



Trading Taxes and Management Fees for Policy Charges

Cash Value Life Insurance Compared to Other Investment Alternatives

Prepared for:
Mr. Income

Prepared by:
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Conceptual Overview

The Risk Management Bedrock of a Sound Financial Plan

Permanent life insurance provides liquidity upon your death, generally income tax free¹, precisely when it may be needed most by your family to address various risk management needs over your lifetime, such as:

- ✓ Replace lost income so that surviving family members can maintain their desired lifestyle
- ✓ Pay off existing debts, such as a home mortgage, or fund college tuition and expenses for a child
- ✓ Offset income taxes paid by beneficiaries on distributions from, or liquidations of, inherited tax-deferred assets
- ✓ Pay estate settlement costs, such as estate taxes, to avoid having to liquidate other assets
- ✓ Hedge against adverse volatility in other asset values at death with a competitive total return to boot



An Effective, Tax-Advantaged Savings Vehicle

When structured properly, permanent life insurance also can provide many benefits while you are living, such as:

- ✓ Death benefit proceeds can be accelerated income tax free during life in the event you become chronically ill, via rider selected at issue, to help fund any related costs of care¹
- ✓ Cash value build-up with competitive growth potential and tax-deferred earnings that can diversify and reduce the taxation of your investable assets
- ✓ Income tax-free distributions from cash value via withdrawals, and/or policy loans that are repaid by the death benefit, which can diversify the taxation of and increase your future cash flow²
- ✓ Access to, use of and control over cash value prior to age 59½ and after age 70½ (no age 59½ accessibility limitations² or age 70½ required distributions)
- ✓ Contribution limits, set at issue, that are correlated to the your income (the higher your income at issue, generally the higher the premium limit)³
- ✓ Quick and cost-effective source of credit through income tax-free policy loans, any repayments for which during life restore your accessible cash value as opposed to boosting a bank's profits
- ✓ An efficient source of collateral that can be pledged to secure other lines of credit²
- ✓ Statutory creditor protection, depending on the State of issue, that can prevent the cash value and death benefit from being reached by creditors (please consult a local attorney)



¹Death benefit proceeds are generally received free of income tax pursuant to IRC §101(a)(1). Instances where death benefit proceeds can be taxable include, but are not limited to, the sale or transfer of the policy to a new owner that does not qualify for a statutory transfer for value exception under IRC §101(a)(2), or the purchase of a policy by a business entity on the life of an employee without satisfying the statutory notice and consent requirements of IRC §101(j). Accelerated death benefit proceeds payable as a result of the insured's chronic or terminal illness are generally received income tax free as long as the total benefits paid in the taxable year do not exceed the greater of the insured's qualified long-term care expenses and the IRS pre diem limit pursuant to IRC §101(g) and §7702B(d). Such accelerated death benefit proceeds payable to a business entity as policy owner are taxable as ordinary income to the business pursuant to IRC §101(g)(5).

²Access to cash value through withdrawals and policy loans is income tax free pursuant to IRC §7702A and §72 as long as the policy never becomes a Modified Endowment Contract (MEC) and the policy remains in force until death. If the policy ever becomes a MEC then any actual distributions (e.g. withdrawals) or deemed distributions (e.g. increase in policy indebtedness or pledging the policy as security for outside indebtedness) are taxable to the extent of gain on a last in first out basis (gain recovered first) plus a 10% penalty if the policy owner is under age 59½ (note if the policy is owned by a non-natural person, such as a business entity or trust, the 10% penalty to the extent of gain may apply regardless of the insured's age). If the policy lapses or is surrendered, the sum of any outstanding policy indebtedness discharged plus any cash value proceeds received is taxable to the extent it exceeds adjusted cost basis.

³The higher the insured's income, generally the higher the face amount that can be financially justified for underwriting purposes. A higher face amount results in higher statutory non-MEC premium limits, thus allowing more annual premium to be paid with cash value build-up that can be accessible during life free of income tax.

