OFFER DIMENSIONAL FUNDS TAX-FREE

by Charles Arnold

You know the Dimensional investment philosophy. You believe in the substantial research and science that backs up their portfolio management decisions. You understand that owning the Dimensional story in a tax-deferred account can liberate growth from taxation and lead to strong accumulation. It can be agreed, that whenever possible, the elimination of taxation in an investment account is a desirable thing. You are aware that you can own Dimensional in tax-deferred retirement accounts and annuities as well as within the tax-free Roth IRA account. Of course, the Roth is the superior tax-advantaged retirement account for long-term accumulation and income, but most high-earners can't qualify for it anymore.

What if the IRS announced that they are dropping all income level and contribution restrictions on Roth IRAs while eliminating any age-based penalties for tax-free withdrawals? There is no doubt you would see an unprecedented amount of money flood into Roth IRAs immediately. Even if there was an additional cost associated with these accounts, as long as that cost didn't outweigh the benefits of the tax-free wrapper, it would be a no-brainer.

Every American wants to invest for their future and for their family's future. Every American wants to receive the best possible financial advice and guidance. Every American deserves to know all the suitable options available to them, especially those that offer superior tax-saving structures for investment and legacy planning. Investment VUL is one of the single greatest stories that Americans aren't hearing about. It is a complete failure of our distribution model. It is a complete misconception of cost and process by financial advisors. It is the suffocating industry jargon and singular focus on death benefit that boxes out a massive market opportunity.

The investment VUL sale isn't driven by the need for insurance, but for the need to find a viable alternative to the Roth IRA. It is as simple as that, and there are thousands of clients who want and need to hear about that alternative. By its nature it is a story that can't be progressed by a discussion around death benefit. It is a story that is driven by an investment mindset, that needs to be spoken using the investment language that financial advisors understand. It needs to come from the investment companies that make up the underlying engine for growth. Insurance is just the tax-free wrapper; the investments are the real story. Clients are already heavily solicited for taxable and tax-deferred investment opportunities utilizing these funds. Why is the tax-free opportunity excluded?

Nationwide's investment VUL offers access to the strongest investment lineup available in the industry. They are a trusted, high-quality household name. Within this top-tier investment lineup is exclusive access to eight, low-cost Dimensional fund options. There are hundreds of financial advisors and clients who subscribe to the Dimensional investment philosophy. Their performance and reputation speak for itself. The pairing of Dimensional and Nationwide is an absolute powerhouse of a story:

Nationwide is a Fortune 100, ninety-year-old company based in the U.S. with $27 billion in operating revenue annually. Nationwide offers annuities, mutual funds, life insurance, and retirement plans within their financial services division and consistently maintain the highest rankings from the rating agencies. Nationwide continues to be one of the most recognized and trusted brands in financial services.

Dimensional is a 37-year-old asset management company headquartered in Austin, Texas with 1,300 employees around the world. As of September 2018, they have $596 billion in assets under management with 13 offices in 9 countries. Dimensional's investment approach is rooted in academic research and science with its origins stretching back to the workings of Eugene Fama and Kenneth French who continue to work at the company, among several others. They are a very well-known manager throughout the investment advisor channels.

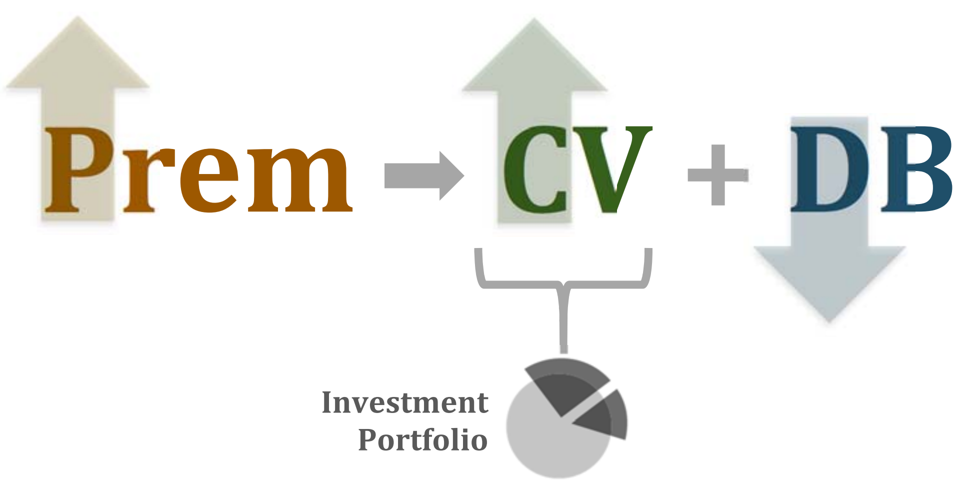
Dimensional Options in Nationwide's VUL	Expense Ratio (Cost)
US Large Value Portfolio	.27%
US Targeted Value Portfolio	.37%
International Value Portfolio	.44%
International Small Portfolio	.57%
Global Bond Portfolio	.24%
Short-Term Fixed Portfolio	.27%
Inflation-Protected Securities Portfolio	.15%
Global Moderate Allocation Portfolio	.51%
Average Cost:	**.35%**

