

Help your clients with wealth transfer needs

Consider the tax advantages of life insurance

Taxes will affect your client's return on their investments — especially if they fall into a higher tax bracket. The tax benefits of a life insurance policy could make a significant impact when transferring wealth to the next generation.

Life insurance provides 8 layers of tax protection

- ✓ Federal income tax
- ✓ State income tax
- ✓ Local income tax
- ✓ FICA/Social Security tax
- ✓ Capital gains tax
- ✓ Net investment income tax inclusion
- ✓ No effect on alternative minimum tax
- ✓ No effect on percentage of taxable Social Security benefits

How an asset is taxed can make a significant impact on its overall rate of return. For instance, for a client in the 24% income tax bracket, a taxable investment would need to yield 7.89% to produce a return equivalent to the return of a 6% yield tax-free investment.

Tax-free yield	Tax equivalent yield per marginal tax rate						
	10% tax bracket	12% tax bracket	22% tax bracket	24% tax bracket	32% tax bracket	35% tax bracket	37% tax bracket
3%	3.33%	3.41%	3.85%	3.95%	4.41%	4.62%	4.76%
4%	4.44%	4.55%	5.13%	5.26%	5.88%	6.15%	6.35%
5%	5.56%	5.68%	6.41%	6.58%	7.35%	7.69%	7.94%
6%	6.67%	6.82%	7.69%	7.89%	8.82%	9.23%	9.52%

To discover the tax equivalent yield of an investment, use this formula:

$$\text{Tax-free rate of return} \div (100 - \text{income tax rate}) = \text{Taxable equivalent rate of return}$$

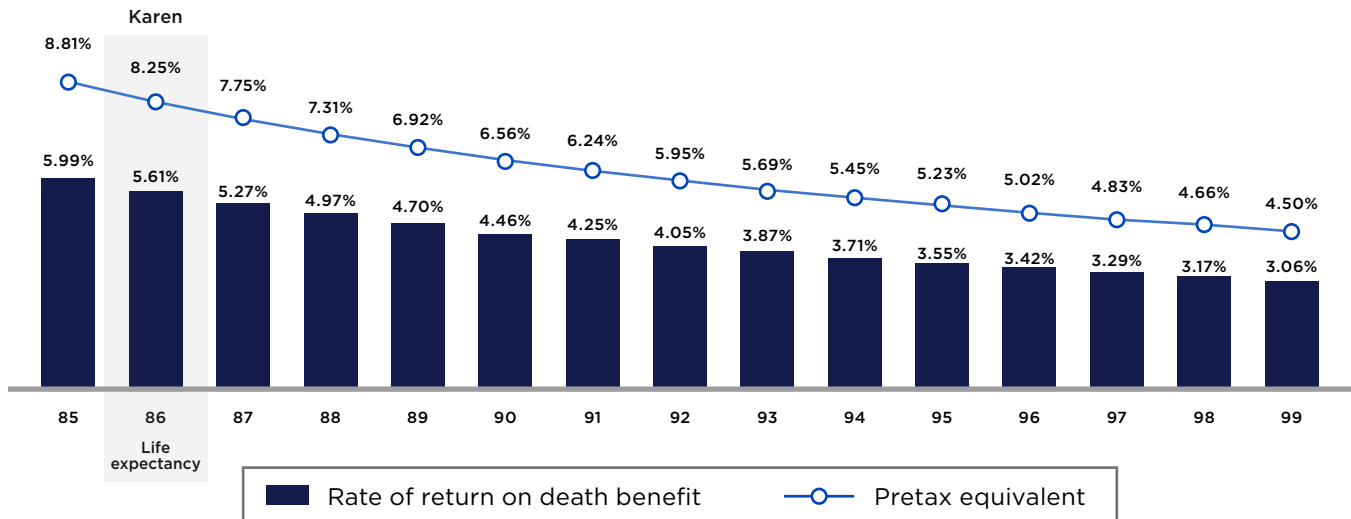
This chart is based on hypothetical federal income tax rates only.

Compare taxed investments to life insurance

While most clients understand the rate of return in relation to investments such as stocks and bonds, they might not realize that the death benefit from life insurance also provides a rate of return in relation to the premiums paid. When a life insurance product is used and premiums are paid, an internal rate of return (IRR) exists between the premiums paid and the death benefit. Keep in mind the only time an actual rate of return is realized is upon death.

For example, take Karen, a 70-year-old client with sufficient funds set aside to live on. She is in the 32% tax bracket and is looking for advice regarding \$1 million she has set aside to transfer to her grandchildren.

If Karen took that \$1 million and purchased a Nationwide IUL Protector II 2020 insurance policy from Nationwide®, she would have a death benefit of \$2,394,556 that would last to age 120.



Assumptions: Preferred Nontobacco rates; the policy is credited at a 5.74% rate.

If Karen dies at her life expectancy (age 86), she will have earned a rate of return of 5.61% on the death benefit. She would have needed to earn 8.25% in a taxable investment to match that.

Life expectancy and mortality probabilities are based on the 2001 CSO Valuation Basic Table. The table is based on average mortality experience for standard insureds collected from several life insurance companies. Other tables will generate different life expectancy and mortality probabilities. Individual life expectancy and mortality probabilities provided in this example do not represent a client's unique personal characteristics. This example is not indicative of your client's current health, illustrated rate class and lifestyle; it is based on the average experience of a large population group. Your client may live longer than the table indicates. The example is a hypothetical planning tool and should be used only to help clients understand the value of life insurance. In addition, the example is not intended to act as a retirement benefit or a specific investment recommendation. Nationwide Insurance does not use the 2001 CSO Valuation Basic Table to determine the policy's cost of insurance. A 32% tax rate assumption is used in this example.



Contact your Nationwide wholesaler for more information on wealth transfer strategies or to request a customized illustration for your client.

Life Insurance Solution Center: 1-800-321-6064
Brokerage General Agents Solutions Center: 1-888-767-7373



This material is not a recommendation to buy or sell a financial product or to adopt an investment strategy. Investors should discuss their specific situation with their financial professional.

Nationwide and its representatives do not give legal or tax advice. An attorney or tax advisor should be consulted for answers to specific questions.

Loans and partial surrenders will reduce both the cash value and death benefit. They can also cause the need for additional premiums to be added later to keep the policy in force. Surrender charges may apply to partial surrenders. If the policy lapses with a loan outstanding, the loan amount may be taxable.

Products are issued by Nationwide Life Insurance Company or Nationwide Life and Annuity Insurance Company, Columbus, Ohio.

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