Nationwide® is on your side

Wealth transfer strategies

Improving tax efficiency when wealth is passed along

With baby boomers growing older, a huge intergenerational transfer of wealth is beginning to take shape. As these clients prepare to leave their assets to loved ones, you can help them choose suitable wealth transfer strategies that maximize tax efficiency. While it may be tempting for clients to assume this refers to estate taxes, it's often their heirs' income taxes that need to be prioritized. Therefore, in addition to addressing estate taxes, this guide considers ways to convert the value of a client's tax-deferred assets into a tax-free inheritance.

Furthermore, many clients will have family circumstances that call for controls over the distribution of assets. This guide also explores solutions that accommodate such needs.

Common wealth transfer goals

Protecting spouse's standard of living	Providing for nonspouse beneficiaries, such as children, grandchildren, siblings and close friends	Leaving a charitable legacy

The strategies below will meet many of these goals by leveraging the life, annuity and retirement plan solutions offered by Nationwide.

Planning for spouses

Marital and Credit Shelter Trusts	
The concept	**Target audience**
Married individuals with federal estate tax exposure often leverage marital and credit shelter trusts in their estate planning. These trusts typically provide for the surviving spouse during their life, with the remaining property going to the grantor's children at the surviving spouse's death. Annuities can be used in these trusts for tax deferral and income guarantees. Life insurance can be used to provide liquidity in equalizing distributions among beneficiaries.	Clients who are seeking to reduce potential estate tax exposure; second marriages with children from a prior marriage; clients seeking to control distribution of income and assets to beneficiaries
Benefits	**Product options**
The purchase of life insurance leverages the amount of property going to the children. The life insurance can also act as a hedge, protecting against declines in the value of trust investments. The income tax-free death benefit avoids trust tax rates. Annuities may be used to reduce trust taxation or provide an income stream to spousal beneficiary. Additionally, policy cash values may be accessed for the benefit of the surviving spouse and children, pursuant to the terms of the trust instrument.	Annuities; life insurance

Planning for Spouses (continued)

Splitting IRA assets to provide for spouse and nonspouse beneficiaries	
The concept	**Target audience**
Split IRAs into separate accounts for spouse and nonspouse beneficiaries (such as adult children).	A surviving spouse who is under 59½ and who has inherited qualified money; second marriage with children from prior marriage; owner seeking to provide a lifetime income stream to surviving spouse
Benefits	**Product options**
Splitting accounts, or simply earmarking certain accounts for certain beneficiaries, can provide flexibility in meeting the needs of different beneficiaries. For example, someone seeking to provide for a spouse while also desiring to leave assets to children from a prior marriage can split retirement assets into separate accounts, leaving one to a spouse and the other to children. This can avoid the tension that can arise when children are concerned about a surviving spouse spending down "their" inheritance. When a surviving spouse is younger than 59½ at time of inheritance, they can avoid the 10% penalty on premature distributions by leaving the account as an inherited IRA. Clients seeking to provide a lifetime stream of income for a surviving spouse can use a joint life income rider. (Note: Be sure to review rider terms regarding the age of the surviving spouse. Restrictions may apply for younger spouses.) In the interim, children inheriting the other retirement accounts do not need to wait until the surviving spouse's death to have full access to benefits.	Annuities; a retirement plan with in-plan guarantees

SPIA-funded life insurance	
The concept	**Target audience**
Funding a life insurance policy with payments from a single-premium immediate annuity (SPIA) can provide the certainty of premium payments and an income tax-free death benefit, as well as other potential benefits.	Those who have a tax-deferred asset such as an IRA that they don't need but from which they are required to take distributions; clients who have an opportunity to pay income taxes at a potentially lower effective rate than beneficiaries
Benefits	**Product options**
This scenario allows the client to minimize income in respect of a decedent (IRD) passing to beneficiaries, replacing it with an income tax-free death benefit.	Annuities; life insurance

Planning for nonspouse beneficiaries

Irrevocable life insurance trust	
The concept	**Target audience**
An irrevocable life insurance trust (ILIT) is a form of irrevocable trust that is typically used to purchase life insurance while keeping the death proceeds outside of the insured grantor's gross estate.	Anyone who would like to be able to control a distribution of assets to beneficiaries; anyone concerned about potential estate tax issues
Benefits	**Product option**
This technique enables the grantor to leverage their annual gift tax exclusion and/or lifetime gift tax applicable exclusion through the purchase of life insurance without, the death proceeds of which would not be included in the grantor's gross estate. The life insurance death benefits are paid to the trust income tax free. The trust can be drafted to control the distribution of assets to beneficiaries. Death benefit proceeds may be used for estate liquidity, estate equalization, wealth replacement or other life insurance needs while being creditor protected.	Life insurance

