

Understanding CVAT and GPT

Do you fully understand how to choose the right life insurance definition test — CVAT or GPT — to suit your clients' intentions for their life insurance policies?

An important choice

Key

CVAT	Cash Value Accumulation Test
GPT	Guideline Premium Test

It helps to keep in mind that one or the other of the tests, either CVAT or GPT, must be chosen for your client's insurance policy. That choice affects:

- How the policy is funded
- How the policy performs
- How much death benefit is required based on cash value
- How the policy is affected by changes after it's issued

When to choose GPT	When to choose CVAT
<ul style="list-style-type: none">• Generally speaking, any time GPT works, it's more beneficial• Client wants to maximize cash value in later years• VUL scenarios in which premiums are paid over an extended period of time or to maturity• Client prefers minimum non-MEC premium funding and future income potential• Client wants "optimal switch" from death benefit Option 2 to Option 1	<ul style="list-style-type: none">• Low specified amount policies where GPT premium restrictions may not carry the policy to maturity• For Nationwide YourLife® Protection VUL and Nationwide YourLife® Survivorship VUL with Advanced Pay and other limited-pay Extended Death Benefit Guarantee rider scenarios• Client wants a level death benefit and plans to pay maximum non-MEC premiums for a short period of time (10 years or less)• Client looking to quickly fund policies and access the cash value quickly• Long-term care rider in single or short pay scenarios

FOR BROKER/DEALER USE ONLY — NOT FOR USE WITH THE PUBLIC

• Not a deposit • Not FDIC or NCUSIF insured • Not guaranteed by the institution
• Not insured by any federal government agency • May lose value



Nationwide®
On Your Side

Important things to keep in mind

- To qualify as tax-deferred life insurance, as defined by the IRS code 7702, a policy must meet either the CVAT or GPT test; neither Nationwide® nor its representatives give tax or legal advice
- Your client's life insurance application will ask which test you wish to use; if you do not select a test, the policy will automatically be issued under the Guideline Premium Test (GPT)
- Take care that you choose the right test because, **once the policy is issued, the test can never be changed**
- The test you select can have a big impact on premiums, cash values and death benefits
- In general, since the parameters are different for fixed and variable life insurance, it's a good idea to illustrate both tests in certain situations to be sure you have chosen the best test for your client
- The modified endowment contract (MEC) requirements are enforced for both tests so when using CVAT, you must take more caution with your premium payments not to MEC the policy
- Some riders — for example, the optional Extended Death Benefit Guarantee rider offered at an additional cost on Nationwide YourLife® Protection VUL and Nationwide YourLife® Survivorship VUL — may require the use of CVAT to properly fund the policy in certain situations; run both tests to determine which is most appropriate for your client's specific situation
- When using CVAT on VUL policies, the Overloan Lapse Protection rider is not available
- CVAT is not available in NY, PR and VI for YourLife Protection VUL and YourLife Survivorship VUL

Tips on choosing the Cash Value Accumulation Test (CVAT)

CVAT limits cash value in relation to death benefit. Under this test, the death benefit must be sufficient so that the surrender value, as defined by the Internal Revenue Code, does not at any time exceed the net single premium required to fund future benefits under the policy. This net single premium will vary according to sex, age, riders selected and underwriting classification of each insured.

Generally speaking, the death benefit will be greater under CVAT than it would under GPT. If the cash value grows large enough, the death benefit will be forced up to comply with corridor limits. The corridor limits are different for CVAT than for GPT.

Here's when to choose CVAT:

- Client prefers maximum death benefit at life expectancy
- Policy has very low specified amounts
- Client plans to pay maximum premium for a short period of time (generally 10 years or less)
- Some "pay fast, access income fast" scenarios (such as with Nationwide YourLife® Accumulation VUL); when accessing cash in the first 15 years of the policy, be aware that recapture ceiling rules may apply; the rules may require that a combination of cost basis and loans be taken prior to all cost basis being withdrawn to avoid taxation
- For products with the Extended Death Benefit Guarantee rider, advanced payment and some shorter premium payment scenarios
- When adding a long-term care rider in single or short pay scenarios

Tips on choosing the Guideline Premium Test (GPT)

This dual element test limits total premiums paid into the policy. Total premiums paid, less partial withdrawals, may not at any time exceed the greater of:

- The guideline single premium, OR
- The sum of the guideline annual premiums AND
- A minimum corridor of death benefit — in relation to cash value — must be maintained; if the cash value grows large enough, the death benefit will be forced to rise to comply with corridor limits; generally speaking, GPT will encourage accumulation and create a larger income stream

Here's when to choose GPT:

- Client prefers maximum premium and future income potential
- VUL scenarios which pay premiums over an extended period of time or to maturity
- When maximum funding policies, use a death benefit "Option 2 to 1" switch (more than 10 years of premium payments)
- Policies producing an income stream for insurance based retirement planning
- Any time the GPT works, it will likely be the most beneficial; the scenarios listed under "Tips on choosing the Cash Value Accumulation Test" are the exceptions

Switching from Option 2 to Option 1

When the accumulation of cash value and income stream creation is your client's goal, you may want to select the optimal death benefit option in Nationwide Life Illustrator software to change the death benefit from Option 2 to Option 1 at an appropriate future date.

When you submit a "2 to 1 optimal switch" illustration at the time of sale along with the application, our new business team will set up a reminder to automatically send a letter to you and your client as the year the intended switch approaches as a reminder of the action to take. This new service is called the Automated Switch Notification service.

Still have questions?

In conclusion, you can run both life insurance qualification tests to see which result is closest to the client's intentions for the policy. When in doubt, Nationwide Life Illustrator will default to GPT, which generally results in lower cost of insurance charges. If you wish to discuss which alternative produces the best results in your client's case, please call your Internal Sales Consultant to discuss your client's situation.

No matter your need, we're always just a phone call away.

Independent Dealers 1-800-321-6064

Financial Institutions 1-800-893-5399

Wirehouses and Regionals 1-800-720-1511

Nationwide Financial Network® 1-877-223-0795

Brokerage General Agents 1-888-767-7373

As your clients' personal situations change (i.e., marriage, birth of a child or job promotion), so will their life insurance needs. Care should be taken to ensure these strategies and products are suitable for long-term life insurance needs. You should weigh your clients' objectives, time horizon and risk tolerance as well as any associated costs before investing. Also, be aware that market volatility can lead to the possibility of the need for additional premium in the policy. Variable life insurance has fees and charges associated with it that include costs of insurance that vary with such characteristics of the insured as gender, health and age, underlying fund charges and expenses, and additional charges for riders that customize a policy to fit your clients' individual needs.

FOR BROKER/DEALER USE ONLY — NOT FOR USE WITH THE PUBLIC

Life insurance is issued by Nationwide Life Insurance Company or Nationwide Life and Annuity Insurance Company, Columbus, Ohio. The general distributor is Nationwide Investment Services Corporation, member FINRA. In Michigan only: Nationwide Investment Svcs. Corporation.

Nationwide, Nationwide Financial Network, the Nationwide framemark, Nationwide YourLife and On Your Side are service marks of Nationwide Mutual Insurance Company.

© 2008 – 2010 Nationwide Financial Services, Inc. All rights reserved.

LAM-0875AO.2 (04/10)