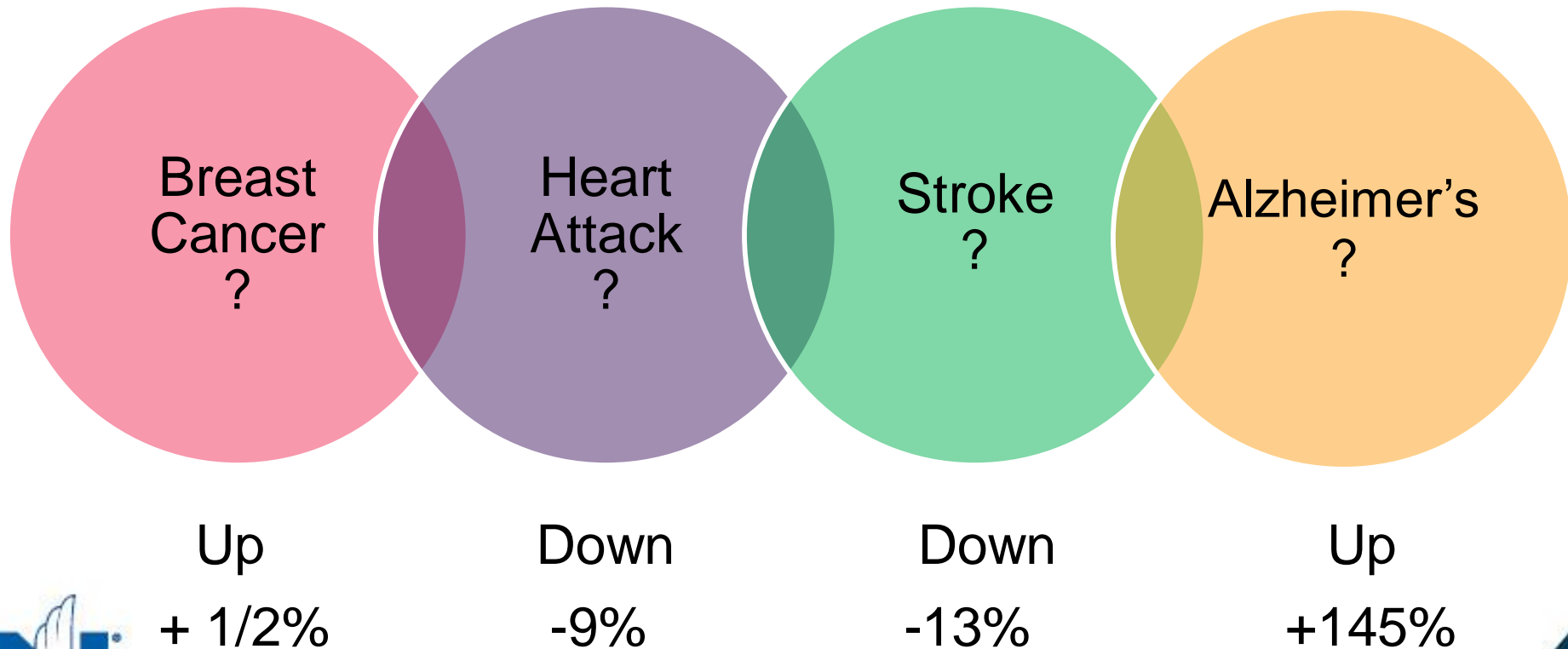
Wealth in America

- “I don’t need an irrevocable trust anymore.”
 - Creditor protection for grantor
 - Avoids probate
 - Privacy
 - Great option to name as beneficiary of a variety of assets (i.e. family or dynasty trust)
 - Creditor protection for beneficiaries
 - Professional money management for beneficiaries
- What if the law changes?
- Consider another trend shaping American wealth...



.....Health in America

How has mortality changed as a result of the following health conditions since the year 2000? **Up** or **down**?



Source: Alzheimer's Association 2018 Alzheimer's Disease Facts and Figures

.....Health in America

- The longer you live, the more likely you will need long-term care services?
- **True or False?**

TRUE¹

- Between 1980 and 2010, what was the increase in percentage of people living to age 100?

66%²



¹Department of Aging and Community Living; January 2020

²"Centenarians: 2010" – U.S. Census Bureau, 2010 Census Special Reports; issued December 2012 (historical reference)

Trends in American Wealth & American Health

- **The costs of LTC have become the new estate tax for the mass affluent**
 - The largest threat to wealth transfer planning for the mass affluent is the costs of LTC
- **Genworth Cost of Care Survey**
 - \$150,000/year - median cost of private nursing home room
 - \$61,000/year - median cost of assisted living facility
 - \$57,000/year - median cost of home health aid



Trends in American Wealth & American Health

- **The costs of LTC have become the new estate tax for the mass affluent**
- **Mass affluent with irrevocable trusts**
 - Add a LTC rider to policy post-issue*
 - 1035 exchange*
- **Mass affluent without irrevocable trusts**
 - Purchase life insurance policy with LTC component *



Trends in American Wealth & American Health

- **The costs of LTC have become the new estate tax for the mass affluent**
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High Net Worth – with estate tax liability

- These clients who self-insure have a *unique risk*.....
 - **“the cost of getting lucky”**
- Self-funding LTC means setting money aside inside estate to pay for LTC expenses
 - Funds not used for LTC could be subject to estate tax.



What does self-insuring long-term care mean to a high net worth client?

\$1 million



Client sets aside **\$1,000,000** to cover any LTC Costs. Asset is liquid and in the estate.

