The Advanced Consulting Group

Sales idea

How to use IRA distributions to fund Nationwide CareMatters II®

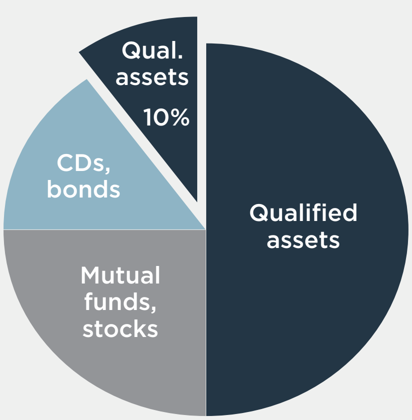
Shawn Britt, CLU®, CLTC
Director, Long-term Care Initiatives, Advanced Consulting Group

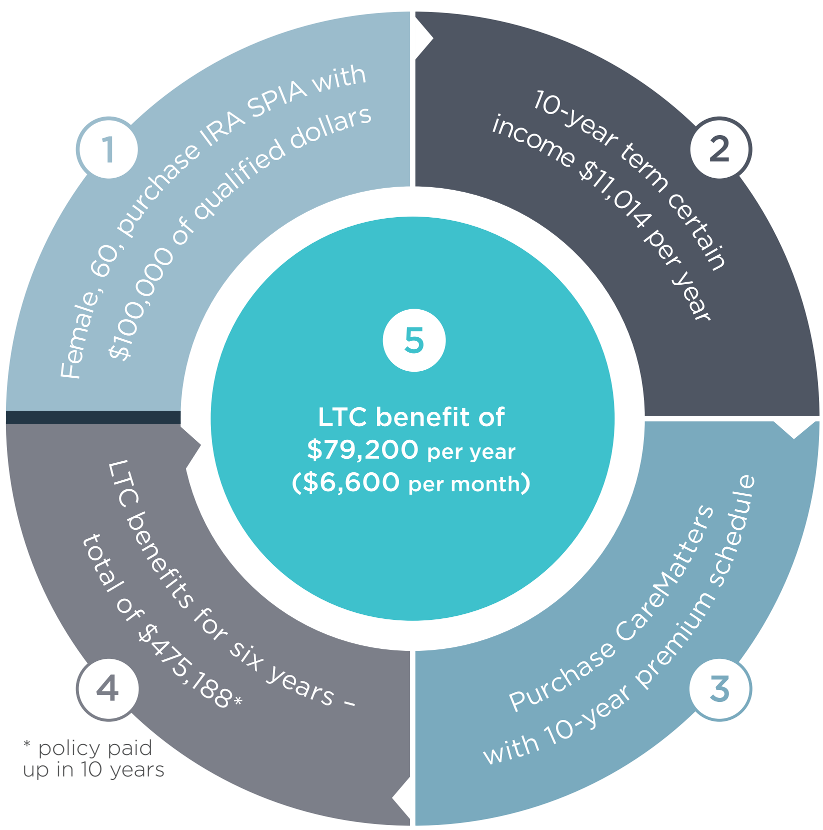
Many clients have qualified assets they intend to use for retirement income. But there is one unknown factor that could unwind the best laid plans — potential long-term care (LTC) expenses. Please note, the following concept is only to be used for individuals at least age 59 ½ to avoid early withdrawal penalties.

One way to help protect your client's planned retirement income is to insure against the need to use those funds to pay for LTC expenses. This strategy carves out a portion of the client's qualified assets to purchase an IRA annuity. The taxable distribution creates a premium to purchase tax-free LTC coverage[1] that can help pay for potential LTC needs that could occur in the future.[2]

Do you have clients with qualified dollars they would like to protect from depletion due to long-term care costs?

Client assets





* policy paid up in 10 years

Term certain payouts to owners under the age of 59 ½ do not comply with IRC Section 72T because payments are not based on life or life expectancy.

Let's look at an example

Allyson,[3] 60, in good health and married — is concerned about LTC after seeing how those expenses impacted her parent's retirement plans. Allyson's parents thought they were well set – and were - until care expenses started to deplete their savings.

