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Preservation of Retirement Assets from LTC Erosion

Problem: Seven out of ten individuals will require some type of LTC assistance in their lives. The average annual cost for a private room in a nursing home is $90,520. Currently, only 10% of elderly have private long-term care insurance coverage to protect against LTC expenses eroding their retirement assets, and those individuals will likely see their premiums continue to rise in years to come.

How do you plan to protect your clients' retirement assets from being eroded by their own LTC costs or, even worse, the LTC costs of their parents?

Solution: Nationwide YourLife® No Lapse Guarantee UL with an indemnity LTC rider will provide for needed LTC benefits and can reimburse family members for the time and expenses devoted to caring for their relatives needing LTC assistance.

Example: Grant and his sister, Marie, are concerned about their aging mother, Sharon (70), and know that with the few financial resources that their mother has, they will likely be responsible for taking care of Sharon in her old age. Grant and Marie have planned well for their own retirement, but did not anticipate providing for their mother.

After speaking with a wealth advisor, Grant and Marie decide to purchase the Nationwide policy on the life of their mother for $600,000 of guaranteed death benefit and $500,000 of LTC benefits. They agree to split the cost of the annual premium.

Age[1]	Cumulative Premium	Guaranteed Death Benefit	Death Benefit IRR[2]	LTC Benefit
71	$16,468	$600,000	**3,543.43%**	$500,000
81	$181,148	$600,000	**19.11%**	$500,000
87	**$279,956**	**$600,000**	**8.00%**	**$500,000**
91	$345,828	$600,000	**4.76%**	$500,000

[1] The life expectancy of Marie is age 87.
[2] Pre-tax IRR since the death benefit proceeds in this example are received income tax free.

The LTC benefit will indemnify Grant and Marie with a maximum monthly benefit of approximately $10,000 that could be paid out for 50 months, if needed. If Sharon were to use all of the LTC benefit from the policy, Grant and Marie could expect to receive a guaranteed death benefit of $100,000 to reimburse some of the costs of the policy. If Sharon does not need to utilize the LTC benefits of the policy, Grant and Marie will likely receive a reimbursement of all premiums paid into the policy.

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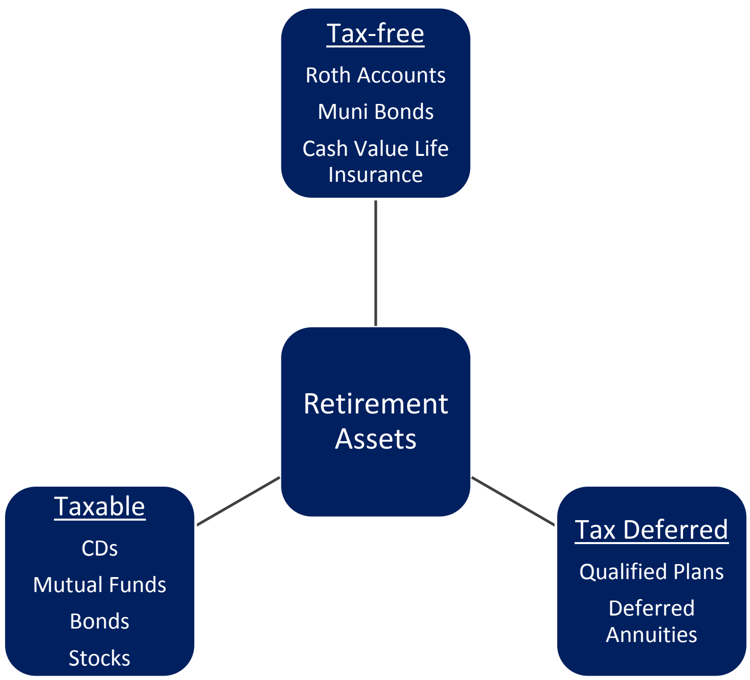
Planning Note: For clients that are looking to purchase LTC insurance on their own lives, depending on their estate and asset protection planning needs, such a policy could be owned in in an Ultimate Life Insurance Trust (ULIT). A ULIT provides the estate tax and creditor protection benefits of an irrevocable trust, but also allows access to trust assets through collateralized loans. It is through loans from the trust that the insured can receive LTC benefits while keeping the death benefit protected from creditors and federal estate taxes. Call Madison Brokerage for more information regarding ULIT and life insurance with LTC benefits.

