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CareMatters II

A quick look at tax incentives for businesses

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This material is not a recommendation to buy, sell, hold or roll over 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.

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



Disclosures

When evaluating the purchase of a variable annuity, your clients should be aware that variable annuities are long-term investment vehicles designed for retirement purposes and will fluctuate in value; annuities have limitations; and investing involves market risk, including possible loss of principal.

This information assumes that the life insurance is not a modified endowment contract, or MEC. As long as the contract meets the non-MEC definitions of IRC Section 7702A, most distributions are taxed on a first-in/first-out basis. Surrender charges may apply to partial surrenders. Loans and partial surrenders from a MEC will generally be taxable, and if taken prior to age 59 ½, may be subject to a 10% tax penalty. Loans and partial surrenders will reduce the cash value and the death benefits payable to your beneficiaries, and withdrawals above the available free amount will incur surrender charges. If your contract were to lapse with a loan outstanding, the loan amount in excess of basis will be treated as a distribution and all or a portion will be subject to income tax.

The underlying investment options to a variable annuity or life insurance product are not publicly traded mutual funds and are not available directly for purchase by the general public. They are only available through variable annuity/variable life insurance policies issued by life insurance companies.



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As your clients' personal situations change (i.e., marriage, birth of a child or job promotion), so will their life insurance needs. Care should be taken to ensure these strategies and products are suitable for long-term life insurance needs. You should weigh your clients' objectives, time horizon and risk tolerance as well as any associated costs before investing. Also, be aware that market volatility can lead to the possibility of the need for additional premium in the policy. Variable 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, underlying fund charges and expenses, and additional charges for riders that customize a policy to fit your clients' individual needs.

Not all Nationwide products and services are suitable for all clients or situations. There may be products, issued by other companies, which better suit your clients' goals. Be sure to consider your clients' objectives, their need for cash flow and liquidity, and overall risk tolerance when using any strategy.

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Life insurance and annuities are issued by Nationwide Life Insurance Company or Nationwide Life and Annuity Insurance Company, Columbus, Ohio, member of Nationwide. The general distributor for variable insurance products is Nationwide Investment Services Corporation, member FINRA.



Agenda

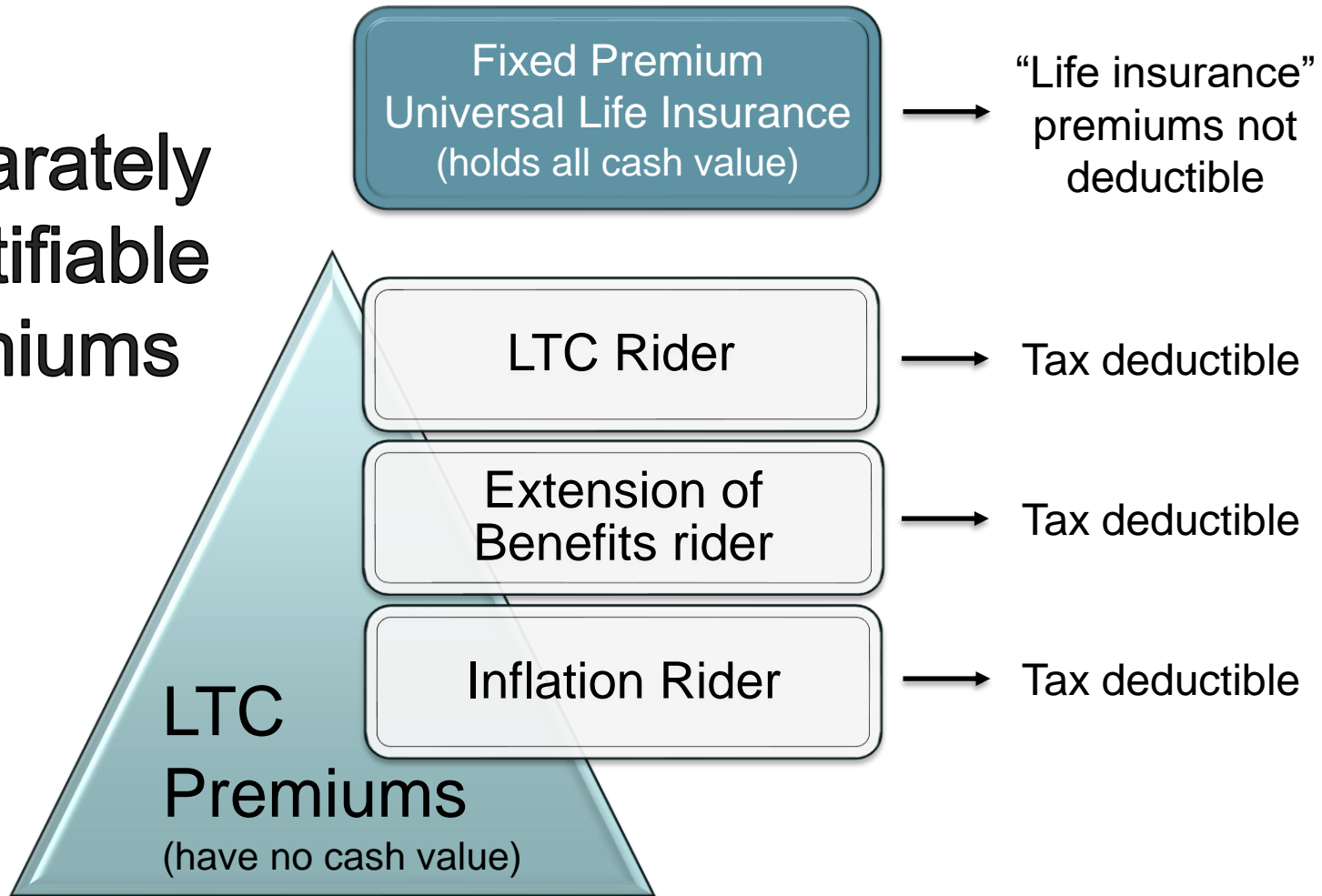
- Structure of CareMatters II
- Hierarchy of CareMatters II tax advantages
- Value of the “above the line” deduction
- Corporate and business tax advantages
- Designing a CareMatters II policy for maximum tax advantages



