

## General Outline

The tax advantages of cash value life insurance are unique. The death benefit is income tax free on both a federal and state level. There is no income tax on the policy's increasing cash value build up as long as it stays in the policy. Depending on the product type, policy cash value can be accessed by either policy loans which are not taxable when received or actual cash value surrenders that are treated as distributions of basis first (not taxable) and gain last. If the policy loans are repaid by the death benefit, there will be no taxes ever paid on the outstanding policy loan. Conversely, if a policy lapses with an outstanding policy loan, the cumulative loan will be taxable to the extent of any gain in the policy.

While the primary purpose of life insurance is to provide a death benefit, it is not uncommon to use the policy cash value to supplement a policy owner's income at retirement. **One way to analyze the efficiency of such a design is to compare the policy charges which must be paid every year to the potential tax costs of any alternative investment program.** There are 3 types of cash value insurance policies that are typically used for supplemental retirement designs.

## Policy Types Available

### Whole Life

The cash value is comprised of both a guaranteed cash value that can only be borrowed and a non-guaranteed cash value that can be surrendered as needed. The non-guaranteed cash value is dependent on policy dividends. Policy dividends are determined by the carrier each year based on the carrier's expenses, mortality experience and their investment results. The premium amount is guaranteed and the number of premiums required is set by the policy and cannot be changed. Typical payment periods are to age 100, to age 65, 20 years and 10 years. See illustration for more details.

### Indexed Universal Life

The cash value is composed of what is mostly a non-guaranteed cash value that can either be borrowed or surrendered. Each year, the premium and existing cash value that is not used to pay policy expenses will be credited with interest. The cash value is not subject to investment risk but the cost of that investment protection is a cap on the crediting rate which is based on a stock index. Insurance companies can use traditional indexes like the S&P500 or can design proprietary indexes unique to the product. The cap is subject to change and is set by the carrier. The premium and number of years to pay is flexible. See illustration for more details.

### Variable Life Insurance

The cash value is composed of what is a non-guaranteed cash value that can either be borrowed or surrendered. Each year, the premium and existing cash value that is not used to pay policy expenses will be credited with an investment return. The policy's investment performance is based on one or more separate accounts in the policy that resemble mutual funds that are selected by the policy owner. The premium and number of years to pay is flexible. See illustration for more details.

## Illustration Guidelines

Unlike investment products, life insurance either has a premium that must be paid or internal cost of insurance charges that are deducted from the cash values every year. A policy that has the minimum amount of death benefit but that still qualifies as a life insurance contract with favorable income tax treatment will generate more cash value than a similar policy with a greater death benefit since the costs of insurance will be less. The illustration design assumes the minimum allowed death benefit per each dollar of premium. In addition, the product illustration as projected, stays in force for the duration of the contract so any outstanding loan can be repaid from the tax-free death benefit.

This presentation was not intended or designed to be used and cannot be used by a taxpayer for the purpose of avoiding penalties that may be imposed on the taxpayer. This was created to support the promotion or marketing of the transaction(s) or matter(s) addressed by the presentation. The reader of this presentation should seek advice based on the reader's particular circumstances from an independent tax advisor.