Annuity/IRA maximization	
The concept	**Target audience**
This is a technique for converting the value of a deferred annuity or traditional IRA into a more tax-efficient legacy for heirs using an Irrevocable life insurance trust (ILIT) and funded with life insurance.	Clients with large tax-deferred retirement accounts; clients with large nonqualified annuity balances; clients in lower income tax bracket than potential beneficiaries; clients with beneficiaries who are likely to be in a high income tax bracket
Benefits	**Product options**
This concept can be used to effectively minimize income and estate taxes on an annuity or traditional IRA that the owner does not need while maximizing the amount of wealth transferred to heirs. Instead of inheriting a taxable account, the heir gets a tax-free death benefit instead.	Annuities; life insurance

Planning for nonspouse beneficiaries (continued)

Special-needs trust	
The concept	**Target audience**
When a caregiver of someone with special needs passes away, often another trusted, competent adult or professional will manage funds on behalf of the individual with special needs. This can be accomplished by establishing a trust. To be effective, the trust must be funded. Life insurance may be particularly appropriate to meet this need, as it can create a large fund for a relatively small periodic premium. Annuities can also be an effective way to protect the IRA assets of the parent that will be left to the trust or used as an investment in the trust for tax deferral and protection. When used in conjunction with a trust, life insurance and annuities can provide financial certainty for the care of a person with special needs.	Clients seeking to plan for beneficiaries with special needs
Benefits	**Product options**
> **Supplemental special-needs trusts** preserve access to government benefits while providing resources for medical equipment and supplies, travel, personal care services and many other things that are not necessities or provided for by government programs. > **Support special-needs trusts** are designed for clients who may prefer to provide for the primary support of the individual outside of the purview and limitations of government benefits.	Annuities, life insurance

Life insurance-covered Roth conversion	
The concept	**Target audience**
Have the surviving spouse convert a traditional IRA to a Roth IRA and use life insurance death benefit proceeds to recoup the income tax on the conversion.	IRA owners healthy enough to qualify for life insurance; clients expressing concerns about tax rates going up in future; clients seeking to minimize the amount of IRD received by beneficiaries; clients with high-income beneficiaries; surviving spouse who does not need the IRA assets to meet lifestyle needs; surviving spouse not yet at RMD age (RMDs may not be converted to Roth)
Benefits	**Product option**
For beneficiaries in a high tax bracket, inheriting a traditional IRA can cause a multitude of tax issues. This is particularly true when you consider that the option of “stretching” IRA distributions over the beneficiary’s life expectancy was limited by the SECURE Act. This is another strategy to help replace taxable assets with tax-free assets.	Life insurance

Planning for nonspouse beneficiaries (continued)

Inherited nonqualified annuity: exchange to a new deferred annuity	
The concept	**Target audience**
Exchange an inherited nonqualified annuity that is being stretched to a new deferred annuity and get death benefit protection on the inherited owner as annuitant.	Beneficiaries seeking to minimize the yearly tax hit of the required beneficial distributions and who want to protect the assets for their own successor beneficiaries
Benefits	**Product option**
This concept utilizes a new deferred annuity product to stretch an inherited nonqualified deferred annuity and receive death benefit protection on the beneficial owner's life (the beneficial owner is listed as annuitant on the new policy). Spousal protection death benefit features are available for newly issued beneficial annuities as well, further protecting the inheritance from market fluctuations if the beneficial owner is married and either spouse passes away in a down market. The successor beneficiary finishes the extended payment stream at a potentially stepped-up death benefit value.	Annuities

Annuity in an irrevocable trust: tax deferral and death benefit protection	
The concept	**Target audience**
An irrevocable trust purchases a nonqualified deferred annuity for tax deferral and death benefit protection on the surviving spouse's life.	Clients with an existing trust who may be interested in exploring options to build trust assets for trust beneficiaries
Benefits	**Product option**
Tax deferral: Tax deferral can be of value to an irrevocable trust that is accumulating taxable assets. **Income management**: An annuity can also help manage any trust provisions regarding mandatory income distributions to certain beneficiaries (typically a surviving spouse who would prefer to leave trust assets to their children). **Beneficiary ownership**: The death benefit protections of annuities allow the trust to insulate the trust remainder beneficiaries from loss. In this situation, the trust may consider life insurance as a protection vehicle as well.	Annuities

Planning for nonspouse beneficiaries (continued)

In-kind transfer strategy	
The concept	**Target audience**
Leverage a tax-deferred annuity in a trust for the benefit of trust remainder beneficiaries. The annuity can be distributed to trust beneficiaries in kind upon dissolution of the trust.	Trusts arrangements where a surviving spouse no longer wants or needs trust income; trusts in which retained assets are causing tax liability; trusts in which the primary goal is to minimize current taxation and grow the principal for the benefit of remainder beneficiaries
Benefits	**Product option**
The annuity grows tax deferred inside the trust, reducing tax issues associated with retained income. Upon dissolution of the trust, ownership of the annuity can be changed from the trust to a trust beneficiary without triggering taxation of gains in the contract. When the trust beneficiary becomes owner of the annuity, distributions are not required, and the new owner can name new beneficiaries. Beneficiaries inheriting the annuity contract will have the ability to leverage a nonqualified stretch distribution strategy.	Annuities