CareMatters II structure is key.....

Qualified LTC Contract per IRC § 7702B

**Separately
identifiable
premiums**



CareMatters II is the only Nationwide LTC product with separately identifiable premiums

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The Value of an “Above the Line” Deduction

Gross Income

minus ----- *Above the line deductions (expenses to a business, etc.)*

establishes **Adjusted Gross Income (AGI)**

Adjusted Gross Income (AGI)

Minus ----- *Standard & Itemized Deductions (below the line deductions)*

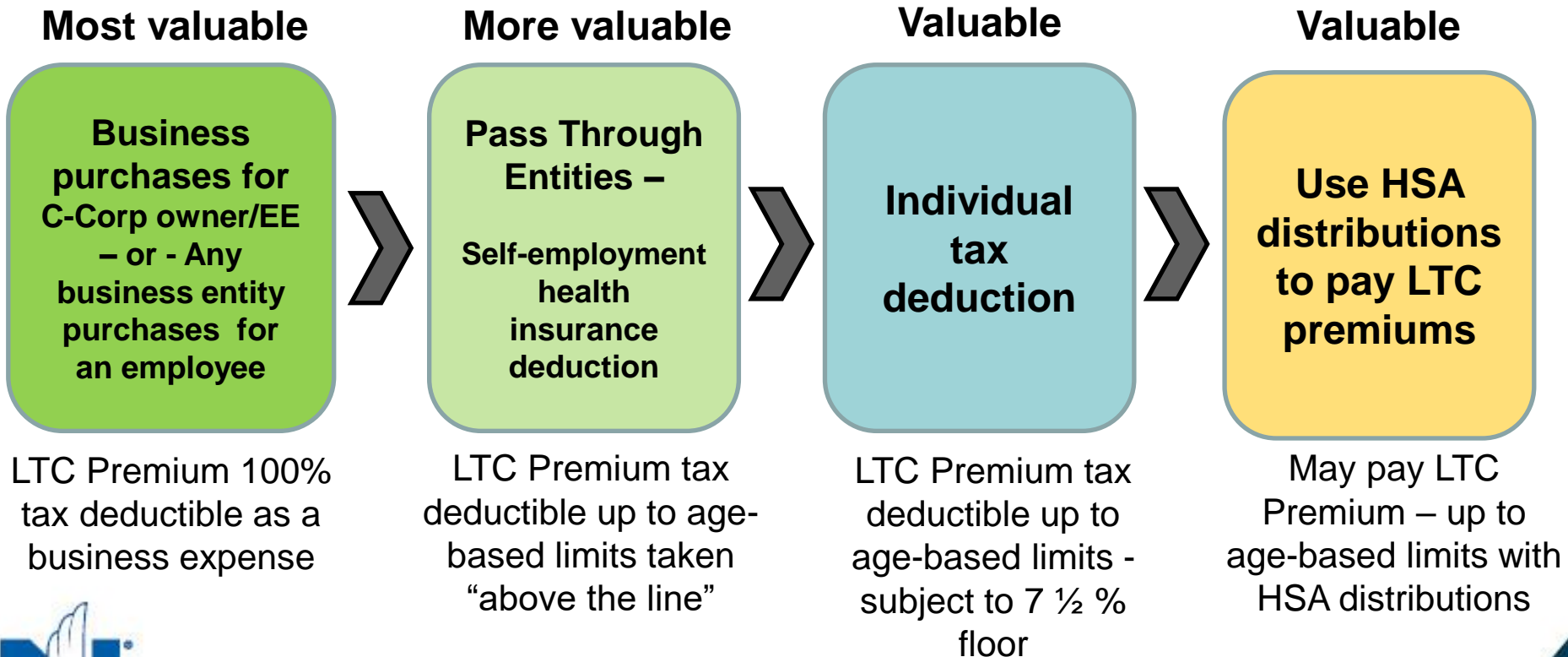
establishes **Taxable Income**

