John Hancock
LIFE INSURANCE

Maximization Strategies

Repositioning Assets to Maximize Wealth

Your clients have accumulated significant wealth over the years and may own a variety of assets such as annuities, 401(k) plans, traditional IRAs, low-yielding certificates of deposit (CDs) and possibly even municipal bonds. Some of these assets may be used to supplement income, while others may be earmarked to leave to heirs. Unfortunately, there are additional taxes at death associated with owning these assets that clients intend on passing down. As a result, your clients may be unintentionally transferring more of their wealth to the IRS than to heirs. Talk to your clients about an asset repositioning approach using life insurance as part of their planning process. A life insurance policy can provide an immediate income tax-free death benefit for beneficiaries.[1]

Best of all, you can use JH Solutions (John Hancock's proprietary concept illustration software) to illustrate many asset repositioning strategies in ways that are easy for your clients to understand.

Show your clients the power of:

Annuity Maximization

Annuities are great tools to accumulate funds for retirement, however, a deferred annuity may be subject to both ordinary income and estate taxes at death, leaving heirs with a fraction of the intended amount. Annuity Maximization is simply a way for clients to use their annuity to fund a life insurance policy in order to transfer more money to heirs. The client has two choices with this approach: they can convert the annuity to a Single Premium Immediate Annuity (SPIA), which would provide an income stream for a number of years based on a single deposit (as well as the client's age and health status),[2] or for clients who may be hesitant about giving up control of the asset, withdrawals are an option.[3] Determining which method is best depends on your client's preference. Either way, this solution can help your clients potentially pass more wealth to future generations.

Income Maximization

Your clients may like the security of the income that is generated from CDs or money market funds. They also expect to pass the principal on at their death. However, by investing in such conservative assets, clients may be giving up returns that they could achieve with other assets and they may be exposing their portfolio to estate and generation-skipping transfer tax as well. For these clients, Income Maximization can help. First, clients exchange their non-guaranteed, low income-producing asset for guaranteed income (SPIA). Then, the client can use all (or part) of their income to fund a life insurance policy. The result is a win-win — higher guaranteed income for your clients and increased wealth for their family.

Municipal Bond Maximization

Many clients purchase municipal bonds because they tend to transfer the bond principal to their heirs upon death, and they like the tax-free income that municipal bonds provide. There may be tax issues associated with this transfer, however. A Municipal Bond Maximization planning strategy could be of assistance in this scenario.

In this approach, clients exchange their existing municipal bonds for a SPIA, which provides a guaranteed (and potentially higher) income stream for life. All (or part) of that income can be used to purchase life insurance. This approach may provide your clients with a potentially higher net after-tax income, a guaranteed lifetime income stream, a lower estate tax bill, and the potential to pass more to their heirs.

Qualified Plan Maximization

Qualified plans are a very popular choice to save for retirement. Clients can put away money pre-tax and then allow that money to grow tax deferred. At age 70½, however, clients have to start taking Required Minimum Distributions (RMDs) from their plan whether they need the additional income or not. Moreover, if your client passes away while owning qualified assets, income taxes in respect of a decedent and estate taxes can erode the amount passed to heirs by as much as 70%. Fortunately, there is a way that clients can use their qualified plan assets to fund life insurance.

In this approach, clients take the required withdrawal (or more) from their qualified plan and pay income tax on it. The client can use the after-tax income to purchase a life insurance contract, providing substantial leverage and increasing the amount left to beneficiaries.

Social Security Maximization

Clients who are nearing retirement (or have already retired) may not need their social security income to meet basic living needs. They would rather use their social security income to create an inheritance for their families. To solve this problem, clients can use their social security income to pay premiums on a life insurance policy, which will provide an income-tax-free death benefit, thereby maximizing the wealth that can be transferred to heirs.

1. 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.
2. The SPIA 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.
3. Depending on the specific deferred annuity contract, withdrawals may be subject to surrender charges or penalty taxes if taken prior to age 59½.

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