Nationwide®

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

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.

Benefits

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 a 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.

Target audience

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.

Product options

Annuities; life insurance

Planning for spouses (continued)

Splitting IRA assets to provide for spouse and nonspouse beneficiaries

The concept

Split IRAs into separate accounts for spouse and nonspouse beneficiaries (such as adult children).

Target audience

A surviving spouse who is under 59½ and who has inherited qualified money; a second marriage with children from a prior marriage; an owner seeking to provide a lifetime income stream to a surviving spouse.

Benefits

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 the 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.

Product options

Annuities; a retirement plan with in-plan guarantees

SPIA-funded life insurance

The concept

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.

Target audience

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

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.

Product options

Annuities; life insurance

Planning for nonspouse beneficiaries

Irrevocable life insurance trust

The concept

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.

Benefits

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.

Target audience

Anyone who would like to be able to control a distribution of assets to beneficiaries; anyone concerned about potential estate tax issues.

Product option

Life insurance

Annuity/IRA maximization

The concept

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.

Benefits

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.

Target audience

Clients with large tax-deferred retirement accounts; clients with large nonqualified annuity balances; clients in a lower income tax bracket than potential beneficiaries; clients with beneficiaries who are likely to be in a high income tax bracket.

Product options

Annuities; life insurance

Planning for nonspouse beneficiaries (continued)

Special-needs trust

The concept

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.

Target audience

Clients seeking to plan for beneficiaries with special needs.

Benefits

> **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.

Product options

Annuities; life insurance

Annuity/IRA maximization

The concept

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.

Target audience

IRA owners healthy enough to qualify for life insurance; clients expressing concerns about tax rates going up in the future; clients seeking to minimize the amount of IRD received by beneficiaries; clients with high-income beneficiaries; a surviving spouse who does not need the IRA assets to meet lifestyle needs; a surviving spouse not yet at RMD age (RMDs may not be converted to Roth).

Benefits

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.

Product option

Life insurance

Planning for nonspouse beneficiaries (continued)

Inherited nonqualified annuity: Exchange into a new deferred annuity

The concept

Exchange an inherited nonqualified annuity (that is being stretched) into a new deferred annuity and get death benefit protection on the inherited owner as annuitant.

Benefits

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.

Target audience

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.

Product option

Annuities

Annuity in an irrevocable trust: Tax deferral and death benefit protection

The concept

An irrevocable trust purchases a nonqualified deferred annuity for tax deferral and death benefit protection on the surviving spouse's life.

Benefits

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.

Target audience

Clients with an existing trust who may be interested in exploring options to build trust assets for trust beneficiaries.

Product option

Annuities

Planning for nonspouse beneficiaries (continued)

In-kind transfer strategy

The concept

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.

Benefits

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.

Target audience

Trust arrangements in which 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.

Product option

Annuities

Leverage designated Roth accounts to build tax-free assets

The concept

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.

Benefits

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.

Target audience

Younger clients; clients in lower tax brackets; clients who are heavily concentrated in tax-deferred retirement assets.

Product option

Retirement plan with in-plan guarantees

Planning for nonspouse beneficiaries (continued)

Safeguarding a Roth conversion with an annuity

The concept

Annuities can be used in a newly converted Roth account to safeguard against a post-conversion drop in value.

Target audience

Clients who are implementing Roth conversions as a wealth transfer strategy.

Benefits

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 index-linked annuity can provide downside protection.

Product option

Annuities

Use in-plan guarantees for qualified retirement accounts

The concept

The SECURE Act has allowed qualified retirement plans to offer both principal protection and lifetime income guarantees, including joint life income options.

Target audience

Participants who seek to protect principal for beneficiaries or ensure a lifetime stream of income for themself and their surviving spouse.

Benefits

In-plan guarantees allow participants to protect principal from investment loss and generate a guaranteed stream of lifetime income.

Product option

Restricted beneficiary designations

The concept

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.

Target audience

Clients who would like to control distribution of assets to beneficiaries without the expense and complexity of a trust.

Benefits

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.

Product option

Annuities

Charitable giving

Charitable remainder trust

The concept

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.

Target audience

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

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 the CRT's income stream to fund an ILIT as a wealth replacement trust.

Product options

Annuities; life insurance

Annuity in a charitable trust: Deferred annuity with an income benefit in a CRAT

The concept

A charitable remainder annuity trust (CRAT) purchases a deferred annuity with a living benefit.

Target audience

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

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.

Product option

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 Advanced Consulting Group at **advcg@nationwide.com**.

NFM-20853AO.2 (03/25)