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Monument Advisor

Presentation

Nationwide **Advisory Solutions**

# Traditional VA vs. IOVA

## An in-depth analysis comparing traditional Variable Annuities with Investment-Only Variable Annuities

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# Terms and definitions

**Owner:** The purchaser of the contract

**Annuitant:** The natural person on whose life Annuity Payments are based

**Issue date:** The contract effective date

**Annuity commencement date:** The date income payments begin

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# Terms and definitions

**Mortality & expense fee:** A fee charged by the insurance company to compensate for the risk taken by issuing the VA

**CDSC:** Costs imposed on the withdrawal of proceeds or liquidation of a variable annuity

**Cost basis:** The initial payment/premiums paid plus subsequent payments/premiums paid to a non-qualified annuity

**VIT/Subaccount:** A segment within the Separate Account which invests in a single investment portfolio

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# Terms and definitions

## GMDB

*Guaranteed Minimum Death Benefit*

The basic death benefit offered under variable annuity contracts. This can return the original premium, the account value or an enhanced value.

## GMWB

*Guaranteed Minimum Withdrawal Benefit*

A guaranteed right to withdraw a certain percentage of the benefit base for life.

## GMIB

*Guaranteed Minimum Income Benefit*

A guaranteed right to annuitize the benefit base after a certain time period.

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# Terms and definitions

**Account value:** The sum of amounts held under the contract in various subaccounts

**Benefit base:** A hypothetical amount used to calculate the owner's optional benefits within a VA

**Step-up:** An optional VA feature that can increase the benefit base if the account value is higher than the benefit base on specified dates

**Anniversary date:** The anniversary of the business day the contract was purchased

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# Other rider concepts

**Cost calculation**

**Investment restrictions**

**Withdrawal restrictions**

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# Characteristics of an IOVA

**Simple** | **Flexible** | **Controllable** | **Valuable**

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Case Study
1

# 1035 Recommendation

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# Case study 1 - **1035 recommendation**

| | |
|---|---|
| **CLIENT** | Jane |
| **CURRENT AGE** | 75 |
| **SITUATION** | - Client was sold a traditional VA for additional tax-deferral on NQ assets.<br>- Client does not own any living benefit riders/guaranteed income features.<br>- VA is beyond the CDSC period. |

## OUTCOME

RIA firm recommends an Investment-Only Variable Annuity (IOVA) to reduce cost, increase investment flexibility, add legacy planning options and seamlessly tie the account to client's current technology/aggregation provider.

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# Case study 1 - **Analysis**

## Company A

Annuity A

Release date 04-06-2017

MORNINGSTAR®

## Annuity Profile Report

### Benefit Information

| | As Of 12/31/2016 | As Of 09/30/2016 |
|---|---|---|
| **Guaranteed Minimum Death Benefit:** | $632,868.65 | $632,868.65 |
| **Death Benefit:** | $1,075,592.18 | $1,013,812.91 |

### Contract Information

| | |
|---|---|
| **Product:** | Annuity A |
| **Contract Date:** | April 5, 2005 |
| **Qualified Type:** | Non Qualified |
| **Death Benefit:** | Standard Death Benefit |
| **Periodic Payment Plan:** | Not Elected |
| **Annuity Commencement Date:** | January 1, 2019 |

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# Case study 1 - **Results**

VARIABLE ANNUITY COST COMPARISON

Current Value: $1,075,592.18

M&E: 1.55%

Living Benefit: N/A

Death Benefit: Standard

Total Savings if 1035 Exchange to IOVA: $17,431.98 (annually/first year)

**TOTAL SAVINGS FOR THE CLIENT OVER 20 YEARS: $541,364.46**

**SURRENDER CHARGE IS FORFEITED: N/A**

*Fees over 20 years:*

Annuity A costs **$541,364** more than IOVA

*Accumulated value over 20 years:*

IOVA generates **$916,799** more than Annuity A

**Assumptions:**

Current Annuity Value: $1,075,592 | Annual Growth Rate Assumption: 6% Income Tax Rate – Federal: 33.00% State: 5.75% | IOVA charges a flat fee of $240 annually

Hypothetical illustrations based on your assumed annual growth rate (6%). Does not include any underlying fund fees or any advisor fees.