There are several costs that are associated with a variable life insurance policy. Among those components, is the cost of the underlying investment accounts. Because of the strong relationship Dimensional has with Nationwide, they are able to offer access to their funds at a preferred rate, with an average cost of 35 basis points. That competes from a cost perspective with any other investment manager or VUL product sub-account option available in the market. Furthermore, the low expense ratios allow for reduced cost drag on accumulated values within the VUL. In exhibit A, we illustrate a sample portfolio consisting of five Dimensional fund options for an allocation of 80 percent stocks and 20 percent bonds. That sample portfolio has a weighted average annual cost of 33 basis points.

In my introduction, I alluded to the complete misconception of cost and process that many financial advisors have about life insurance in general. They regard permanent insurance as too costly and they don't want to put their client through underwriting. They'd rather do what they've been taught for decades, which is buy term and invest the difference. In theory it works, but in practice, it usually falls short. Clients forget to convert the term down the road or they forget to invest the difference in would-be premiums consistently, or both. Investment VUL is a simple, packaged solution that achieves the same objective of maximizing investment while minimizing insurance costs.

When advisors think about life insurance, they think about death benefit. That is probably because they think of term or fixed insurance, with no cash value component. The cash value constitutes the investment bucket for VUL. When designing a VUL policy, premiums can go towards a combination of cash value (CV) or death benefit (DB) coverage, within the confines of the IRS tax-code.

For investment VUL we strive to buy the minimum amount of insurance that is allowed by law, thereby maximizing the cash value and investment component:



The main, ongoing expense within any permanent life insurance is the cost of insurance (COI). It is primarily determined by three main client factors: Age, health, and net-amount at risk (NAR). The amount of insurance a client wants per premium dollar determines, in general, the NAR that an insurance company faces in potential liability. Higher NAR requires higher COI payments to justify that liability relative to a client's age and health. If a client is relatively young, healthy, and is looking to purchase the minimum amount of insurance, their corresponding COI will be very low. On the other side, if a client is older, has some health issues, and is looking to maximize the face amount per premium dollar, their COI will be extremely high. In order to keep costs down, the investment VUL design works best for clients age 20 to 60 and who are in good to excellent health. That allows for low levels of COI and less drag on accumulation. Also, keep in mind that the cost of insurance goes towards providing a substantial tax-free death benefit to family, so it isn't a cost absent of any value. In contrast, paying taxes might seem like a cost absent of value to many Americans.

Ideal Client Profile:

Age: 20 to 60
Health: Good to Excellent
Annual Income: $100,000+
Profession: Low-Risk

From a tax perspective, the higher the client's income tax-bracket, the more value this strategy can deliver for them. With investment VUL, the client is mainly purchasing the insurance to serve as a tax-free wrapper for accumulation and supplemental income. It then comes down to the question of how expensive is that wrapper relative to the client's cost of taxation (COT). If COI is greater than COT, then the wrapper doesn't make sense and the client isn't deriving enough value from this strategy.

If COI is less than COT, then it makes sense to assume the cost of insurance and eliminate the cost of taxation (must choose one):

COT vs. **COI**

Cost of Tax **Cost of Insurance**

Advisors and clients also shy away from the underwriting process in general. Underwriting has become less invasive. Big Data, predictive analytics, access to information, and electronic medical files have allowed for the process to be streamlined. What took three months twenty years ago, now takes less than a month. For young and healthy clients who are looking for under $1 million in face amount, there are accelerated underwriting programs with shortened applications available that often times don't require lab tests. To give you some perspective, a 35-year-old can contribute around $30,000 annually to an investment VUL and still fall under the $1 million face amount threshold for accelerated underwriting. This will only get better with time and will eventually, someday, make life insurance as transactional as purchasing an annuity, for instance.