Conceptual Overview

Cash Value Life Insurance vs. Other Financial Alternatives

	Cash Value Life Insurance	Non-Qualified Taxable Investments	Qualified Plans	Roth 401(k)s and Roth IRAs	Annuities	Municipal Bonds
Income tax-free death benefit	✓	✗	✗	✗	✗	✗
Tax-deductible contributions	✗	✗	✓	✗	✗	✗
Tax-deferred earnings and realized gains	✓	✗	✓	✓	✓	✗
Tax-Advantaged Withdrawals and/or Income	✓	✗	✗	✓	✗	✓
No required withdrawals	✓	✓	✗	✓	✓	✓
No penalties for early withdrawals	✓	✓	✗	✗	✗	✓
No contribution limits	✓	✓	✗	✗	✓	✓
No cost of insurance charges	✗	✓	✓	✓	✓	✓
Competitive rate of return potential	✓	✓	✓	✓	✓	✗
Statutory creditor protection (depending on State)	✓	✗	✓	✓	✓	✗

Trading Taxes and Management Fees for Policy Charges

Cash Value Life Insurance vs. Various Investment Alternatives:

Permanent life insurance's combination of death benefit and cash value features can make it an efficient asset for funding both protection and wealth accumulation needs. Should you die prior to retirement, the death benefit can compensate your family for any lost future contributions to your investments. That is, it can "self complete" in the event of an untimely death. When you retire, or otherwise need to access cash value, you can take withdrawals and policy loans to supplement other sources of cash flow.

Life insurance cash value grows tax deferred and can be accessed income tax free but is subject to monthly policy charges that are deducted from the account to fund the death benefit protection element of the policy. Alternatively, if you were to invest the premium amount in a taxable investment, as many objectors to cash value life insurance often suggest, you will be subject to taxation on realized gains and income within the resulting investment portfolio as well as investment management fees to some extent.

Turning to the underlying investment strategy operative within certain types of cash value life insurance, interest earnings can be credited to the cash value at a rate comparable to, or competitive with, that of many traditional investment options of similar risk and return characteristics. Credited interest rates will fluctuate and vary over time, the degree of which depends on the type of life insurance policy selected.

Therefore, the tradeoff that you make when purchasing cash value life insurance is paying policy charges instead of taxes and management fees and the former, when structured properly, can be more efficient over the long term. Accordingly, a cash value life insurance policy can be a cost-effective complement to a diversified, long-term investment strategy.

The following analysis compares these mathematical tradeoffs by projecting the future values during life and upon death of a cash value life insurance policy versus those of a taxable investment portfolio illustrated with detailed assumptions simulating a managed account and with contribution amounts equal to the net premium from the life insurance.

Statutory Authorities for Key Tax Attributes of Life Insurance

IRC §101	Death benefit proceeds received can be excluded from gross income
IRC §101 and §7702B	Accelerated death benefit proceeds received by reason of the insured becoming chronically or terminally ill can be excluded from gross income, up to certain limits
IRC §7702	Earnings generated by the policy's cash value are excluded from gross income if the policy satisfies one of the definition of life insurance tests stated in §7702(a)
IRC §7702A	Premiums paid exceeding the 7-pay premium test limit cause the policy to become a Modified Endowment Contract (MEC)
IRC §72	Withdrawals from cash value up to adjusted basis and policy loans from a non-MEC policy that remains in force until death can be excluded from gross income
IRC §72	Distributions or deemed distributions from a MEC policy's cash value are included in gross income, plus a 10% penalty if under age 59 1/2, to the extent of gain

All projected values herein are hypothetical and for illustrative purposes only; based on hypothetical assumptions for taxes and investment returns provided by you and your advisor. All life insurance values are based on non-guaranteed policy charges. Actual results will vary and may be more or less favorable than what is shown in this Analysis. This is a supplemental illustration and not valid unless preceded or accompanied by a basic illustration from the life

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Cash Value Life Insurance vs. Other Investment Alternatives

Comparison of Financial Alternatives

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	Cash Value Life Insurance	Investment Account SPECIFIED Rate of Return	Investment Account MATCHING VALUES Rate of Return
Rate of Return (ROR) Assumptions:			
Illustrated Annual Return	6.00% Credited Interest Rate	7.00% Total Pre-Tax Rate of Return	8.18% Total Pre-Tax Rate of Return
IRR on Account Value	5.69%	4.85%	5.81%
IRR at Death	5.81%	4.85%	5.81%
Summary at Highlighted Year (Age 85):			
Total Net Outlay Over Years 1-10	1,000,000	1,000,000	1,000,000
Total Taxes	0	597,113	782,513
Total Management Fees	0	171,766	197,609
Total Policy Charges	222,188	0	0
Total Internal Costs	222,188	768,879	980,122
Total After-Tax Income Over Years 16-35	2,883,620	2,507,695	2,883,620
Balance at Death	170,916	0	170,916
Total Benefits	3,054,536	2,507,696	3,054,536
Summary at Highlighted Year (Age 85):			
■ Total Benefits	3,054,536	2,507,696	3,054,536
■ Total Internal Costs	-222,188	-768,879	-980,122