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Case Study
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# Keep It Recommendation

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# Case study 2 – **Keep it recommendation**

| | |
|---|---|
| **CLIENT** | Dan |
| **CURRENT AGE** | 55 |
| **SITUATION** | - Client was sold a traditional annuity for a guaranteed withdrawal provision.<br>- This annuity account represents about 1/3 of all accessible income assets for retirement. Dan is very risk averse. |

## OUTCOME

RIA firm recommends to maintain this position to enact 5% withdrawal benefit for life calculated against a substantially higher benefit base ($583,000).

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# Case study 2 - **Analysis**

## Company B

Annuity B

### Your Portfolio

| Your Annuity Activity | Current Period | Year-to-Date |
|---|---|---|
| Beginning Account Value | $472,373.45 | $427,030.34 |
| Purchase Payments | $0.00 | $0.00 |
| Withdrawals | $0.00 | $0.00 |
| Periodic/Transaction Charges* | ($1,301.71) | ($5,077.63) |
| Investment Performance | $19,470.21 | $68,589.24 |
| **Ending Account Value**** | **$490,541.95** | **$490,541.95** |

### Your Benefits

**GMWB Rider**

| | |
|---|---|
| Estimated Protected Withdrawal Value(PWV) | $583,273.58 |
| Estimated Annual Income Amount | $29,163.67 |
| PWV Cumulative Step-ups*** | 53 |
| Date of last Step-up | 04/29/2011 |

Annuity Profile Report

**Benefit Name**

**GMWB Rider**

**Benefit Type**

GMAB, Lifetime GMWB

**Benefit Detail**

**Benefit Charges**

**Current**

1.100% assessed quarterly and calculated against the greater of account value and benefit base

**Maximum**

2.000%

**Details**

Fee percentage may increase upon a step-up (which may be declined to keep the fee percentage unchanged)

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# Case study 2 - **Results**

VARIABLE ANNUITY COST COMPARISON

- Benefit Base was almost $100,000 above account value.
- RIA firm recommended that the client take a 5% lifetime payment which created about $30,000 in distributions per year.
- This safeguarded 1/3 of Client #2's retirement income picture.

Current Value: $490,542

M&E: 1.50%

GMWB Rider: 1.10% (Benefit Base: $583,273.58)

**TOTAL SAVINGS IF 1035 EXCHANGE TO IOVA: $13,193.54** (annually/first year)

**TOTAL SAVINGS FOR THE CLIENT OVER 20 YEARS: $365,921**

*Fees over 20 years:*

Annuity B costs

**$365,921**

more than IOVA

**Assumptions**

Current Annuity Value: $490,542 | Annual Growth Rate Assumption: 6% Income Tax Rate – Federal: 33.00% State: 5.75% | Hypothetical illustrations based on assumed annual growth rate (6%). Does not include any underlying fund or advisor fees.

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Case Study
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# Wait It Out Recommendation

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# Case study 3 – **Wait out the penalty period**

| | |
|---|---|
| **CLIENT** | Ellen |
| **CURRENT AGE** | 50 |
| **SITUATION** guaranteed understand what | Client was sold a traditional VA for guaranteed income, but did not truly understand what she bought. |

## OUTCOME

- RIA firm discusses the current product with an IOVA provider – the client did not understand how the product worked or what she was paying for it. They decide that they will not use their guaranteed income feature and would like to look at other options.
- The account is still subject to a CDSC charge – RIA firm works with an IOVA provider to calculate a break-even point.

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# Case study 3 - **Analysis**

**Company C**

Annuity C

## Annuity Profile Report

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**Product:** Annuity C
**Plan Type:** Non-Qualified
**Contract Effective Date:** 9/1/2012

**Your Quarterly**

| **Value 9/30/16** | **Net Activity** |
|---|---|
| $255,848.32 | -$643.88 |

On 9/1/2012 you elected **Annuity C**

The amount that your Maximum Annual Withdrawal is based on is $286,167.78

As the statement date, your GMWB Rider values are as follow:

| | |
|---|---|
| Guaranteed Amount: | $286,167.78 |
| Maximum Annual Withdrawal: | $14,308.39 |
| Remaining MAW: | $14,308.39 |

| **Surrender Schedule** | |
|---|---|
| Duration (Years) | 7 |
| Surrender Charge Schedule (%) | 7, 7, 6, 6, 5, 4, 3 |
| Free Withdrawals | Greater of 10% of purchase payments or 10% of account value (15% for contracts issued prior to 11/15/10) |

as a percentage of purchase payments liquidated.