Retirement Asset Diversification – Reduce Tax Erosion

Problem: Qualified plans and IRAs often times make up a significant portion of a client's retirement assets. Such a lopsided asset portfolio can result in tax inefficiencies and a reduction in net assets received during retirement.



How do you intend to help your client balance out their retirement portfolio heavily weighted towards taxable retirement assets and tax deferred assets that distribute taxable income?

Solution 1: Tax free death benefit proceeds can supercharge your retirement portfolio. As life expectancies increase, parents may not have sufficient retirement assets for prolonged living expenses. As adult children unexpectedly give of their time and resources to assist their parents in their old age, life insurance on the lives of parents can be a way for parents to gift their insurability to their adult children for the support they provide them.

Example: Brad (42) has been contributing to his qualified plan for over 10 years and is looking to diversify his retirement assets. He and his wife have 2 young children. Brad's parents are still in relatively good health, but based on statistics provided to him by his financial planner, he knows that he may have to help support his parents in their old age.

Among other things, Brad's financial planner suggests that he purchase an AG Secure Survivor GUL℠ policy on the lives of his parents. Brad purchases a \$500,000 guaranteed death benefit for \$6,096 a year. As long as the premium is paid every year, Brad is guaranteed a tax-free payment of \$500,000 upon the death of his last surviving parent. Additionally, Brad has a 60-day window after the 15th policy anniversary to receive a return of premiums paid on the policy in the event he chooses to replace the asset in 15 years.

Year[1]	Parent's Ages[2]	Brad's Age	Cumulative Premium	Guaranteed Death Benefit	Death Benefit IRR[3]	Guaranteed Cash Value
1	66/66	43	\$6,096	\$500,000	**8,101.99%**	\$0
15	80/80	57	\$91,441	\$500,000	**19.43%**	\$18,548
26	**91/91**	**68**	**\$158,498**	**\$500,000**	**7.68%**	**\$120,947**
30	95/95	72	\$182,882	\$500,000	**5.89%**	\$63,102

[1]With this particular product, within sixty days after the 15th year anniversary, Brad could request a return of premiums paid.
[2] The survivorship life expectancy of Brad's parents is 26 years.
[3] Pre-tax IRR since the death benefit proceeds in this example are received income tax free.

The tax-free death benefit proceeds will likely be paid out right when Brad needs them the most to help balance out qualified plan distributions and other taxable income, providing Brad the ability to manage the amount of taxable income he receives each year.

Planning Note: The return of premium option on this particular product would allow Brad the ability to purchase several policies to reach the desired cumulative amount of guaranteed death benefit (e.g., two policies with guaranteed death benefit amounts of \$250,000 for a total of \$500,000). The benefit in purchasing multiple policies at one time is that, if desired, Brad can request a return of premiums on one policy, while still keeping the in-force policy in the event he needs to deploy the cumulative premium dollars of the surrendered policy in some other way or to pay premiums for the in-force policy. Call Madison Brokerage for more information on the flexible options this product offers and other product options for this strategy.

With tax rates on the rise, are you giving cash value life insurance a thorough review as you plan for your client's future tax burden?

Solution 2: Purchasing the right cash value life insurance policy can be an excellent asset to help balance out the retirement asset portfolio. If properly selected, it can provide: 1) tax deferred growth of the policy cash values, 2) access to the cash values on a tax-free basis, and 3) tax-free death benefit proceeds to a surviving spouse and/or children for legacy planning.

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Whole life insurance products are often selected for retirement planning since they can provide significant guaranteed cash values over time and have uncorrelated cash value growth based on dividends generated by the policy.

Example: Jake (45) is maxing out his qualified plan contributions. He is looking to put away more money for retirement. After speaking with his advisor, he decides that one way to diversify his retirement assets is to purchase a MetLife Promise Whole Life Select 20^{SM} on himself. He contributes $10,000 to the policy each year for 20 years and then plans to take distributions for 20 years.