Leverage designated Roth accounts to build tax-free assets	
The concept	**Target audience**
Leverage a designated Roth account within a qualified retirement plan to build income tax-free Roth assets for wealth transfer. Roth accounts generally pass to beneficiaries income tax free.	Younger clients; clients in lower tax brackets; clients who are heavily concentrated in tax-deferred retirement assets
Benefits	**Product option**
Designated Roth accounts are available to all plan participants regardless of income (whereas Roth IRA contributions are not available to high earners). They offer larger contribution limits than Roth IRAs; periodic contributions have a dollar cost averaging element that can offer less tax risk than larger conversions. In-plan guarantees can be used to create a tax-free stream of income for both spouses. Potentially tax-free assets can be valuable when a trust shall be named as the beneficiary of retirement assets.	Retirement plan with on-plan guarantees

Planning for nonspouse beneficiaries (continued)

Safeguarding a Roth conversion with an annuity	
The concept	**Target audience**
Annuities can be used in a newly converted Roth account to safeguard against a post-conversion drop in value.	Clients who are implementing Roth conversions as a wealth transfer strategy
Benefits	**Product option**
Roth conversions may no longer be recharacterized, so a post-conversion drop in account value can lead to a bad tax outcome because the tax liability will be based on the conversion value. A fixed indexed or registered indexed linked annuity can provide downside protection.	Annuities

Use in-plan guarantees for qualified retirement accounts	
The concept	**Target audience**
The SECURE Act has allowed qualified retirement plans to offer both principal protection and lifetime income guarantees, including joint life income options.	Participants who seek to protect principal for beneficiaries or ensure a lifetime stream of income for themself and their surviving spouse
Benefits	**Product option**
In-plan guarantees allow participants to protect principal from investment loss and generate a guaranteed stream of lifetime income.	

Restricted beneficiary designations	
The concept	**Target audience**
Restricted beneficiary designations, which are available with annuities and life insurance policies, can be used to prevent a beneficiary from having full, immediate access to inherited accounts.	Clients who would like to control distribution of assets to beneficiaries without the expense and complexity of a trust
Benefits	**Product option**
A restricted beneficiary designation can be used to control the distribution of an annuity or life insurance policy. Nonqualified annuities can be limited to a life-expectancy distribution or less restricted payouts as dictated by the account owner. Distributions from qualified annuities must comply with IRS guidance on IRA distribution rules.	Annuities

Charitable giving

Charitable remainder trust	
The concept	**Target audience**
A charitable remainder trust, or CRT, is an irrevocable trust to which a donor can transfer appreciated property, creating an immediate income tax deduction for the donor. The donor receives income from the trust for life, with the remainder interest going to charity.	Clients with highly appreciated assets and potential capital gains tax exposure; clients seeking a large current income tax deduction; clients seeking retirement income; clients seeking tax-efficient wealth transfer strategies; clients who are charitably inclined
Benefits	**Product options**
The donor can meet charitable objectives while possibly achieving a higher income stream with an offsetting tax deduction. The donor can offset a potential loss of inheritance to beneficiaries by using CRT income stream to fund an ILIT as a wealth replacement trust.	Annuities, life insurance

Annuity in a charitable trust: deferred annuity with an income benefit in a CRAT	
The concept	**Target audience**
A charitable remainder annuity trust (CRAT) purchases a deferred annuity with a living benefit.	Clients who may already have a CRAT established and funded but are seeking ways to provide a guaranteed cash flow while potentially increasing the likelihood of leaving trust assets to a charity
Benefits	**Product option**
The CRAT provides a fixed-dollar payment to the income beneficiary. The donor receives an income tax deduction for making a gift to the CRAT. The donor will receive a fixed-dollar-amount payment every year from the trust, usually for as long as they live. A deferred annuity with a living benefit may be used to increase the likelihood that the trust always has a guaranteed source of cash flow to make this required payment and that there is money to be left to the charity.	CRAT

Because the goal of these solutions is greater tax efficiency for a client's estate, there are substantial tax issues to consider. Neither Nationwide nor its representatives give legal or tax advice. We do, however, offer our Advanced Consulting Group for knowledgeable guidance and more details about these solutions.

Let's get started

Contact your Nationwide wholesaler or the Institute Planning Team at **iplndesk@nationwide.com**.

Nationwide® is on your side

This material is not a recommendation to buy or sell a financial product or to adopt an investment strategy. Investors should discuss their specific situation with their financial professional.

Federal income tax laws are complex and subject to change. The information reflected is based on current interpretations of the law and is not guaranteed. Nationwide and its representatives do not give legal or tax advice. An attorney or tax advisor should be consulted for answers to specific questions.

The information is general in nature and is not intended as investment advice or a recommendation to buy or sell any security or adopt any investment strategy. Additionally, it does not take into account any specific investment objectives, tax and financial condition, or particular needs of any specific person.

Nationwide Investment Services Corporation (NISC), member FINRA, Columbus, Ohio. Nationwide Retirement Institute is a division of NISC.

FOR FINANCIAL PROFESSIONAL USE — NOT FOR DISTRIBUTION TO THE PUBLIC

NFM-20853AO.1 (02/22)