



LIFE INSURANCE

Sales Strategy Income Maximization



WEALTH TRANSFER PLANNING WITH INCOME MAXIMIZATION

LEVERAGING CURRENT ASSETS TO PROVIDE GUARANTEED INCOME FOR LIFE

As clients settle into their retirement years, they may reposition their portfolios and shift their investments into conservative investment vehicles such as certificates of deposit, money market funds, and corporate or municipal bonds. However, they may also realize that these investments are not providing the level of after-tax income that they need or desire for their retirement. As clients live longer and the benefits that they receive from pensions and Social Security decrease, they may find that they need to maximize their income as much as possible. At the same time, clients may intend on passing these income-producing assets to heirs at their death not realizing that the net amount transferring to heirs will be significantly less than the principal balance. This is because these types of assets are inefficient for wealth transfer purposes. For some clients in this situation, an income maximization strategy may allow them to increase income and the amount they transfer to heirs.

WHAT IS INCOME MAXIMIZATION?

Income maximization is a technique by which assets such as certificates of deposit, money market funds, municipal or corporate bonds are sold or liquidated and the proceeds are used to purchase a Single Premium Immediate Annuity (SPIA).¹ By purchasing the SPIA, the client is locking in an annual income payment. The income generated by the SPIA may be more than the client needs. Consequently, to increase the amount transferred to heirs, a gift of the excess income can be made to an Irrevocable Life Insurance Trust (ILIT)² which will purchase a John Hancock universal life insurance product with guaranteed coverage for life.³

WHY INCOME MAXIMIZATION?

Income Maximization is best suited for clients, age 70 and older, who are concerned with the amount of income that is generated from their conservative retirement vehicles such as municipal bonds, certificates of deposit, and corporate bonds. They are looking for a more secure way to obtain a larger monthly stream of income. By repositioning their assets, clients can potentially gain returns over time and transfer more to heirs at death. Using an Income Maximization approach, clients receive guaranteed income to live better while also leaving more to heirs.

HOW INCOME MAXIMIZATION WORKS

Income Maximization is a strategy that entails two simple steps.

- 1) Liquidate or sell existing assets and purchase a SPIA.

This may provide clients a guaranteed income for life. The SPIA may generate more income than is actually needed since a portion of it will be income tax-free.⁴

- 2) Give the excess income to an ILIT using annual exclusion gifts.

The trustee will purchase a John Hancock universal life insurance policy. John Hancock universal life insurance policies have strong guarantees for life.⁵

Unlike income-producing assets, the life insurance policy can be an efficient asset to transfer to heirs because the proceeds are not subject to ordinary income taxes when paid to the beneficiary at death. And if the policy is owned by a properly drafted ILIT, it will not be subject to estate taxes either.

To better understand how this works, let's look at an example.

CASE STUDY: JOELLEN WADSWORTH

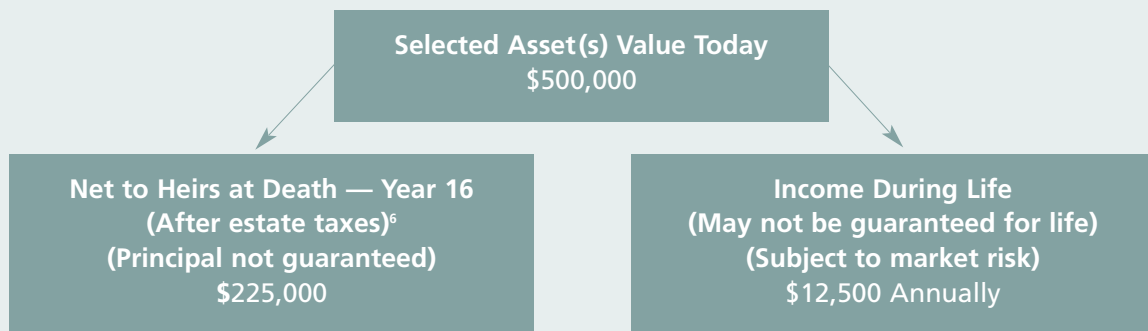
Facts: JoEllen Wadsworth (76), a Preferred Non Smoker underwriting risk, is retired. She is a widow with three kids and three grandchildren. Part of her retirement portfolio contains \$500,000 in a Certificate of Deposit (CD) which provides her with an annual net income of \$12,500. JoEllen was expecting a better rate of return. In addition, she wants to create a legacy for her heirs. She set up a meeting with her financial advisor to explore her options.

Solution: Her advisor recommends considering income maximization. JoEllen is liquidating her CD and purchasing a SPIA. She will use excess income to fund a John Hancock Protection UL policy with a level face amount of \$500,000 policy inside an ILIT.

