The Value of Tax-free Retirement Income

Recent changes to the U.S. tax code and future tax reforms may have vast implications on your clients' retirements. The potential for fluctuations in marginal tax rates, dramatic increases in capital gains and the elimination of the step-up basis could leave your clients unprepared for the financial impact upon their retirement and their loved ones.

Questions to Consider

- What impact will the loss of the step-up basis and an increase in the capital-gains tax have on your clients and their retirement income?
- How well will your clients' retirement income weather inflation?
- Will tax rates be affected by an aging population, increases in Social Security and Medicare spending, and rising deficits?
- Do you expect interest rates to remain at historic lows?

Indexed Universal Life (IUL) – an important part of a retirement income strategy

IUL is a flexible asset that can enhance a client's retirement plan by providing a source of tax-free supplemental income in retirement. And with **Nationwide New Heights® Indexed Universal Life Accumulator II 2020** (New Heights IUL), clients get a balance of protection and tax advantages for **more cash value and retirement income potential**.

IUL may offer even more efficient accumulation

Changes to Internal Revenue Code Sections 7702 and 7702A enable greater cash value growth potential for policies by allowing more money to be paid into the policy per $1 of specified amount. Clients can reduce the death benefit, which lowers costs and in turn, allows the policy's cash value to grow more efficiently. Or, they can increase their death benefit, providing more flexibility to add money into the policy as their lives evolve. This approach provides certainty with death benefit protection from day one, plus the ability to add even more premium into the policy.

Consider how clients' assets are taxed now and in the future

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Assets grow tax deferred and taxes are paid when money is withdrawn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Assets grow tax deferred and money can be withdrawn on a tax-free or tax-preferred basis[1]

EXAMPLES:

New Heights IUL[2]

Roth IRA or 401(k)[3]

Certain municipal bonds[4]

Tax advantages of New Heights® IUL

Income tax-free death benefits → **Tax-deferred accumulation** → **Tax-free income**

Your clients want to reach their goals and New Heights IUL can help provide the certainty to help them get there. In addition to offering a **tax-free death benefit** that can be used by beneficiaries to pay for potential taxes on assets transferred to them, a properly designed IUL policy offers other benefits that include **tax-deferred growth** in the accumulation phase and **tax-free income** in retirement. Plus, New Heights IUL can be structured to provide the **flexibility to add additional premium** as your clients' needs evolve.

[1] 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.

[2] 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.

[3] 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.

[4] 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.

- Joe purchases a **New Heights® IUL policy** and pays $25,000 a year 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 withdraw **$73,464 a year for 20 years** on a tax-free basis from the policy's cash value.
- Joe has a **death benefit** in place **to protect his family**, should he die prematurely.[5]

Accumulation phase

Age	Year	Life insurance premium	Life insurance tax-preferred income	Income tax-free death benefit
46	1	$25,000		$427,300
50	5	$25,000		$532,881
55	10	$25,000		$709,790
60	15	$25,000		$940,742
65	20	$25,000		$1,266,172
		Total premium $500,000		

[5] This illustration is hypothetical and is based on a Nontobacco Preferred underwriting rating and a 6.05% assumed rate; the net premium payments are allocated as follows: 50% allocation one-year J.P. Morgan Mozaic II℠ and 50% allocation one-year NYSE® Zebra Edge® annual point-to-point strategy; the death benefit is Option 2; Option 2 (increasing, switching to Option 1 (level) in year 20.

The above hypothetical illustration also assumes that the Nationwide IUL Rewards Program (conditional credit endorsement) requirements are met, and thus an additional 0.30% interest is credited to the policy annually starting in year 16. Alternative loans are used in the distribution phase.

Distribution phase[6]

Age	Year	Life insurance premium	Life insurance tax-preferred income	Income tax-free death benefit
66	21		$73,464	$1,190,733
70	25		$73,464	$920,425
75	30		$73,464	$687,600
80	35		$73,464	$484,325
85	40		$73,464	$258,878

$1,469,280

Total tax-preferred distributions

(20 x $73,464 = $1,469,280)

[6] 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.

The Nationwide IUL Rewards Program® credits additional interest at an annualized rate of 0.30% starting in year 16, as long as requirements are met[8]

Indexed interest strategies reduce volatility and help boost growth potential in a variety of market conditions, J.P. Morgan Mozaic II℠ and NYSE® Zebra Edge®

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

Low cost design and no COI rate changes in our history to in-force policies for more consumer value

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

To learn more about the benefits of IUL, contact your IDC.

[8] 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.

• 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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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 0.30% 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.

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FLM-1464AO-IM.1 (11/22)