John Hancock
LIFE INSURANCE

CLIENT GUIDE

Advanced Markets

Wealth Transfer Planning

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

Guiding you through

life.

Wealth Transfer Planning Through Asset Repositioning

You may own a variety of assets and have accumulated significant wealth over the years. As you near retirement, you realize you have enough income from other sources and plan to transfer certain assets to heirs. Unfortunately, specifc assets are taxed at death, and as a result, you may unknowingly transfer more of your wealth to the IRS than to heirs. Fortunately, you have an alternative — life insurance can offer a solution.

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, such as life insurance, you may be able to transfer more to heirs.

Benefits of Using a Maximization Approach

- You may be able to increase your net after-tax income (if needed) 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

- Some maximization approaches require you to give up the asset principal in exchange for an income stream. The Single Premium Immediate Annuity (SPIA) approach generally creates a larger income stream, and one that is guaranteed for the life of the annuitant. A larger potential income stream means a larger potential death benefit for your heirs. However, once an annuity is converted to a SPIA, the principal is gone and is not available to you in case of an emergency. Withdrawal approaches are sometimes preferred because you can retain access to the principal of the asset. Depending on the type of contract, withdrawals may be subject to charges or penalty taxes if taken prior to age 59½. Please consult with your financial advisor.
- The amount of life insurance coverage that you may qualify for would be subject to medical and financial underwriting requirements and may be more (or less) than applied for.
- Different investment choices, including SPIAs 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.

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 (CDS)	DEFERRED ANNUITIES	QUALIFIED PLAN	SPIA AND SOCIAL SECURITY INCOME	IRREVOCABLE LIFE INSURANCE TRUST (ILIT) OWNED LIFE INSURANCE
Income Tax	No	No	Yes	Yes	No	No
Estate Tax	Yes	Yes	Yes	Yes	No	No
Generation-Skipping Transfer (GST) Tax	Yes	Yes	Yes	Yes	No	No

Annuity Maximization

Maximizing the Value of an Annuity By Using Life Insurance

Situation

You have saved for retirement with tax-favored assets such as annuities. Now that you are near retirement, you realize you don't need additional retirement income. Instead, your ultimate goal is to leave your assets intact to your heirs. The problem is that while an annuity is an excellent vehicle for retirement planning, it is often a poor vehicle for wealth transfer. That's because at your death, the value of your annuity could be eroded by 70% due to income and estate taxes. Income taxes will affect all annuities that have a gain. If you have a large estate, your annuity will also be affected by estate taxes. When estate taxes are a concern, an Irrevocable Life Insurance Trust (ILIT) should be considered. How can you best use your surplus annuity to create a larger legacy for your heirs?

The Solution: Annuity Maximization

Annuity Maximization is a solution to move assets from your annuity to fund a life insurance policy. By purchasing a life insurance policy on you (and your spouse), you can potentially increase the amount of money left to your heirs.

How It Works

First, you can create an income stream from your annuity either by converting it to a SPIA, or by taking withdrawals as permitted under your annuity contract (withdrawals approach). Then, you can fund life insurance with the after-tax annuity distribution.

If you have an estate tax issue, you may want to have the life insurance owned by an ILIT (that way the life insurance does not compound your estate tax problem). If the life insurance is owned by an ILIT, you will have to gift the money to the trust — this is usually done through annual gifts. The trust will receive the life insurance proceeds free of estate and income tax.

Income Maximization

Repositioning Income-Producing Assets with Life Insurance

Situation

You may have income-producing assets, such as CDs, corporate bonds, or money market funds. You like the conservative nature of these vehicles, but the reality is that you are limited in the amount of income you can receive with these assets. You are also giving up returns that you could achieve with other assets. Additionally, if you plan to transfer the principal to heirs, there may be tax issues associated with this transfer, and you may end up passing more to the IRS than to family. Using an Income Maximization planning approach may help increase your income and allow you to transfer more wealth to heirs.

The Solution: Income Maximization

Income Maximization is simply a repositioning strategy in which you use your low income-producing asset to purchase life insurance, thus providing a larger legacy for your heirs.

How It Works

You can exchange your non-guaranteed, low income-producing asset, such as a CD, money market fund, corporate bonds or stock, for a SPIA. This way, you can secure a guaranteed income for life. The income generated from the SPIA can then be used to fund a life insurance policy. You could use all (or part) of the SPIA income to pay the life insurance premiums. Alternatively, you could use your existing income from the asset to fund life insurance. It is important to note that if you have an estate tax issue, you should have an ILIT own the policy, so that the life insurance proceeds are received income and estate tax free.