Cash Value
Life Insurance

Investment Account
SPECIFIED Rate of Return

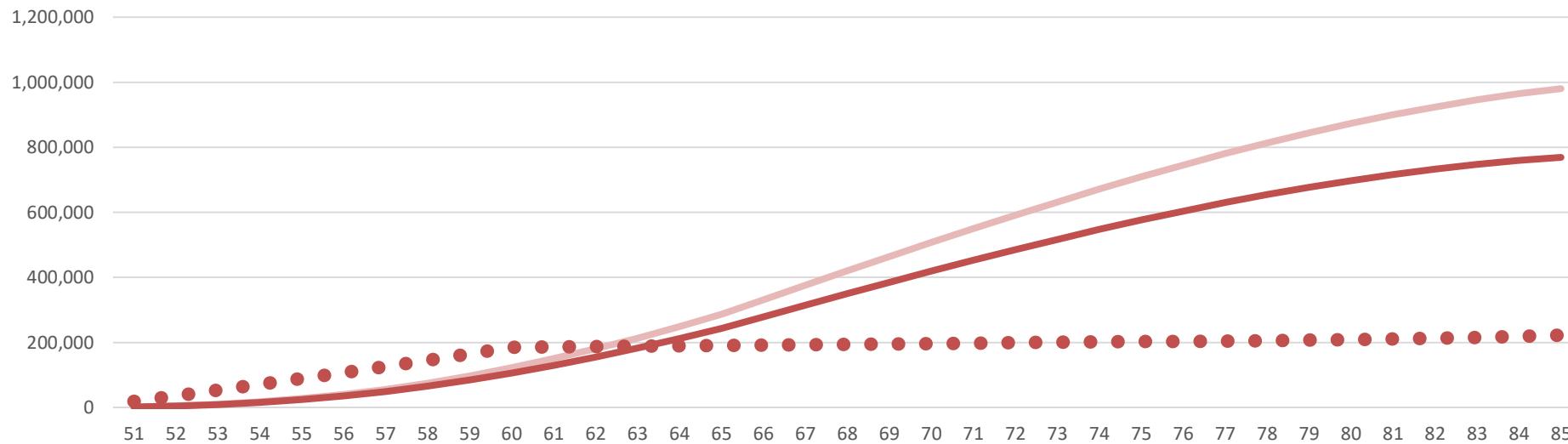
Investment Account
MATCHING VALUES Rate of Return