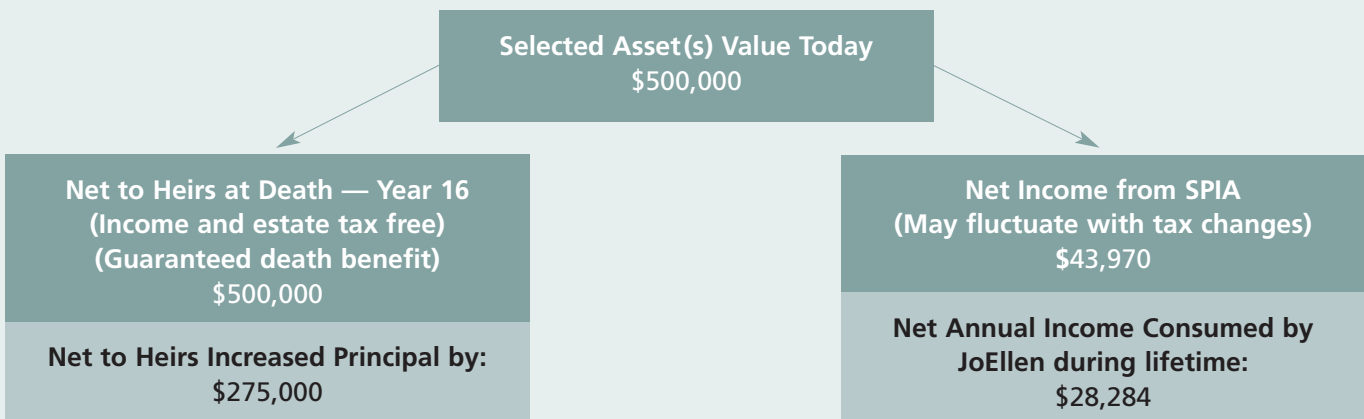
The Numbers: JoEllen is going to exchange her CD for a SPIA. The SPIA will provide an annual after-tax income stream of \$43,970. JoEllen will make a gift of \$15,686 annually to her ILIT to fund the policy. JoEllen's net spendable income after the gift is \$28,284.

Here is what it looks like:

CURRENT SITUATION: RETAIN SELECTED ASSET(S) IN THE ESTATE



PROPOSED SITUATION: SELL, ANNUITIZE, AND PURCHASE LIFE INSURANCE



Conclusion: By liquidating her CD, JoEllen is able to replace it with a guaranteed life insurance policy to benefit heirs while increasing her after-tax annual spendable income stream by \$15,784.

This is a supplemental illustration authorized for distribution only when preceded or accompanied by a basic illustration from the issuer. Benefits and values may not be guaranteed; the assumptions on which they are based are subject to change by the insurer. Actual results may be more or less favorable. Refer to the basic illustration for guaranteed elements and other important information.

Life insurance death benefit proceeds are generally excludable from the beneficiary's gross income for income tax purposes. There are a few exceptions such as when a life insurance policy has been transferred for valuable consideration.

ADVANTAGES AND DISADVANTAGES

The following outlines the Benefits and Considerations of the Income Maximization approach:

Benefits	Considerations
<ul style="list-style-type: none">• Guaranteed Income stream is provided from the SPIA for life.• The SPIA may increase the net after-tax income.• Removes the assets from the taxable estate.• Potentially increases the overall net rate of return on income and inheritance.	<ul style="list-style-type: none">• Principal is irrevocably exchanged for guaranteed income.• Conversion and purchase of life insurance requires medical underwriting.• SPIA and life insurance may have more risk associated with them than other investments.• The exchange may be taxable and/or result in additional charges and/or risks.



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1. A SPIA is a Single Premium Immediate Annuity that provides an income stream for a chosen number of years based on a single deposit made to purchase the annuity. The annuity income stream is calculated based on a Life-Only No-Refund basis so that the income will last for your lifetime, or the joint lifetime of you and your spouse, if applicable, and no balance will remain in the taxable estate at death. The SPIA guarantee is based on the claims paying ability of the insurer.
2. Trusts should be drafted by an attorney familiar with such matters in order to take into account income and estate tax laws (including the generation-skipping tax). Failure to do so could result in adverse tax treatment of trust proceeds.
3. Guaranteed product features are dependent upon minimum premium requirements and the claims-paying ability of the issuer.
4. In 2011, the amount of annual gifts that can be made to anyone person per year is \$13,000 without gift taxes. This amount is adjusted annually for inflation in increments of \$1,000.
5. Insurance policies and/or associated riders and features may not be available in all states.
6. Estate tax calculations are based on current law. Under the current law, which is based on the "Unemployment Insurance Reauthorization and Job Creation Act of 2010," the maximum estate tax rate is 35% with a \$5,000,000 exemption for each individual. For 2012, this \$5,000,000 will be indexed for inflation, taking into account inflation that occurred from January 1, 2010 through December 31, 2011. The \$5,000,000 exemption amount can be used either during lifetime, as a gift tax exemption amount, or at death as an estate tax exemption. In addition, each individual has a \$5,000,000 exemption to the generation-skipping transfer (GST) tax; this \$5,000,000 can be used during life or at death. If an individual passes away with an unused amount of exemption remaining, that individual's surviving spouse can use the unused amount to shelter a transfer from either gift or estate taxes. Effective January 1, 2013, the exemption amount for each of the gift, estate and GST taxes will drop to \$1M and the top tax rate for each will be 55%.

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