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# Case study 3 - **Results**

## IOVA

Weighted fund expense: 0.93%
Total cost: $5,183

**Assumptions:** Contract Value: $255,848 | Annual Growth Rate Assumption: 6% | Underlying Fund Expense .93% | Advisor Fee 1%

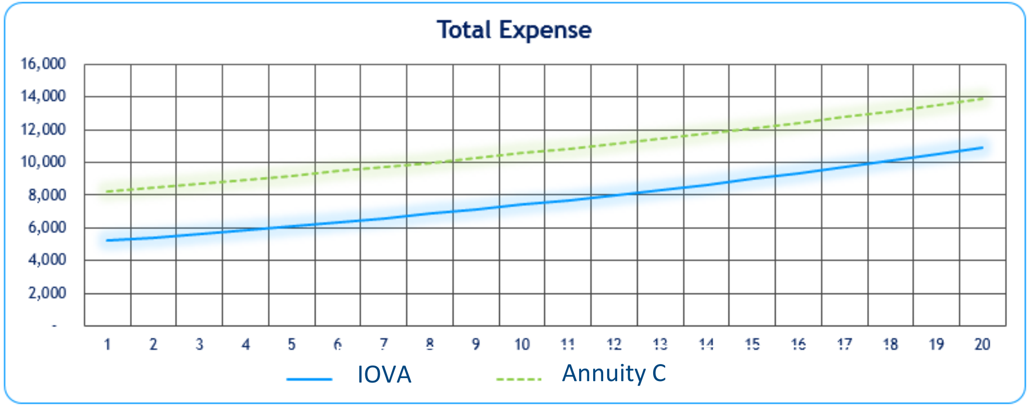
## Annuity C

Weighted fund expense: 0.87%
Total cost: $7,848

**Assumptions:** Contract Value: $255,848 | Annual Growth Rate Assumption: 6% | M&E 1.30% | Rider Fees .90% | Underlying Fund Expense .87%

**Over 20 years, Annuity C costs $61,758 more than an IOVA**

Contract will be free of surrender charges on 9/1/2019. Current surrender charge is: $7,675.44 – Break-even is approximately 2 years Current Benefit Base: $286,167.78



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Case Study
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# Tax Deferral Recommendation

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# Case study 4 – **Tax deferral recommendation**

| | |
|---|---|
| **CLIENT** | Bob |
| **CURRENT AGE** | 50 |
| **SITUATION** | - Sells business and receives proceeds of $3,000,000+. RIA firm looks into legacy planning options and tax strategies.<br>- Client's objectives are to reduce current taxable income and create a legacy growth account for his grandchildren. |

**OUTCOME**

RIA firm recommends that Client #4 use $500K of the proceeds to open an IOVA account for long-term tax-deferred growth and legacy planning options.

