

## Sales Idea

# Help clients leave a legacy

### Do you have clients who:

- Have estate tax problems and would like to transfer wealth more efficiently to their heirs
- Have concerns about long-term care costs, but also have the “use it or lose it” objection to purchasing long-term care coverage
- Have an asset that won't be needed in the future for retirement income, but they feel it could be useful in self-insuring for long-term care if it's needed
- Could use a strategy that gives them flexibility for both long-term care costs and wealth transfer needs

Here's a strategy from Nationwide®: an irrevocable life insurance trust (ILIT), drafted and executed by a qualified estate-planning attorney, and the Nationwide long-term care rider can help provide funding for long-term care as well as give your clients options when it comes to planning for potential long-term care needs. The long-term care rider is available at an additional cost, may not be available in all states and may be referred to by different names in different states.

### The strategy

Many brokers and clients assume that the affluent can afford to self-insure for long-term care needs. The problem with this approach, however, is that the client must keep enough money in the estate to cover these long-term care expenses.

Combining a life insurance policy owned by an ILIT with the Nationwide long-term care rider gives your clients a way to pay for long-term care needs with funds that have been removed from their estate. It also allows clients more solutions as they age and begin to make decisions about if and when to spend down assets remaining in their estate to further reduce estate tax liability. This strategy is made possible by the fact that Nationwide pays the long-term care benefit in an indemnity-style manner — the monthly long-term care benefit is paid directly to the owner of the life insurance contract (in this case, the trust), and no bills or receipts need to be submitted. Please keep in mind that all guarantees are subject to the claims-paying ability of the issuing insurance company.

Sales Idea — Combining the Nationwide® long-term care rider with an ILIT

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**Nationwide®**  
*On Your Side*

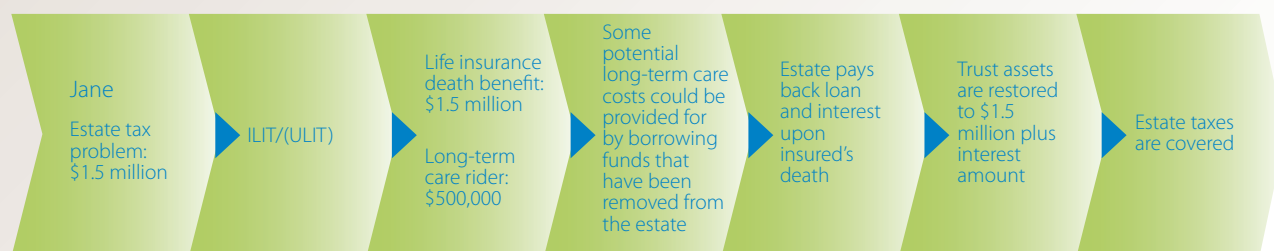
## Case study

The following hypothetical example is not intended to represent any specific client or client situation. The assumptions used are for illustrative purposes; actual results will vary.

Our client, Jane, has an estate tax problem that is estimated to be \$1.5 million upon her death, which is assumed to be at age 85. She also has concerns about how to fund any long-term care needs that might arise: should she self-insure or purchase some sort of long-term care protection? She also wishes to leave her estate to her beneficiaries in a tax-efficient manner.

After speaking with her financial professional, Jane decides she likes the idea of using life insurance with a long-term care rider owned by an ILIT.

A life insurance policy with a \$1.5 million death benefit will be owned by an ultimate life insurance trust (ULIT), a type of ILIT that allows for collateralized arms-length loans. Jane adds a \$500,000 long-term care rider to the policy, which will allow \$500,000 of the \$1.5 million to be available for long-term care needs while Jane is alive. The payment of the life insurance policy's long-term care rider by indemnity makes this arrangement possible. The advantage of this approach is that fewer assets need to remain outside the trust to pay the long-term care costs.



Here are some scenarios Jane could face as she ages, as well as the ways this strategy can adapt to fit the situation.

**Scenario 1:** Jane never needs long-term care, so, when she passes away, her children will receive \$1.5 million from the ILIT plus the assets left in the estate.

**Scenario 2:** Jane has a moderate stroke and her physician estimates that she will need to spend six months to one year in a nursing home before she is able to go home.

- The trustee will file a claim and the long-term care benefit will be paid to the trust as the owner of the contract
- Jane's investment professional recommends that she use an arms-length collateralized loan, a provision built into her trust, to access funds to pay for her nursing home costs
- Jane will allow the loans to accrue, and upon her death, the loan and accrued interest will be repaid to the trust with assets in her estate, leaving her with a smaller tax liability; the trust will be restored to \$1.5 million in value plus whatever interest was repaid

Now, the money earmarked to support Jane through the rest of her life can stay intact. Without the long-term care rider, Jane would have had to deplete assets that she will need after her recovery.