**Prepared for Tom Swift**  
**Impact of Taxation on Savings Required for Retirement Income**

Funding Required to Match Insurance Funded Retirement Income															
Gross Investment Rate*						6.20%						6.20%			
Percentage Reduction in Gross Investment Rate due to						0.00%						15.00%			
Net Investment Rate						6.20%						5.27%			
Policy values below are based on non-guaranteed policy expenses and an assumed gross crediting rate of 6.20%.						Benchmark - No Tax Impact Required Investment - \$42,023						Tax 1 Required Investment - \$50,106			
Mutual of Omaha / IUL						Tax 2 Required Investment - \$53,150						Tax 3 Required Investment - \$56,389			
Tax 4 Required Investment - \$59,836															
Policy Year	Age	Cash Flow	Cash Value	Death Benefit	Mortality IRR	Cash Flow	Account Balance	Cash Flow	Account Balance	Cash Flow	Account Balance	Cash Flow	Account Balance	Cash Flow	Account Balance
1	51	(50,000)	22,041	807,595	1515.19%	42,023	44,629	50,106	52,747	53,150	55,787	56,389	59,012	59,836	62,433
2	52	(50,000)	75,064	858,339	267.33%	42,023	92,025	50,106	108,273	53,150	114,340	56,389	120,767	59,836	127,576
3	53	(50,000)	130,352	912,108	122.75%	42,023	142,359	50,106	166,725	53,150	175,798	56,389	185,394	59,836	195,546
4	54	(50,000)	188,849	969,085	74.52%	42,023	195,814	50,106	228,259	53,150	240,304	56,389	253,027	59,836	266,466
5	55	(50,000)	251,506	1,029,464	51.60%	42,023	252,584	50,106	293,034	53,150	308,010	56,389	323,804	59,836	340,464
6	56	(50,000)	318,720	1,095,158	38.66%	42,023	312,873	50,106	361,224	53,150	379,074	56,389	397,872	59,836	417,674
7	57	(50,000)	390,650	1,164,809	30.49%	42,023	376,900	50,106	433,007	53,150	453,662	56,389	475,385	59,836	498,234
8	58	(50,000)	466,019	1,238,658	24.97%	42,023	444,897	50,106	508,573	53,150	531,950	56,389	556,502	59,836	582,291
9	59	(50,000)	546,594	1,316,954	21.05%	42,023	517,109	50,106	588,121	53,150	614,122	56,389	641,391	59,836	669,996
10	60	(50,000)	631,862	1,399,943	18.15%	42,023	593,799	50,106	671,862	53,150	700,369	56,389	730,227	59,836	761,507
11	61	(50,000)	720,979	1,488,300	15.96%	42,023	675,244	50,106	760,016	53,150	790,894	56,389	823,194	59,836	856,989
12	62	(50,000)	816,826	1,581,868	14.25%	42,023	761,738	50,106	852,815	53,150	885,908	56,389	920,484	59,836	956,616
13	63	(50,000)	917,407	1,680,930	12.90%	42,023	853,594	50,106	950,505	53,150	985,636	56,389	1,022,298	59,836	1,060,567
14	64	(50,000)	1,024,537	1,785,780	11.81%	42,023	951,146	50,106	1,053,343	53,150	1,090,310	56,389	1,128,846	59,836	1,169,028
15	65	(50,000)	1,137,025	1,896,749	10.92%	42,023	1,054,746	50,106	1,161,601	53,150	1,200,176	56,389	1,240,349	59,836	1,282,198
16	66	(50,000)	1,254,459	2,014,183	10.19%	42,023	1,164,769	50,106	1,275,564	53,150	1,315,491	56,389	1,357,037	59,836	1,400,278
17	67	(50,000)	1,378,734	2,138,458	9.59%	42,023	1,281,614	50,106	1,395,533	53,150	1,436,526	56,389	1,479,151	59,836	1,523,484
18	68	(50,000)	1,510,232	2,269,956	9.08%	42,023	1,405,703	50,106	1,521,824	53,150	1,563,565	56,389	1,606,943	59,836	1,652,036
19	69	(50,000)	1,649,342	2,409,066	8.65%	42,023	1,537,485	50,106	1,654,771	53,150	1,696,904	56,389	1,740,677	59,836	1,786,168
20	70	(50,000)	1,796,452	2,556,176	8.28%	42,023	1,677,438	50,106	1,794,724	53,150	1,836,857	56,389	1,880,630	59,836	1,926,121
21	71	139,953	1,752,554	2,416,223	7.70%	(139,953)	1,632,809	(139,953)	1,741,977	(139,953)	1,781,070	(139,953)	1,821,618	(139,953)	1,863,688
22	72	139,953	1,706,053	2,276,270	7.22%	(139,953)	1,585,413	(139,953)	1,686,451	(139,953)	1,722,517	(139,953)	1,759,863	(139,953)	1,798,545
23	73	139,953	1,656,855	2,136,317	6.82%	(139,953)	1,535,079	(139,953)	1,627,998	(139,953)	1,661,059	(139,953)	1,695,236	(139,953)	1,730,574
24	74	139,953	1,604,907	1,996,364	6.48%	(139,953)	1,481,624	(139,953)	1,566,465	(139,953)	1,596,553	(139,953)	1,627,603	(139,953)	1,659,654
25	75	139,953	1,550,189	1,856,411	6.20%	(139,953)	1,424,854	(139,953)	1,501,689	(139,953)	1,528,847	(139,953)	1,556,826	(139,953)	1,585,657
26	76	139,953	1,492,729	1,716,458	5.97%	(139,953)	1,364,565	(139,953)	1,433,500	(139,953)	1,457,783	(139,953)	1,482,758	(139,953)	1,508,447
27	77	139,953	1,432,580	1,576,505	5.77%	(139,953)	1,300,538	(139,953)	1,361,717	(139,953)	1,383,195	(139,953)	1,405,245	(139,953)	1,427,887
28	78	139,953	1,372,265	1,446,859	5.62%	(139,953)	1,232,541	(139,953)	1,286,151	(139,953)	1,304,907	(139,953)	1,324,128	(139,953)	1,343,830
29	79	139,953	1,309,695	1,388,278	5.64%	(139,953)	1,160,329	(139,953)	1,206,602	(139,953)	1,222,735	(139,953)	1,239,239	(139,953)	1,256,125
30	80	139,953	1,242,834	1,325,334	5.65%	(139,953)	1,083,639	(139,953)	1,122,862	(139,953)	1,136,488	(139,953)	1,150,403	(139,953)	1,164,614
31	81	139,953	1,171,356	1,257,687	5.66%	(139,953)	1,002,195	(139,953)	1,034,708	(139,953)	1,045,963	(139,953)	1,057,436	(139,953)	1,069,131
32	82	139,953	1,094,912	1,184,973	5.66%	(139,953)	915,701	(139,953)	941,909	(139,953)	950,949	(139,953)	960,146	(139,953)	969,505
33	83	139,953	1,013,119	1,106,795	5.67%	(139,953)	823,844	(139,953)	844,219	(139,953)	851,221	(139,953)	858,332	(139,953)	865,554
34	84	139,953	925,557	1,022,713	5.67%	(139,953)	726,292	(139,953)	741,380	(139,953)	746,547	(139,953)	751,784	(139,953)	757,092
35	85	139,953	831,761	932,242	5.67%	(139,953)	622,692	(139,953)	633,123	(139,953)	636,681	(139,953)	640,281	(139,953)	643,923
36	86	139,953	731,223	834,853	5.67%	(139,953)	512,669	(139,953)	519,160	(139,953)	521,366	(139,953)	523,593	(139,953)	525,843
37	87	139,953	623,389	729,966	5.66%	(139,953)	395,824	(139,953)	399,191	(139,953)	400,331	(139,953)	401,479	(139,953)	402,637
38	88	139,953	507,661	616,958	5.65%	(139,953)	271,735	(139,953)	272,900	(139,953)	273,292	(139,953)	273,687	(139,953)	274,085
39	89	139,953	383,420	495,180	5.65%	(139,953)	139,953	(139,953)	139,953	(139,953)	139,953	(139,953)	139,953	(139,953)	139,953
40	90	139,953	250,032	363,973	5.64%	(139,953)	(0)	(139,953)	0	(139,953)	0	(139,953)	(0)	(139,953)	0

