

John Hancock

LIFE INSURANCE

Wealth Transfer Planning



Repositioning assets to maximize wealth.

John Hancock Life Insurance Company (U.S.A.) (John Hancock)
John Hancock Life Insurance Company of New York (John Hancock)

Annuity Maximization

Situation

You have worked hard to accumulate wealth and take care of your family, and you have done better financially than you ever expected. Like many investors, you may have saved for retirement with a deferred annuity, but now realize that you do not need this asset for retirement purposes and would instead like to leave it for your heirs. However, the annuity will be subject to estate and income taxes at your death. How can you best use your surplus deferred annuity to help create a larger legacy for your heirs?

Solution: Annuity Maximization

Annuity Maximization is a way to move assets from your deferred annuity and use them to fund an Irrevocable Life Insurance Trust (ILIT). This ILIT can then purchase life insurance on you (and your spouse) and potentially increase the amount of money left to your heirs.

CASE STUDY: SAM AND MAGGIE MALONE

Sam (67) and Maggie Malone (62), Preferred Non Smokers, have an overall estate of \$5,000,000 (growing at 3% a year), and a deferred annuity of \$750,000, which is currently growing at 5% a year. They don't need this annuity for retirement income anymore. At life expectancy in year 26, it will have grown to \$2,666,755. Under current tax law, it will be subject to combined estate and income taxes of \$2,008,719, leaving only \$658,035 for the Malones' three children.

Sam and Maggie decide to take annual withdrawals of \$37,348 from the deferred annuity,* which at the Malones' 35% tax bracket produces an after-tax income stream of \$24,276 every year.² The Malones will give \$24,276 to an ILIT,³ which will purchase a \$2,316,172 John Hancock Protection SUL Policy on their lives. At their death, their heirs will receive this amount free of estate and income taxes, along with the after-tax remainder of the annuity principal.

As seen below, the net total amount passing to heirs is \$2,558,945 — almost four times more than without planning!

EFFECTS ON ANNUITY OF REPOSITIONING USING ANNUITY MAXIMIZATION		
	CURRENT SITUATION	ANNUITY MAXIMIZATION
ANNUITY VALUE IN YEAR 26	\$2,666,755	\$662,320
GROSS ANNUAL ANNUITY WITHDRAWAL	\$0	\$37,348
ANNUAL PREMIUM	\$0	\$24,276
LIFE INSURANCE PROCEEDS	\$0	\$2,316,172
ESTATE AND INCOME TAXES DUE ON ANNUITY	\$2,008,719	\$419,547
NET TO HEIRS	\$658,035	\$2,558,945

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.

*Withdrawals may be subject to charges.

Income Maximization

Situation

You may like the security of the income generated from your certificates of deposit (CDs), corporate bonds or stock, or money market funds and anticipate that the principal will be transferred to your heirs at your death. However, you may be giving up return that you could achieve with other assets while exposing your holdings to not only interest rate risk, but also to estate and potentially generation-skipping transfer (GST) taxes, passing more to the IRS than to heirs.

Solution: Income Maximization

Income Maximization is a planning approach in which an existing low income-producing asset is exchanged for a Single Premium Immediate Annuity (SPIA), which provides a guaranteed and potentially higher income stream for life. You may then use part of the excess income to purchase life insurance in an ILIT and potentially increase the amount you transfer to heirs.

CASE STUDY: JOELLEN WADSWORTH

JoEllen Wadsworth (76) is a Preferred Non Smoker and in excellent health. She has a \$4 million estate growing at 4% annually. Her estate includes a \$500,000 Certificate of Deposit (CD). The CD is generating 2.5% after-tax income. She has three children and four grandchildren and wants to split her estate fairly between the children. Currently, she is receiving \$12,500 net income from the CD. JoEllen would like to generate more income but has been unwilling to invest more aggressively.

As the following chart indicates, by converting an inefficient asset to a SPIA and leveraging a portion of the increased income with a John Hancock Protection UL policy with a level face amount of \$500,000 inside an ILIT, JoEllen can guarantee and increase her annual spendable income by \$15,784 while transferring more to heirs.

	KEEP ASSET	REPOSITION ASSET ⁴
NET ANNUAL INCOME	\$12,500	\$43,970
PREMIUM	\$0	\$15,686
NET SPENDABLE INCOME	\$12,500	\$28,284
ASSET VALUE IN YEAR 16	\$500,000	\$0
LIFE INSURANCE	\$0	\$500,000
ESTATE TAX	\$275,000	\$0
NET TO HEIRS IN YEAR 16	\$225,000	\$500,000

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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. The estate tax calculation is based on current law.⁵

Municipal Bond Maximization

Situation

You may like the security of the tax-free income generated from your municipal bond holdings and anticipate that the bond principal will be transferred to your heirs at your death. However, you may be giving up return that you could achieve with other assets while exposing your holdings to not only interest rate risk, but also to estate and potentially generation-skipping transfer (GST) taxes, passing more to the IRS than to heirs.

Solution: Municipal Bond Maximization

Municipal Bond Maximization is a planning approach in which you exchange your existing municipal bonds for a Single Premium Immediate Annuity (SPIA), which provides a guaranteed and potentially higher income stream for life. You may then use part of the excess income to purchase life insurance in an ILIT and potentially increase the amount you transfer to heirs.

CASE STUDY: JAMES AND ELLEN WEINGART

James (74) and Ellen (71) Weingart are both Preferred Non Smokers and in excellent health. They have an estate valued at \$5,000,000, including \$1,000,000 of municipal bonds generating 3.2% tax-exempt income.⁶ They want to split their assets fairly between their children. They currently receive \$32,000 tax-free income from the municipal bonds. The Weingarts would like to generate more income from the bonds but have been unwilling to invest more aggressively. At a minimum, they would like to maintain their current income.