**Scenario 3:** Jane has a massive stroke and will need nursing home care for the rest of her life. Her investment professional suggests that her family pay her long-term care costs from the funds in her estate in order to spend down her assets and possibly leave less of an estate tax burden. When Jane passes away, the ILIT will pay her children \$1.5 million, but with a smaller tax liability, they may end up with a larger inheritance.

## What if Jane self-insures for long-term care?

If Jane decides to fund her own long-term care, she will have to leave money in her estate to plan for those expenses. Let's assume Jane sets aside \$500,000 to pay for potential long-term care needs, but in fact passes away without needing to spend that money on care.

Funds for long-term care left in the estate	Year of death	Estate tax rate	Estate tax due on asset	Net to heirs
\$500,000	2008	45%	\$225,000	\$275,000
\$500,000	2011	55%	\$275,000	\$225,000

This example assumes that the total assets remaining in Jane's estate exceed the exemption amount, making the entire \$500,000 subject to estate tax. It also assumes that estate taxes will be fully restored in 2011 when the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) expires.

## What if Jane uses the Nationwide® long-term care rider inside her ILIT?

Jane decides to add \$500,000 to the life insurance death benefit she is purchasing for estate tax planning and makes that \$500,000 available for long-term care needs with the long-term care rider. As the table below demonstrates, if Jane never needs long-term care, her heirs will inherit more than if she had self-insured.

Amount of long-term care rider in ILIT	Year of death	Estate tax rate	Estate tax due on asset	Net to heirs
\$500,000	2008	45%	\$0	\$500,000
\$500,000	2011	55%	\$0	\$500,000

This example refers only to the amount added to supply protection against potential long-term care costs, not the death benefit amount Jane's heirs will receive to pay planned estate taxes.

## What assets can work well to fund such a plan?

Since certain assets are subject to income and estate taxation, they may be considered more attractive for funding a trust than others. For example, a deferred annuity will be subject to estate tax if it is still in the deferred stage upon the client's death, and the beneficiary will also have to pay income tax on the gain in the contract when it's inherited. An annuity, therefore, could be an appropriate asset to use for funding a trust. It could be annuitized with a five-year term-certain payout to purchase the five-pay non-MEC life insurance contract, which removes the annuity from the estate and spreads out income taxes on the gain over a five-year period, minimizing the potential to raise the client's income tax bracket.

Your clients should examine their entire financial picture before deciding how to fund a trust and ensure that any assets they are considering will not be needed for retirement income. Please keep in mind that neither Nationwide® nor its representatives give legal or tax advice, so clients should consult a legal or tax advisor for answers to their specific questions.

## Details about the Nationwide® long-term care rider

- It is available in most states and on most Nationwide® permanent life insurance products for an additional cost
- A monthly, tax-free acceleration of the death benefit is paid directly to the owner of the life insurance contract
- The indemnity-style payment means that no bills or receipts are ever required
- The monthly long-term care benefit will be the lesser of 2% of the long-term care specified amount or the HIPAA rate for the given year — for 2008, it is \$270 per day (\$8,100 per month)

### Why does this strategy work with the Nationwide long-term care rider?

Long-term care benefits are typically paid in one of two ways: as an indemnity (or indemnity-style plan) or as a reimbursement plan.

- An indemnity plan pays the benefit directly to the owner of the plan: if an insured qualifies for a \$5,000 monthly benefit, \$5,000 a month is sent to the owner of the plan
- A reimbursement plan pays the benefit directly to the nursing home or agency providing care, or reimburses the policy owner for bills paid on behalf of the insured; the insured may have to submit receipts each month to the insurance company; a reimbursement plan may provide a maximum \$5,000-a-month benefit, but only the exact amount of the bill (up to \$5,000) is paid, and the check is sent directly to the care provider

**An indemnity plan can work inside a trust** because the trust arranges to verify that the insured qualifies for the long-term care benefit. The long-term care benefit is paid to the trust (because the trust owns the policy), so the benefit is actually adding funds to the trust. The trust then writes a check to the beneficiary of the trust. This arrangement assumes the trust document permits distributions. The insured/grantor must never have had the money in hand, or a claim against the trust for such moneys.

**A reimbursement plan will not work in a trust** because bills and receipts for long-term care of the insured are submitted to the insurance company by the trust (who owns the policy). The insurance company then pays the bill to the nursing home or care provider on the behalf of the insured. This chain of events provides a direct monetary benefit from the trust to the insured and destroys the integrity of the trust.

As your clients' personal situations change (e.g., marriage, birth of a child or job promotion), so will their life insurance needs. Care should be taken to ensure this product is suitable for their long-term life insurance needs. They should weigh any associated costs before making a purchase. Life insurance has fees and charges associated with it that include costs of insurance that vary with such characteristics of the insured as gender, health and age, and has additional charges for riders that customize a policy to fit their individual needs.

If you have clients with an interest in planning for wealth transfer as well as long-term care costs, this strategy could be a good fit. Talk to them today about using an ILIT and the Nationwide long-term care rider to put a flexible plan in place.

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