\*Gross investment rate is the non-guaranteed illustrated policy crediting rate.

Projected coverage to age 120. A policy lapse prior to maturity may have significant taxable consequences. The illustration design modeled herein assumes policy will be held for life of insured. Refer to carrier illustration for values past age 90.

Policy Year	Target Age	Cumulative Premium	Cumulative Policy Income	Death Benefit	Mortality IRR	Cumulative Investment	Account Balance	Cumulative Investment	Account Balance	Cumulative Investment	Account Balance	Cumulative Investment	Account Balance	Cumulative Investment	Account Balance
25	75	1,000,000	139,953	1,856,411	6.20%	840,469	1,424,854	1,002,120	1,501,689	1,063,006	1,528,847	1,127,788	1,556,826	1,196,728	1,585,657
30	80	1,000,000	139,953	1,325,334	5.65%	840,469	1,083,639	1,002,120	1,122,862	1,063,006	1,136,488	1,127,788	1,150,403	1,196,728	1,164,614
35	85	1,000,000	139,953	932,242	5.67%	840,469	622,692	1,002,120	633,123	1,063,006	636,681	1,127,788	640,281	1,196,728	643,923
37	87	1,000,000	139,953	729,966	5.66%	840,469	395,824	1,002,120	399,191	1,063,006	400,331	1,127,788	401,479	1,196,728	402,637
40	90	1,000,000	139,953	363,973	5.64%	840,469	(0)	1,002,120	0	1,063,006	0	1,127,788	(0)	1,196,728	0
45	95	1,000,000	0	307,224	5.52%	840,469	(0)	1,002,120	0	1,063,006	0	1,127,788	(0)	1,196,728	0
50	100	1,000,000	0	372,923	5.50%	840,469	(0)	1,002,120	0	1,063,006	0	1,127,788	(0)	1,196,728	0

Illustrated values assumes any outstanding loan is paid off by income tax free death benefit.