52% chance of using some or all of asset for LTC costs¹
(How much will “some” be?)

If most or all is used for LTC, **little or none** of this asset would be **estate taxed** since it was liquidated to pay LTC costs

48% chance of **not** needing this asset at all for LTC costs

The untouched **\$1 million** would be **estate taxed**. At 2020 rates, this could mean a tax rate of as much as 40% (**\$400,000**)

Cost of being “lucky” →

How can we help clients avoid this risk?



¹ Morningstar - Must-Know Statistics About Long-Term Care: 2019 Edition; Christine Benz, Nov. 25, 2019

.....LTC riders and linked benefit policies in an ILIT

- Indemnity LTC riders can be used in ILIT (Irrevocable Life Insurance Trust)
 - LTC benefit is paid to contract owner (the trustee)
 - There should be no obligation in trust to pay funds to grantor
- Use of collateralized arms length loans removes money from trust without incidents of ownership
 - Exchange of assets
 - Dollars for arm's length loan obligation
 - CollateralInterest RateLoan repaid in full (at or prior to death)
 - Interest taxable if repaid after death
 - Reimbursement plans will generally not work
 - Reimbursement ties policy to grantor, may create incidents of ownership



..... Hypothetical Example

- Our client, Jane, has a \$5 million tax liability
 - Assume product can dial down LTC rider
 - Add a \$1 million LTC rider
- When no dial down possible, use two policies
 - \$4 million policy with no LTC rider
 - \$1 million policy with a LTC rider
- Assuming the following loan provisions
 - Collateral is the vacation home
 - Interest rate is 7%
 - Loan interest is paid back just days before death



The Results

Jane Needs Long-term Care

Nationwide pays LTC benefit to Trust
(\$10,000 per month)

Jane borrows funds from trust to pay
LTC expenses

Jane dies just as LTC benefits are
exhausted

Estate Principal Debt is - \$1,000,000
Accrued Interest Debt is- \$ 352,000
Total Debt to Trust - **\$1,352,000**

At Client's Death

Death claim filed – remaining DB of
\$4,000,000 is paid to trust

Estate repays Principal - \$1,000,000
Estate repays Accrued Loan - \$ 352,000
(ideally prior to death)
Total Amount Repaid - \$1,352,000

\$1,352,000 was moved to the trust

This amount *not* subject to estate tax now

Result: \$4,000,000 + \$1,352,000

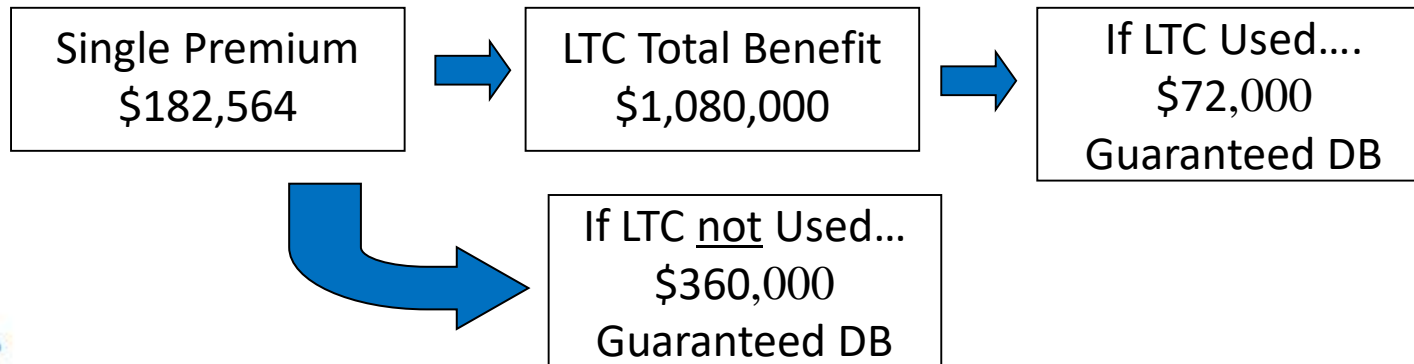
Trust now has \$5,352,000

What if no LTC was needed?

LTC Rider cost may be offset by estate tax
savings of not self insuring LTC inside estate



- High net worth client with estate tax liability, thought of self insuring
 - Age 55 female, non-tobacco, couples rate
 - Planned to put money aside in a conservative investment
- Advisor suggests CareMatters as an alternative way to insure LTC
 - The policy will be owned by an ULIT (ILIT)
 - Avoid potential estate taxes if the money is not needed for care
- Assumes the following loan provisions
 - Collateral is the vacation home, Interest rate is 8%
 - Loan paid back just days before death



The Results

\$15,000 per month of LTC benefits are paid to the trust for 6 years

Upon death after a 6 year claim

Estate	Trust	Net Policy Cost
Repays principal borrowed \$1,080,000	Repaid principal \$1,080,000	Single premium paid \$182,564
Repays loan interest just prior to death \$309,582	Repaid loan interest not subject to estate tax \$309,582	Minus tax savings from interest moving from estate into trust -\$123,832 (40% tax rate)
The above funds are now removed from the estate	Guaranteed Death Benefit \$72,000	Minus Guaranteed Death Benefit -\$72,000
	<u>Total in Trust</u> \$1,461,582	<u>Net Policy Cost</u> \$0



Please keep in mind that results are not guaranteed and will vary based on the age of the insured at purchase and the length of the claim.



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