Municipal Bond Maximization

Repositioning Municipal Bonds By Using Life Insurance

Situation

You may have municipal bond holdings and enjoy the security of the tax-free income that they generate. However, you may be giving up potentially higher returns that you might achieve by using other assets. Also, if you plan to transfer the bond principal to your heirs at your death there may be tax issues associated with this transfer. By using a Municipal Bond Maximization planning approach, you may be able to increase your income and transfer more wealth to heirs.

The Solution: Municipal Bond Maximization

Municipal Bond Maximization is simply an asset repositioning strategy in which you use your low income producing municipal bonds to purchase life insurance, thus providing a larger legacy for your heirs.

How It Works

You can exchange your municipal bond portfolio for a SPIA and by doing this, you can secure guaranteed income for life. Then, some (or all) of the SPIA income can be used to purchase a life insurance policy. The result? Potentially higher guaranteed net spendable income during your lifetime, and a tax free death benefit for your heirs. Alternatively, you could use the income from your bonds and fund life insurance with that amount. If you have an estate tax issue, you may want to have the life insurance owned by an ILIT. If the life insurance is owned by an ILIT, the trust will receive the life insurance proceeds free of estate and income tax.

QPlan Maximization

Life Insurance Funding with Qualified Plans

Situation

You made saving for retirement a priority, putting as much money into your 401(k) and traditional IRAs as the law allowed. As you near retirement, you realize that you do not need all of this income. Although you would like to leave your retirement account intact for your heirs, it may not be possible due to tax issues associated with this transfer. Moreover, once you reach age 70½, you will be required to start taking Required Minimum Distributions (RMDs) from your plan, whether you need the money or not. In this scenario, using a Qualified Maximization planning approach may allow you to transfer more wealth to heirs.

The Solution: Qualified Plan (QPlan) Maximization

Qualified Plan (QPlan) Maximization is a way to move assets from your qualified plan and use them to fund life insurance, potentially increasing the legacy for your heirs.

How It Works

First, you can create an income stream by taking the required withdrawals (or more) from your qualified plan. You pay income tax on the withdrawals, but then can use the after-tax money to fund a life insurance policy. If you have an estate tax issue, you should have an ILIT own the policy, so that the life insurance proceeds are received income and estate tax-free.

IRA Legacy Plan

Using Distributions from an IRA to Fund a Life Insurance Policy

Situation

Throughout your working years, saving for retirement was your number one priority. As such, you contributed the yearly maximum amounts to your IRA. Now that you are approaching retirement, you realize that you have other assets to draw from. You decide to leave your retirement account intact for your children and grandchildren. Unfortunately, this may not be possible. First, once you reach age 70½, you are required to take Required Minimum Distributions (RMDs) from your plan, even if you do not need the money. Moreover, your plan will be subject to estate and income taxes at your death. Using a Stretch IRA approach can help.

The Solution: IRA Legacy Plan

Use distributions from your IRA to fund a life insurance policy on your life, then have your grandchildren listed as the beneficiaries on your IRA. Doing so can increase the legacy for your heirs.

How It Works

First, you can create an income stream by taking the required withdrawals (or more) from your IRA. You pay income tax on the withdrawals, but then can use the after-tax money to fund a life insurance policy. Your children will receive a lump sum tax-free death benefit upon your death. Next, change the beneficiary designation on your IRA to your grandchildren so they can stretch the payments over their longer life expectancy.

Social Security Maximization

Wealth Transfer Planning with Social Security

Situation

You have worked hard to accumulate wealth and have diligently saved for retirement with tax-favored assets, such as 401(k)s, IRAs and annuities. You have also contributed portions of your paychecks to social security. Now that you are near retirement, you realize that you will not need your social security income. Instead, you would like to know if there is some way to use this money to create an inheritance for your heirs.

The Solution: Social Security Maximization

If you do not need your social security benefit, you can either save it or you can use it to fund a life insurance policy. By purchasing a life insurance policy, you can potentially increase the amount of money left to your heirs.

How It Works

You purchase a life insurance policy on your life. You can then use your social security income (or a portion of that income) to pay premiums on a life insurance policy.

Should you have an estate tax issue, you may want to have the life insurance owned by an ILIT (that way the life insurance does not compound your estate tax problem). The trust will receive the life insurance proceeds free of estate and income tax.

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.

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.

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.

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.

Not all municipal bonds are exempt from federal and state income tax. Consult your tax advisors.

You must pay income tax on the withdrawals as you take them from the qualified plan. Should you take withdrawals greater than your RMDs, you may reduce the value of your qualified plan.

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