Insurance premium, years to pay, cash value and death benefit are dependent on many non-guaranteed elements that can significantly impact policy performance. To better understand the policy and any non-guaranteed elements, client must review and sign any carrier illustration prior to policy issue. Please note that if variable products are being presented, a variable prospectus must be presented prior to any application.

**Prepared for Tom Swift**  
**Impact of Taxation on Savings Required for Retirement Income**

Gross Investment Rate*				6.20%		6.20%		6.20%		6.20%		6.20%			
Percentage Reduction in Gross Investment Rate due to				0.00%		15.00%		20.00%		25.00%		30.00%			
Net Investment Rate				6.20%		5.27%		4.96%		4.65%		4.34%			
Illustrated non-guaranteed policy expenses using an assumed gross crediting rate of 6.20%.				Benchmark		Tax 1		Tax 2		Tax 3		Tax 4			
				Required Investment - \$42,023		Required Investment - \$50,106		Required Investment - \$53,150		Required Investment - \$56,389		Required Investment - \$59,836			
Mutual of Omaha / IUL															
Policy Year	Age	Annual Policy Expenses	Cumulative Policy Expenses	Annual Cost	Tax Cost	Cumulative Tax Cost	Annual Cost	Tax Cost	Cumulative Tax Cost	Annual Cost	Tax Cost	Cumulative Tax Cost	Annual Cost	Tax Cost	Cumulative Tax Cost
1	51	4,924	4,924	0	0	0	466	466	466	659	659	659	874	874	1,113
2	52	5,014	9,938	0	0	0	813	1,279	1,279	1,081	1,740	1,342	2,216	1,592	2,705
3	53	5,127	15,065	0	0	0	1,252	2,531	2,531	1,662	3,401	2,059	4,275	2,440	5,145
4	54	5,246	20,311	0	0	0	1,714	4,245	4,245	2,271	5,672	2,811	7,086	3,325	8,470
5	55	5,370	25,681	0	0	0	2,200	6,446	6,446	2,911	8,583	3,597	10,683	4,248	12,719
6	56	3,889	29,570	0	0	0	2,713	9,158	9,158	3,583	12,166	4,420	15,102	5,212	17,930
7	57	3,998	33,568	0	0	0	3,252	12,410	12,410	4,288	16,454	5,281	20,383	6,217	24,148
8	58	4,112	37,680	0	0	0	3,819	16,229	16,229	5,028	21,481	6,182	26,565	7,266	31,414
9	59	4,236	41,916	0	0	0	4,416	20,645	20,645	5,804	27,286	7,125	33,690	8,360	39,774
10	60	4,388	46,304	0	0	0	5,045	25,690	25,690	6,619	33,905	8,112	41,802	9,502	49,277
11	61	4,178	50,482	0	0	0	5,707	31,397	31,397	7,475	41,380	9,144	50,946	10,694	59,971
12	62	4,429	54,911	0	0	0	6,404	37,801	37,801	8,373	49,753	10,225	61,171	11,937	71,908
13	63	4,719	59,630	0	0	0	7,138	44,939	44,939	9,315	59,068	11,356	72,527	13,234	85,142
14	64	5,052	64,682	0	0	0	7,910	52,849	52,849	10,305	69,373	12,540	85,067	14,588	99,729
15	65	5,412	70,094	0	0	0	8,723	61,572	61,572	11,343	80,716	13,778	98,846	16,000	115,729
16	66	5,802	75,896	0	0	0	9,579	71,150	71,150	12,433	93,149	15,075	113,920	17,473	133,203
17	67	6,216	82,112	0	0	0	10,479	81,630	81,630	13,577	106,726	16,431	130,351	19,011	152,213
18	68	6,671	88,783	0	0	0	11,428	93,057	93,057	14,778	121,504	17,851	148,202	20,615	172,828
19	69	7,179	95,962	0	0	0	12,426	105,483	105,483	16,038	137,541	19,336	167,538	22,289	195,117
20	70	7,768	103,730	0	0	0	13,477	118,960	118,960	17,361	154,902	20,891	188,429	24,035	219,152
21	71	6,259	109,989	0	0	0	13,081	132,041	132,041	16,833	171,735	20,235	208,664	23,256	242,408
22	72	6,149	116,138	0	0	0	12,664	144,705	144,705	16,280	188,015	19,549	228,214	22,443	264,851
23	73	5,973	122,111	0	0	0	12,225	156,930	156,930	15,699	203,714	18,831	247,045	21,595	286,445
24	74	5,690	127,801	0	0	0	11,763	168,693	168,693	15,089	218,804	18,080	265,125	20,710	307,155
25	75	5,265	133,066	0	0	0	11,277	179,970	179,970	14,449	233,253	17,294	282,419	19,787	326,942
26	76	4,653	137,719	0	0	0	10,765	190,735	190,735	13,778	247,031	16,471	298,890	18,823	345,765
27	77	3,831	141,550	0	0	0	10,225	200,960	200,960	13,073	260,104	15,610	314,500	17,818	363,583
28	78	2,749	144,299	0	0	0	9,658	210,618	210,618	12,333	272,437	14,709	329,210	16,769	380,352
29	79	1,654	145,953	0	0	0	9,061	219,679	219,679	11,556	283,993	13,766	342,976	15,674	396,026
30	80	1,951	147,904	0	0	0	8,432	228,111	228,111	10,741	294,734	12,779	355,755	14,533	410,559
31	81	2,304	150,208	0	0	0	7,770	235,881	235,881	9,886	304,620	11,746	367,501	13,341	423,900
32	82	2,718	152,926	0	0	0	7,073	242,954	242,954	8,988	313,607	10,666	378,167	12,098	435,998
33	83	3,202	156,128	0	0	0	6,339	249,293	249,293	8,045	321,653	9,535	387,702	10,801	446,798
34	84	3,774	159,902	0	0	0	5,567	254,860	254,860	7,056	328,708	8,351	396,053	9,447	456,246
35	85	4,448	164,350	0	0	0	4,754	259,615	259,615	6,017	334,726	7,113	403,165	8,035	464,281
36	86	5,241	169,591	0	0	0	3,899	263,513	263,513	4,928	339,653	5,816	408,982	6,562	470,843
37	87	6,168	175,759	0	0	0	2,998	266,511	266,511	3,784	343,437	4,460	413,442	5,024	475,867
38	88	7,237	182,996	0	0	0	2,049	268,560	268,560	2,583	346,020	3,040	416,482	3,420	479,287
39	89	8,438	191,434	0	0	0	1,051	269,611	269,611	1,323	347,343	1,555	418,036	1,746	481,033
40	90	9,745	201,179	0	0	0	0	269,611	269,611	0	347,343	(0)	418,036	0	481,033