Investment VUL is a Roth IRA alternative for tax-free accumulation, tax-free supplemental income as needed, and a tax-free death benefit to family. We can drive COI down to their lowest levels for relatively young and healthy clients by designing it with the minimum insurance structure to maximize cash value and investment. Using Dimensional to build a sophisticated portfolio for investment growth for under 35 basis points will reduce cost drag and further enhance performance. For those clients who make too much money to qualify for a Roth IRA and are exhausting their other retirement contributions, this strategy is a very real solution. The problem is, this great story isn't being told by life insurance professionals and when it is, it is being told using the language of insurance, and not the investment language. The design is easy enough to explain, and when you have the fantastic investment story of Dimensional as the engine within the tax-free wrapper along with a trusted name like Nationwide, it should be an easy story to tell. The underlying assets for Dimensional in VUL are a very "sticky" type of asset, meaning that they are invested and held for long periods of time, which I would think would be of great appeal to Dimensional as a distribution growth opportunity.

As a side note, for those who don't know how distribution works in the life insurance world, it is different than any other model. Independent, brokerage general agencies (BGAs) operate in the national broker-dealer and independent channels and serve as life insurance specialists with contracts at every major insurance carrier for all products. The insurance companies themselves don't wholesale direct, but through the BGAs. For an agent or advisor to sell an investment VUL, they would need to work with a BGA to run an illustration and take an application. We can help you to identify the quality BGAs working in a particular channel, to work with you to drive opportunities:

Financial advisors that know and use the Dimensional story in accounts and products.
Financial advisors that sell variable annuities regularly and open to tax-free alternative.
Financial advisors who work with top business executives and owners.
Financial advisors who know and use the Nationwide name in 401(k) or retirement plans.
Financial advisors with a HENRY needing a Roth IRA alternative to own and fund.
Financial advisors with LOUIS willing to fund or gift premiums to the younger generation for purchase of an investment VUL. LOUIS may be age 65+ and wants to transfer assets.

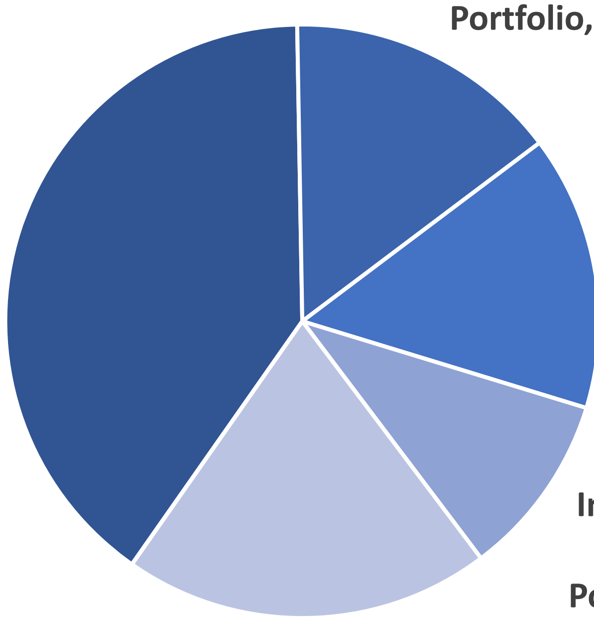
HENRY ← **LOUIS**

High Earner Not Retired Yet

Loved One with Unneeded Income Streams

Dimensional

Through Nationwide Financial



Sample Annualized Portfolio Performance:

As of 10/31/2018

	1-Year	3-Year	5-Year	10-Year	Expense Ratio
80/20 Sample Portfolio	-1.30%	6.97%	5.66%	9.88%	.33%

Performance shown is net of the fund's investment costs, but does not take into account any fees or costs associated with the life insurance policy. Available in Nationwide's VUL Accumulator product as of 11/5/2018. Past performance is no guarantee of future performance. May lose value. Not FDIC insured. Investing involves market risk and investment return, principal value, and periodic payments will fluctuate. Investment options within the Variable Universal Life insurance products are subject to change, and there is no guarantee that the investment objectives will be achieved. **FOR BROKER USE ONLY.**