Allyson's father passed away first, but his LTC expenses left her mother's life-style impacted - leaving no extra money for the travel she had hoped to enjoy with friends in her golden years. Eventually, her mother had five years of LTC expenses of her own, and the money she was hoping to leave to her family was gone. Allyson's goal is to have a plan that includes LTC coverage.

The strategy

After discussing with her advisor, Allyson decides a CareMatters II linked benefit policy from Nationwide would best fit her needs. Once claims qualifications are met, full LTC benefits are available — without the need to submit bills or receipts. She likes the flexibility and simplicity the Nationwide cash indemnity benefits provide. Since Nationwide places no restrictions on how LTC benefits can be used, Allyson can use her benefits to pay for a variety of needs that may not be covered by a reimbursement LTC policy, including using her benefits to pay for informal care from an immediate family member or hiring less expensive and potentially more accessible unlicensed caregivers.

Allyson will carve out 10% of her portfolio ($100,000) and transfer it from her 401K plan into a Nationwide IRA Single Premium Immediate Annuity (SPIA) — which will be set up with a guaranteed 10-year term certain payout. Her annual distribution of $11,014[4] will start immediately. Distributions will be fully taxable as ordinary income because it is coming from an IRA annuity.

The entire $11,014 annual distribution from the SPIA will purchase a Nationwide CareMatters II linked benefit LTC policy with a 10-year annual premium schedule. She has decided to pay taxes due on the distribution out of pocket to preserve more funds for the premium payments. Premiums are guaranteed to remain the same and the policy will be fully paid up in 10 years. Her annual distribution will be leveraged into a total of $475,188 of tax-free long-term care benefits; and should Allyson pass away without needing her LTC benefits, there is a death benefit of $158,396 that will be paid tax-free to her beneficiaries. If she passes away before all term-certain annuity payments have been received, any remaining payments will also be paid to beneficiaries (those funds will be taxed at the beneficiary's ordinary income tax rate).

Should Allyson need to use her LTC benefits, and upon claims qualifications being met, Allyson will receive a monthly tax-free LTC benefit of $6,600 for 6 years ($79,200 annually). Even if all the LTC benefits are used, there is a minimum death benefit guaranteed which would pay a residual death benefit of $31,679.

Nationwide® is on your side

[1] LTC benefits may be taxable under certain circumstances

[2] Client must meet all claims qualifications before LTC benefits can be paid.

[3] The individual in this case study is fictional but is meant to represent a typical client in a typical situation.

[4] 10-year term-certain option, purchase payment of $100,000, rates as of 01/28/19.

* Please be aware that if an IRA owner who is over age 70 ½ purchases an immediate annuity with some of their IRA dollars the payments from the IRA immediate annuity, after the year of purchase, may not be used to satisfy the RMD obligations of the owner's other IRAs. When funding life insurance premium with an annuity purchased from the same insurance company, the annuity must be set up as a term-certain payout to avoid taxation on the death benefit. When choosing a product, make sure that insurance needs are covered. Because personal situations may change (i.e., marriage, birth of a child or job promotion), so can life insurance and long-term care insurance needs. Care should be taken to ensure these strategies and products are suitable. Associated costs, as well as personal and financial objectives, time horizons, and risk tolerance should all be weighed before purchasing insurance. Life insurance, and long-term care coverage linked to life insurance, has fees and charges associated with it that include: costs of insurance which varies based on characteristics of the insured such as gender, tobacco use, health and age; and additional charges for riders that customize a policy to fit individual needs.

FOR BROKER/DEALER USE ONLY — NOT FOR CLIENTS USE

This material is not a recommendation to buy, sell, hold or rollover 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 work with their financial professional to discuss their specific situation.

Federal income tax laws are complex and subject to change. The information in this paper is based on current interpretations of the law and is not guaranteed. Neither Nationwide, nor its employees, its agents, brokers or registered representatives gives legal or tax advice. You should consult an attorney or competent tax professional for answers to specific tax questions as they apply to your situation.

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