- An “above the line” income tax deduction can be taken whether you itemize deductions or not – thus may be more valuable
 - LTC deductions taken “above the line” are not subject to the 7 ½ % floor (but may be subject to age-based limits)
- “Below the line” deductions require that you itemize - and some deductions have a floor percentage that must first be reached before the deduction can be taken



CareMatters II - Hierarchy of Tax Advantages

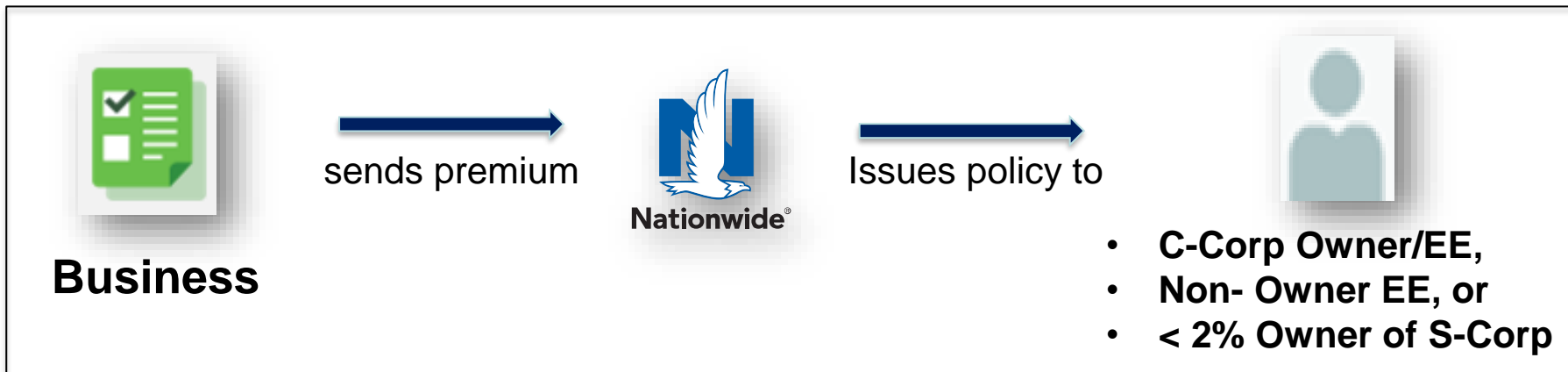
The value of tax advantages varies by business entity and individual opportunities



CareMatters II is the only Nationwide LTC product eligible for these tax advantages