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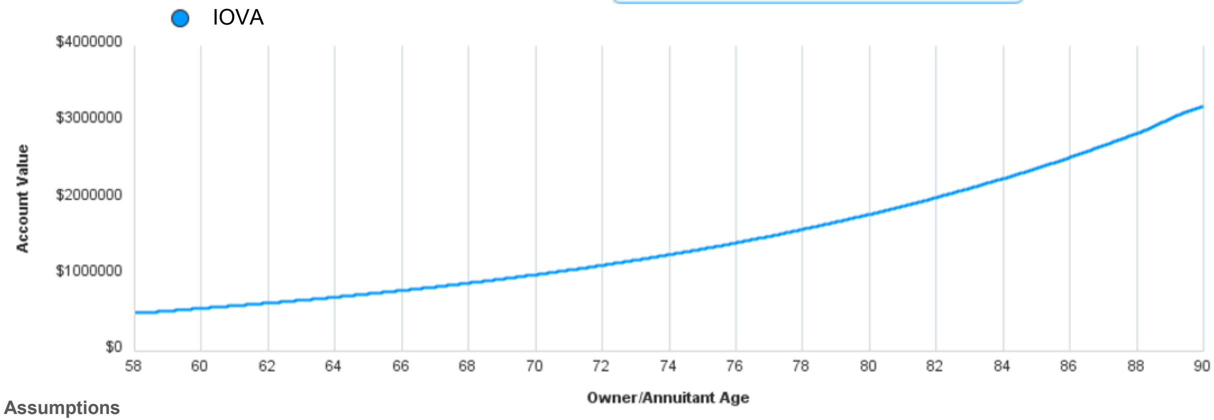
# Case study 4 – **Analysis/Results**

## Accumulated value over owner's investment horizon

IOVA could generate:

**$3,204,879.79**
in Accumulated Value over 32 years




**Assumptions**

Beginning Annuity Value: $500,000.00 | Annual Growth Rate Assumption: 6% | Owner/Annuitant's Current Age: 58 | Owner/Annuitant's Planning Horizon Age: 90 | Advisor Fee: 0 | State: OH | Additional Contributions: No | Additional Withdrawals: No | Beneficiary 1: (3) 33.34% Allocation, 35% Federal Tax Rate, 5.41% State Tax Rate | Beneficiary 2 (5) 33.33% Allocation, 35% Federal Tax Rate, 5.41% State Tax Rate | Beneficiary 3 (7) 33.33% Allocation, 35% Federal Tax Rate, 5.41% State Tax Rate

*Withdrawals made prior to age 59 1/2 may incur a 10% tax penalty.

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# Case study 4 – **Analysis/Results**

**IOVA could generate:**

## Beneficiary 1: RMDs and Account Value

**$3,897,998.73**
in Total Net Distributions over 49 years

**$79,550.99**
in post-tax annual income

## Beneficiary 2: RMDs and Account Value

**$3,588,814.08**
in Total Net Distributions over 47 years

**$76,357.75**
in post-tax annual income

## Beneficiary 3: RMDs and Account Value

**$3,321,440.01**
in Total Net Distributions over 45 years

**$73,809.78**
in post-tax annual income

**Assumptions**

Beginning Annuity Value: $500,000.00 | Annual Growth Rate Assumption: 6% | Owner/Annuitant's Current Age: 58 | Owner/Annuitant's Planning Horizon Age: 90 | Advisor Fee: 0 | State: OH | Additional Contributions: No | Additional Withdrawals: No | Beneficiary 1: (3) 33.34% Allocation, 35% Federal Tax Rate, 5.41% State Tax Rate | Beneficiary 2 (5) 33.33% Allocation, 35% Federal Tax Rate, 5.41% State Tax Rate | Beneficiary 3 (7) 33.33% Allocation, 35% Federal Tax Rate, 5.41% State Tax Rate
*Withdrawals made prior to age 591/2 may incur a 10% tax penalty.

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# Case study 4 – **Key Takeaways**

Monument Advisor could generate
**$3,204,879.79**
in Accumulated Value over 32 years

Stretching the Investment May Allow it to Provide
**$10,808,252.82**
in Post-Tax Income for Your Heirs

### STRETCHING AN INHERITED NON-QUALIFIED VARIABLE ANNUITY

When inheriting a non-qualified annuity, beneficiaries may choose to take a lump sum, 5-year payout, annuitize, or "stretch" payments over her/his life expectancy(s). Many people choose the stretch option because it allows for greater flexibility, liquidity, and the potential for more tax-deferred accumulation throughout their lifetimes. Also, stretching an annuity can prevent the massive tax burden of taking a large lump sum when transferring the wealth. Because Monument Advisor's costs are low, and the underlying fund selection so large, your heirs may then continue to benefit from the compounding power of low-cost tax deferral, while managing their investment for optimal performance.

