

# Sales Strategy

## Income Maximization



## Wealth Transfer Planning with Income Maximization

### LEVERAGING CURRENT ASSETS TO PROVIDE GUARANTEED INCOME FOR LIFE

As your 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 investments as much as possible. For some clients in this situation, an income maximization strategy may allow them to increase their income by replacing some of their existing assets with life insurance.

### 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).<sup>1</sup> 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. A gift of the excess income can be made to an Irrevocable Life Insurance Trust (ILIT)<sup>2</sup> which will purchase a John Hancock Universal Life Insurance product with guaranteed coverage for life.<sup>3</sup>

### 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. With Income Maximization, they can also earn the security and peace of mind of fixed income and guarantees for life.

### HOW INCOME MAXIMIZATION WORKS

Income Maximization is a strategy that can provide your client a secure income for life. It has only two simple steps.

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

This will provide your client 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.

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

The trustee will purchase a John Hancock Universal Life insurance policy. All John Hancock Universal Life insurance policies have strong guarantees for life.

In two simple steps, your client can go from fearing for his or her future to planning his or her next vacation. To better understand how this works, let's look at an example.

## CASE STUDY: JOELLEN WADSWORTH

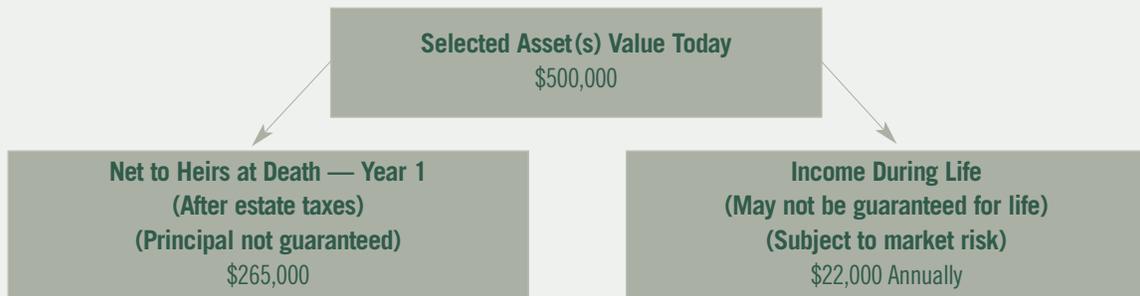
**Facts:** JoEllen Wadsworth (74), a non-smoker, preferred underwriting risk, is retired. She is a widow with two kids and three grandchildren. Part of her retirement portfolio contains \$500,000 in a Certificate of Deposit (CD) which provides her with an annual income of \$22,000. JoEllen was expecting 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 income maximization. JoEllen is going to liquidate her CD and purchase a SPIA. She will use any excess income to fund a John Hancock Protection UL-G (UL-G) 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 \$40,823. JoEllen will give \$12,367 a year to her ILIT to purchase a UL-G policy with a level face amount of \$500,000. JoEllen's net spendable income after the gift is \$28,456.

**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 corporate bonds, JoEllen is able to replace it with a guaranteed life insurance policy and increase her after-tax annual income stream.

## ADVANTAGES AND DISADVANTAGES

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

| BENEFITS   | CONSIDERATIONS   |
|--|--|
| <ul style="list-style-type: none"><li>• Reduces market risk during volatile times.</li><li>• Maximizes net after-tax income.</li><li>• Potentially increases the net rate of return in investment income.</li><li>• Removes assets from taxable estate, thus increasing legacy to heirs.</li><li>• Provides a guaranteed income stream for lifetime.</li></ul> | <ul style="list-style-type: none"><li>• Principal is irrevocably exchanged for guaranteed income.</li><li>• Conversion and purchase of life insurance requires medical underwriting.</li><li>• SPIA and life insurance may have more risk associated with them than other investments.</li><li>• The exchange may be taxable and/or result in additional charges and/or risks.</li></ul> |

### JOHN HANCOCK UNIVERSAL LIFE INSURANCE

John Hancock Universal Life and Survivorship Universal Life insurance both have strong guarantees. Both products have a Policy Protection Rider, which ensures that coverage will not lapse for a period of time, even if the net cash surrender value falls below \$0. With the Policy Protection Rider, John Hancock can offer your clients guaranteed coverage for life.<sup>4</sup>

### JH SOLUTIONS AND INCOME MAXIMIZATION

Use the JH Solutions concept illustration system to illustrate the power of this simple concept. JH Solutions provides simple output that is easy to understand, complete with charts and graphs.

**For more information on Income Maximization or JH Solutions, please contact your local John Hancock Representative or call the Advanced Markets Group at (888) 266-7498, option 3.**

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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 on a Life-Only No-Refund basis so that the income will last for the client's lifetime, or the joint lifetime of the client and spouse, if applicable, and no balance will be payable to the taxable estate at death. The SPIA guarantee is based on the claims paying ability of the insurer issuing the SPIA and John Hancock USA does not issue such contracts.
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. John Hancock Universal Life Insurance Company (U.S.A.) (John Hancock USA). These guaranteed product features are dependent upon minimum premium requirements and the claims-paying ability of John Hancock Life Insurance Company (U.S.A.).
4. Offers a guaranteed death benefit provided minimum premium requirements are met.

Insurance products are issued by John Hancock Life Insurance Company (U.S.A.), 197 Clarendon Street, Boston, MA 02116.



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