Trading Taxes and Management Fees for Policy Charges

Cash Value Life Insurance vs. Other Investment Alternatives

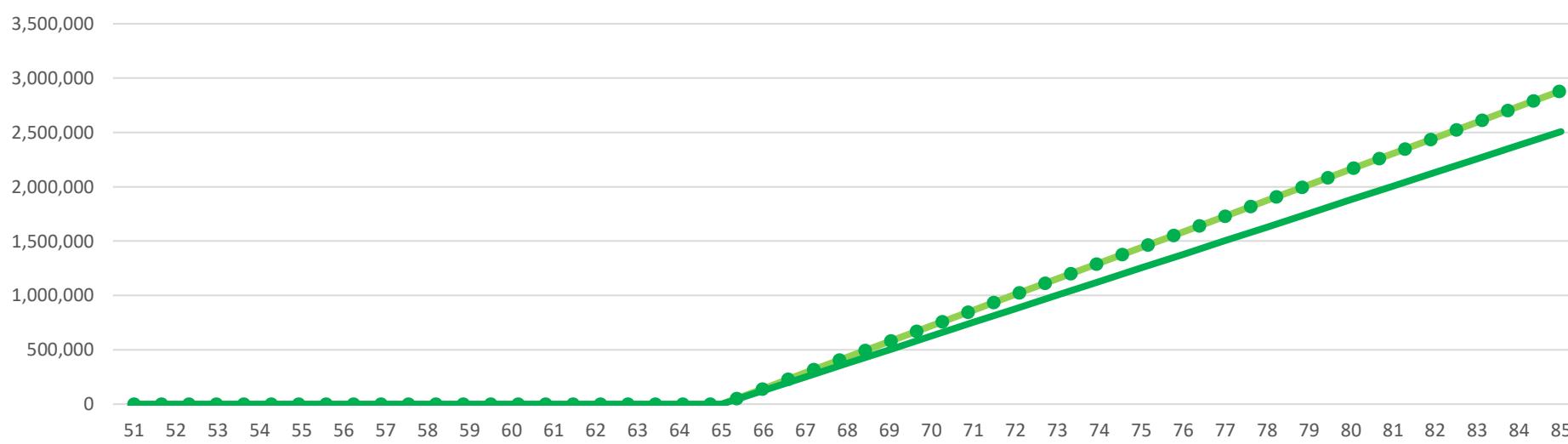
Comparison of Financial Alternatives

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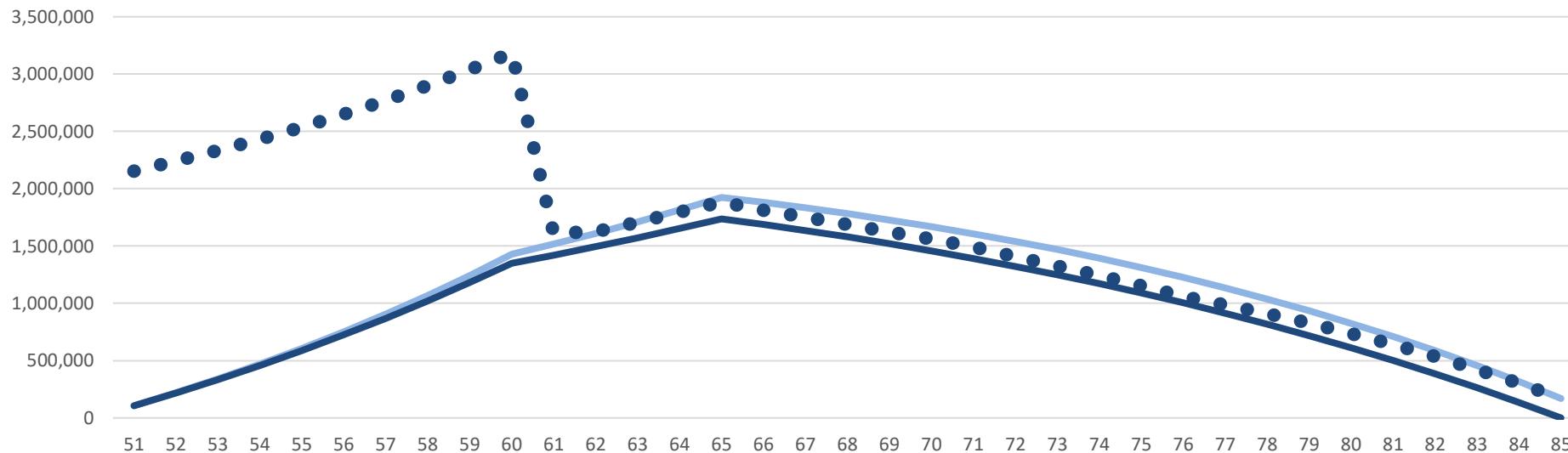
Total Internal Costs by Age 85

- Investment Account @ 8.18% Gross (Total Taxes and Management Fees): 980,122
- Investment Account @ 7.00% Gross (Total Taxes and Management Fees): 768,879
- Cash Value Life Insurance @ 6.00% Gross (Total Policy Charges): 222,188



Total After-Tax Income by Age 85

- Investment Account @ 8.18% Gross: 2,883,620
- Investment Account @ 7.00% Gross: 2,507,695
- Cash Value Life Insurance @ 6.00% Gross: 2,883,620



Balance at Death at Age 85

- Investment Account @ 8.18% Gross: 170,916
- Investment Account @ 7.00% Gross: 0
- Cash Value Life Insurance @ 6.00% Gross: 170,916

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Cash Value Life Insurance vs. Other Investment Alternatives

SPECIFIED Rate of Return | Assumptions Used in the Projections

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Cash Value Life Insurance:

Insured Name:	Mr. Income
Insured Age:	50
Insured 1 Gender/Class:	Male Preferred Nontobacco
Insured 2 Gender/Class:	N/A
Life Insurance Carrier:	Nationwide Life and Annuity Insurance Co.
Life Insurance Policy:	New Heights IUL Accumulator
Policy Illustrated Rate:	6.00%

Investment Account:

<u>Asset Allocation</u>	
Equity Growth Rate:	6.00%
Equity Dividend Rate:	2.00%
Total Equity Return (Growth + Dividend):	8.00%
Fixed Income Yield:	4.00%
Allocation to Equities:	75.00%
Allocation to Fixed Income:	25.00%

Returns, Taxes and Turnover Details

Capital Growth Rate of Return (ROR):	4.50%
Dividend + Income Rate of Return (ROR):	2.50%
Combined Pre-Tax Rate of Return (Capital Growth + Dividend + Income):	7.00%
Portion of Dividend + Income as Ordinary:	40.00%
Portion of Dividend + Income as Qualified:	60.00%
Ordinary Income Tax Rate:	40.80%
Capital Gain and Qualified Dividend Tax Rate:	23.80%
Portion of Gain as Long Term:	100.00%
Composite Capital Gain Tax Rate:	23.80%
Annual Growth Turnover Rate:	10.00%
Annual Management Fee:	0.50%

Cash Value Life Insurance Summary at Highlighted Year (Age 85):

Total Net Outlay	1,000,000
Total Taxes	0
Total Management Fees	0
Total Policy Charges	222,188
Total Internal Costs	222,188
Total After-Tax Income	2,883,620
Net Death Benefit	170,916
Total Benefits	3,054,536
Internal Rate of Return (IRR) on Cash Value	5.69%
Internal Rate of Return (IRR) at Death	5.81%

Investment Account Summary at Highlighted Year (Age 85):

Total Net Outlay	1,000,000
Total Taxes	597,113
Total Management Fees	171,766
Total Policy Charges	0
Total Internal Costs	768,879
Total After-Tax Income	2,507,695
Balance at Death (Basis Step Up)	0
Total Benefits	2,507,696
Internal Rate of Return (IRR) on Account Balance	4.85%
Internal Rate of Return (IRR) at Death	4.85%

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Cash Value Life Insurance vs. Other Investment Alternatives

MATCHING VALUES Rate of Return | Assumptions Used in the Projections

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Cash Value Life Insurance:

Insured Name:	Mr. Income
Insured Age:	50
Insured 1 Gender/Class:	Male Preferred Nontobacco
Insured 2 Gender/Class:	N/A
Life Insurance Carrier:	Nationwide Life and Annuity Insurance Co.
Life Insurance Policy:	New Heights IUL Accumulator
Policy Illustrated Rate:	6.00%

Rate of Return needed in the investment account to match the values of the life insurance at the summary year using the same asset allocation and ratio of equity growth, dividend and fixed income yield as those provided in the Specified Rate of Return scenario assumptions.

Investment Account:

<u>Asset Allocation</u>	
Equity Growth Rate:	7.02%
Equity Dividend Rate:	2.34%
Total Equity Return (Growth + Dividend):	9.35%
Fixed Income Yield:	4.68%
Allocation to Equities:	75.00%
Allocation to Fixed Income:	25.00%

Returns, Taxes and Turnover Details

Capital Growth Rate of Return (ROR):	5.26%
Dividend + Income Rate of Return (ROR):	2.92%
Combined Pre-Tax Rate of Return (Capital Growth + Dividend + Income):	8.18%
Portion of Dividend + Income as Ordinary:	40.00%
Portion of Dividend + Income as Qualified:	60.00%
Ordinary Income Tax Rate:	40.80%
Capital Gain and Qualified Dividend Tax Rate:	23.80%
Portion of Gain as Long Term:	100.00%
Composite Capital Gain Tax Rate:	23.80%
Annual Growth Turnover Rate:	10.00%
Annual Management Fee:	0.50%

Cash Value Life Insurance Summary at Highlighted Year (Age 85):

Total Net Outlay	1,000,000
Total Taxes	0
Total Management Fees	0
Total Policy Charges	222,188
Total Internal Costs	222,188
Total After-Tax Income	2,883,620
Net Death Benefit	170,916
Total Benefits	3,054,536
Internal Rate of Return (IRR) on Cash Value	5.69%
Internal Rate of Return (IRR) at Death	5.81%

Investment Account Summary at Highlighted Year (Age 85):

Total Net Outlay	1,000,000
Total Taxes	782,513
Total Management Fees	197,609
Total Policy Charges	0
Total Internal Costs	980,122
Total After-Tax Income	2,883,620
Balance at Death (Basis Step Up)	170,916
Total Benefits	3,054,536
Internal Rate of Return (IRR) on Account Balance	5.81%
Internal Rate of Return (IRR) at Death	5.81%

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