### REQUIRED MINIMUM DISTRIBUTIONS

Required Minimum Distributions (RMDs) are mandated by the IRS for annuity beneficiaries who choose the "stretch" option. RMDs are the minimum amount of money beneficiaries are required to withdraw in a given year, and are calculated based on their life expectancy. RMD amounts will increase as they age, and your beneficiaries can rely on these income streams alone, while enjoying the flexibility to take other withdrawals. But, you also have the option to restrict your beneficiaries' choices to ONLY the stretch provision, and further restrict withdrawals to ensure that your legacy lasts as long as you intend. Ask your advisor about this "restricted stretch" option, and determine how much control you want to offer your beneficiaries.

**Assumptions**

Beginning Annuity Value: $500,000.00 | Annual Growth Rate Assumption: 6% | Owner/Annuitant’s Current Age: 58 | Owner/Annuitant’s Planning Horizon Age: 90 | Advisor Fee: 0 | State: OH | Additional Contributions: No | Additional Withdrawals: No | Beneficiary 1: (3) 33.34% Allocation, 35% Federal Tax Rate, 5.41% State Tax Rate | Beneficiary 2 (5) 33.33% Allocation, 35% Federal Tax Rate, 5.41% State Tax Rate | Beneficiary 3 (7) 33.33% Allocation, 35% Federal Tax Rate, 5.41% State Tax Rate *Withdrawals made prior to age 591/2 may incur a 10% tax penalty.

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# Legacy planning

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# Terms, definitions and options

- Spousal continuance
- Death claim process
  (Lump Sum/5-Year/ Annuitization/Stretch)

| | Lump Sum | 5-yr Payout | Annuitization | Stretch | Restricted Stretch |
|---|---|---|---|---|---|
| Tax Benefits | | X | X | X | X |
| Receive payments over lifetime | | | X | X | X |
| Account continues to grow tax-deferred | | | | X | X |
| Assets remain invested | | | | X | X |
| Owner has control over how assets are distributed | | | | | X |

Stretching is suitable for beneficiaries who do not have immediate need of the assets. As with all securities, there are risks associated with stretching, such as changes to tax laws and the impact of inflation.

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# Naming beneficiaries: Restricted Stretch

## TRUST OWNED

**+ Pros**

Trust document

*(Control)*

**– Cons**

Liquidation upon death

*(Tax disadvantage)*

## INDIVIDUALLY OWNED

**+ Pros**

Stretch election

*(Tax advantage)*

**– Cons**

No trust documents

*(Less control)*

Stretching is suitable for beneficiaries who do not have immediate need of the assets. As with all securities, there are risks associated with stretching, such as changes to tax laws and the impact of inflation.

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# Naming beneficiaries: Charities

Qualified charities named beneficiaries of annuity accounts receive death claim proceeds tax-free. Tax potential of embedded gains is eliminated.

CRT's are common, but they have their disadvantages:

| | | |
|---|---|---|
| Irrevocable | Tax deduction limitations | High cost (ESTATE ATTORNEY, TAX ADVISOR, TRUSTEE ADMINISTRATION) |

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# Planning terms, definitions and options

- **Stretch/RSP vs. Death Benefit, Multi-generational Planning**
- **Options after Death** – Inherited/Stretch transfer



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# Disclosures

Nationwide Advisory Solutions Monument Advisor has a $20 monthly flat insurance fee. Additional low-cost fund platform fees ranging from .10% - .35% will be assessed for investors wishing to purchase shares of low-cost funds. See the prospectus for details. Certain low-cost funds may only be available to you if you retain certain investment advisors.

Chart and table returns are hypothetical and not a projection or prediction of investment results. Estimated annual savings assume the contract value grows at the rates that were entered in the calculator and excludes any difference in underlying fund charges.

Variable annuities are subject to market fluctuation and risk. Principal value and investment returns will fluctuate, and you may have a gain or loss when money is withdrawn.

Variable annuities are long-term investments to help you meet retirement and other long-range goals. Withdrawals of tax-deferred accumulations are subject to ordinary income tax. Withdrawals made prior to age 59 1⁄2 may incur a 10% IRS tax penalty.

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Sources for this presentation are from Jefferson National's Annuity Comparison Calculator and Restricted Stretch Calculator.

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