\*Gross investment rate is the non-guaranteed illustrated policy crediting rate.

Projected coverage to age 120. A policy lapse prior to maturity may have significant taxable consequences. The illustration design modeled herein assumes policy will be held for life of insured. Refer to carrier illustration for values past age 90.

Policy Year	Target Age	Annual Policy Expenses	Cumulative Policy Expenses	Annual Cost	Tax Cost	Cumulative Tax Cost	Annual Cost	Tax Cost	Cumulative Tax Cost	Annual Cost	Tax Cost	Cumulative Tax Cost	Annual Cost	Tax Cost	Cumulative Tax Cost
25	75	5,265	133,066	0	0	0	11,277	179,970	179,970	14,449	233,253	17,294	282,419	19,787	326,942
30	80	1,951	147,904	0	0	0	8,432	228,111	228,111	10,741	294,734	12,779	355,755	14,533	410,559
35	85	4,448	164,350	0	0	0	4,754	259,615	259,615	6,017	334,726	7,113	403,165	8,035	464,281
37	87	6,168	175,759	0	0	0	2,998	266,511	266,511	3,784	343,437	4,460	413,442	5,024	475,867
40	90	9,745	201,179	0	0	0	0	269,611	269,611	0	347,343	(0)	418,036	0	481,033
45	95	3,463	240,558	0	0	0	0	269,611	269,611	0	347,343	(0)	418,036	0	481,033
50	100	5,524	263,647	0	0	0	0	269,611	269,611	0	347,343	(0)	418,036	0	481,033

Cumulative tax cost assumes any outstanding loan is paid off by income tax free death benefit.

Insurance premium, years to pay, cash value and death benefit are dependent on many non-guaranteed elements that can significantly impact policy performance. To better understand the policy and any non-guaranteed elements, client must review and sign any carrier illustration prior to policy issue. Please note that if variable products are being presented, a variable prospectus must be presented prior to any application.