Age	Cumulative Premium[1]	Guaranteed Cash Value[2]	Non-Guaranteed Cash Value[3]	Cumulative Policy Distributions	Death Benefit[4]	IRR[5] on Cash Value	IRR[5] on Death Benefit
46	$10,000	$363	$363	$0	$363,138	-96.3%	3,531.39%
56	$110,000	$85,701	$110,754	$0	$423,591	.11%	21.45%
65	$200,000	$195,731	$298,429	$0	$553,975	3.67%	8.95%
66	$200,000	N/A	$290,709	**$24,457**	$525,863	3.85%	8.26%
76	$200,000	N/A	$176,295	**$269,027**	$289,029	4.48%	5.52%
86	$200,000	N/A	$18,752	**$489,140**	$107,600	4.69%	5.16%

[1]To receive distributions on a tax favored basis, the premiums paid must not create a modified endowment contract (MEC).
[2]Cash value amounts are not guaranteed once distributions are taken.
[3]The non-guaranteed values are based on current dividends generated by the policy.
[4]The illustrated death benefit is the non-guaranteed death benefit. The guaranteed death benefit before distributions is $363,138. Like cash values, once distributions are taken, the death benefit amount is no longer guaranteed.
[5]Pre-tax IRR since the death benefit proceeds and policy distributions in this example are received income tax free.

When Jake decides to take distributions, he will withdraw his basis from the policy first and then take loans from the policy on a tax-free basis. The loan amounts will not be taxed as long as Jake leaves enough cash value in the policy to keep it in force until his death. Upon his death, the outstanding loan amount will be repaid with the death benefit proceeds and Jake's beneficiary will receive the remaining death benefit tax-free.

Planning Note: When cash value life insurance is purchased as a retirement asset using a fixed premium amount, the advisor should generally solve for the minimum death benefit allowed without creating a modified endowment contract. This preserves the tax-favored distributions and minimizes the cost of insurance within the policy to allow for optimum cash value growth.

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Retirement Asset Diversification – Asset Longevity

Problem: Longer life expectancies, the possibility of having to take care of parents, and feeling like they may need to support their adult children, has many clients concerned about depleting all of their assets before death.

Is your client's portfolio protected from depletion as a result of your client living too long?

Solution 3: Purchasing a single premium annuity that provides guaranteed lifetime income is a long-term retirement savings product that can help protect your client from outliving his/her retirement assets.

Example: Charles (55) is looking to retire in 10 years and wants to move a considerable amount of non-qualified assets into a more secure position. Although he is worth $2.5 million, he worries about helping his aging father, providing his wife with her current standard of living and potentially needing to help his two daughters. After discussing his concerns with his advisor, he decides to move ½ of his non-qualified assets into the Aviva *Target***Horizon**SM 10 Annuity, a single premium fixed deferred annuity with:

- a guaranteed lifetime income benefit (GLIB);
- **3X the GLIB if confined in a qualified care facility (available for up to 60 months); and**
- the option to postpone triggering the lifetime income benefit at a later date for a larger fixed annual benefit amount

Charles funds the annuity with $500,000, with the ability to receive an immediate guaranteed lifetime income benefit of $22,950 the first year. He intends to live off of his qualified assets initially and will elect to trigger the income benefit at age 71, generating an annual benefit of $64,980.

End of Year Age	Annual Benefit	Income if Confined	Cumulative Annual Benefit Withdrawals	Cash Surrender Value	Death Benefit
71	$64,980	$194,940	**$64,980**	$417,967	$522,968
76	$64,980	$194,940	**$324,900**	$79,259	$111,052
81	$64,980	$194,940	**$649,800**	$0	$0
86	$64,980	$194,940	**$974,700**	$0	$0
91	$64,980	$194,940	**$1,299,600**	$0	$0

Planning Note: Contact Madison Brokerage to speak with our product specialist to determine which annuity product best meets the needs of your particular client.