As the chart below indicates, by converting an inefficient asset to a SPIA and leveraging a portion of the increased income with life insurance, a guaranteed income stream can be secured, an increase in additional annual income of \$5,052 can be generated and more of the asset can be transferred to heirs.

	RETAIN MUNICIPAL BONDS	MUNICIPAL BOND MAXIMIZATION
ANNUAL NET INCOME	\$32,000	\$63,188
PREMIUM	\$0	\$26,136
NET SPENDABLE INCOME	\$32,000	\$37,052
ASSET VALUE IN YEAR 22⁷	\$1,000,000	\$1,500,000
ESTATE TAX	\$450,000	\$0
NET TO HEIRS IN YEAR 22	\$550,000	\$1,500,000

The data shown is taken from a John Hancock Protection SUL illustration for \$1,500,000 of death benefit and an annual premium of \$26,136. 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. Non-insurance data shown is taken from a hypothetical calculation which assumes a hypothetical rate of return and may not be used to project or predict investment results.

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. Estate tax calculations are based on current law.⁵

Wealth Transfer Planning Through Asset Repositioning

You may own a variety of assets and have accumulated significant wealth over the years. While your income may be primarily generated from various sources, including pension plans, non-qualified deferred compensation plans, and social security, you may intend on designating certain other personal assets to both supplement your income and to preserve assets for heirs. In some cases, you may unintentionally be giving up return to preserve wealth by continually rolling over low-yielding certificates of deposit (CDs), or by maintaining municipal bonds to benefit from the tax-free income they offer. Or, you may be holding a deferred annuity to take advantage of the tax-deferred growth it can provide your heirs. Unfortunately, there are additional taxes at death associated with owning some of these assets. Unknowingly, you may be transferring more of your wealth to the IRS than to heirs. And, you may also believe there are no conservative alternatives.

The chart below illustrates taxation of certain assets at death, based on current tax law:

	SUMMARY OF TAXATION AT DEATH				
	MUNICIPAL BONDS	CERTIFICATES OF DEPOSIT	DEFERRED ANNUITIES	SPIA'	TRUST-OWNED LIFE INSURANCE
INCOME TAX	No	No	Yes	No	No
ESTATE TAX	Yes	Yes	Yes	No	No
GST TAX	Yes, when beneficiaries are grandchildren	Yes, when beneficiaries are grandchildren	Yes, when beneficiaries are grandchildren	No	No

The Solution

By using an asset repositioning approach in your wealth transfer plan in which you immediately or systematically replace a deferred annuity, municipal bond portfolio, or other low income-producing asset with more tax-efficient vehicles, you may be able to transfer more to heirs while maintaining or increasing your income.

Benefits of Using a Maximization Approach

- You may be able to increase your net after-tax income and potentially guarantee it for your lifetime.
- You may reduce market and interest rate risk by exchanging the asset for a more tax-efficient one.
- You may reduce your taxable estate without giving up income or a legacy for heirs.
- You may potentially transfer more to your heirs by leveraging the asset's income with life insurance.

Considerations

- The maximization approach requires you to give up the asset principal in exchange for an income stream (except in the case of the withdrawals approach with Annuity Maximization).
- The leverage that the insurance may provide is only available if you are insurable.
- Different investment choices, including Single Premium Immediate Annuities (SPIA) and life insurance policies, carry different risks, costs, and benefits that each investor must measure based on specific goals and tolerance for risk.
- In order for the life insurance and annuity to each qualify for favorable tax treatment, it is generally necessary to purchase the life insurance and the annuity from different carriers.

This material does not constitute tax, legal or accounting advice, and neither John Hancock nor any of its agents, employees or registered representatives are in the business of offering such advice. It cannot be used by any taxpayer for the purpose of avoiding any IRS penalty. It was written to support the marketing of the transactions or topics it addresses. Comments on taxation are based on John Hancock's understanding of current tax law, which is subject to change. Anyone interested in these transactions or topics should seek advice based on his or her particular circumstances from independent professional advisors.

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 income stream from the annuity is calculated on a Life-Only No-Refund basis so that the income will last for the lives of the income beneficiaries and no principal balance will be remaining in the estate at death. When using a maximization approach, the SPIA beneficiary is assumed to be you, or you and your spouse, if applicable, otherwise taxation may apply.
2. Assumes withdrawals net of income tax consequences (and surrender charges). Withdrawals and years to pay premium are hypothetical calculations. Premium payments are always the responsibility of the policy owner, and withdrawals from the annuity may not support such premium payments.
3. 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 transfer tax). Failure to do so could result in adverse tax treatment.
4. The exchange of an asset for a SPIA may be a taxable event and/or sales charges may apply based on the type of investment being exchanged. In addition, if the life insurance is not owned by a properly drafted life insurance trust, it is possible that the life insurance proceeds will be part of the taxable estate.
5. 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%.
6. Not all municipal bonds are exempt from federal and state income tax. Consult your tax advisors.
7. Life expectancy year. Life expectancy based on 2008 Valuation Basic Tables. Life Expectancy (LE) tables are based on actual mortality experience collected from sources such as life insurance companies and the Social Security Administration. LE tables show the average probability of death by a certain age. The LE data provided is not necessarily indicative of life expectancy and the insured may live longer than indicated by the table. The LE tables used are not tailored to a particular situation or risk class; rather, they are based on population averages and are presented to help form a generalized idea of potential ages at death.

Insurance policies and/or associated riders and features may not be available in all states.

Guaranteed product features are dependent upon the claims-paying ability of the issuer.

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