CareMatters II - Employee LTC benefits for

C-Corp owner/EE, Non-owner/EEs & Less than 2% owner/EE of an S-Corporation



- **Life insurance premiums** are treated as a compensation bonus
 - 100% tax deductible to business as a business expense (paid compensation)
 - 100% taxable to employee as compensation received
- **LTC premium** treated as payments for an accident & health plan
 - LTC premiums 100% tax deductible to business (no age-based limits)
 - LTC premiums are totally excluded from employee's income (no taxation)
 - LTC benefits paid tax free per IRS guidelines
- May include spouse and dependents
- Employer may not have any ownership or beneficial rights

LTC insurance may not be offered as part of a cafeteria plan under IRC § 125(f),

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CareMatters II - Pass-through entities

LTC coverage for self-employed business owners

- Self-employed individuals may deduct qualified LTC premiums
 - Above the line deduction (not subject to 7 ½ % floor)
 - May include spouse and dependents
 - Cannot deduct LTC premiums in any month in which either spouse is eligible for subsidized LTC benefits from another employer

Deduction is subject to age-based limits



Attained age before end of tax year	2018	2019	2020
40 or under	\$420	\$420	\$430
41-50	\$780	\$790	\$810
51-60	\$1,560	\$1,580	\$1,630
61-70	\$4,160	\$4,220	\$4,350
71+	\$5,200	\$5,270	\$5,430

- Each entity has slight variations in how premiums are paid and labeled for:
 - more than 2% owner of an S-Corporation
 - Partnership or LLC (paying taxes as a partnership)
 - Sole Proprietor



Please consult a tax advisor for details on how each business entity reports and deducts LTC premiums

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Advantage of buying **CareMatters II** through the business

Advantages:

- For C-Corp owner
 - Tax efficient use of retained earnings to buy LTC coverage for owner/employee and select non-owner employees
- For pass through entity business owners
 - Not subject to 7 ½ % floor to get income tax deduction for LTC premium

Considerations:

- C-corp. owner and employee can utilize shorter premium schedules
 - Shorter premium schedules purchase more LTC coverage
 - with no waste of tax deduction since 100% of LTC premium is deductible
 - Life insurance premium should be “reasonable and necessary”
- Pass-throughs may want to consider whether:
 - longer premium schedules are worth capturing more tax deductions
 - vs. buying a larger LTC benefit with a short premium schedule but losing some tax deductions to age-based limits



Maximum deductions are in the Inflation

C-Corporation Owner/Employee –

55-year-old male, non-tobacco, couples rate paying \$20,000 premium for 5 years with a 6-year LTC benefit

	No Inflation	3% Compound Inflation
\$20,000 Premium paid over 5 years	\$20,000 X 5 = \$100,000 total	20,000 X 5 = \$100,000 total
Death Benefit	\$182,564	\$130,884
Total LTC benefits policy year 1	\$547,963 - \$7,607 per mo.	\$423,307 - \$5,454 per mo.
Total LTC benefits at age 80	\$547,963 - \$7,607 per mo.	\$886,311 - \$11,418 per mo.
Life insurance premium	\$16,092	\$11,536
LTC Rider premium	\$1,383	\$992
Extension of Benefits rider	\$2,525	\$1,810
Inflation rider	N/A	\$5,662
Break even age on inflation		Age 67
Annual total deduction to the business¹	\$20,000 (total \$100,000)	\$20,000 (total \$100,000)
Total annual amount paid that is included in owner/employee's income	\$16,092	\$11,536
Annual for LTC premiums paid by business - but excluded from employee's income	\$3,908	\$8,464

Adding inflation reverses premium exposure from life to LTC

– Reducing life insurance premium reduces taxable compensation

- Make sure to consider “break even” age for older applicants



In Summary

- Business owners can maximize tax advantages by purchasing CareMatters II through the business
 - Tax deductions help make the policy more affordable and more desirable of a purchase
- Business owners are afforded more liberal LTC tax advantages than individual taxpayers
 - C-Corporations get 100% deduction of LTC premiums
 - Owners of pass through entities avoid the 7 ½ % floor requirement - ensuring they get their LTC tax deduction (subject to age-based limits)
- **CareMatters II** offers **cash indemnity** LTC benefits that will help the policy owner to maintain choice, control and flexibility.



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