John Hancock®
LIFE INSURANCE

Advanced Markets | Client Guide

Wealth Transfer Planning

Repositioning assets to maximize wealth.

Wealth Transfer Planning Through Asset Repositioning

You 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 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[1]	TRUST-OWNED LIFE INSURANCE[2]
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.
- 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.[3]

Annuity Maximization

Situation

All your life, 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 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, it will be subject to estate and income taxes at your death. How can you best use your surplus deferred annuity to 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

Facts: Sam (67) and Maggie Malone (62) have an overall estate of $5,000,000, and a deferred annuity of $750,000 which is currently growing at 5.5% a year. As they don't need this annuity for retirement income anymore, at their joint life expectancy in year 25 it will have grown to $2,860,044. Under current tax law, it will be subject to combined estate and income taxes of $2,254,228, leaving only $605,816 for the Malones' three children.

Here is how it works: Sam and Maggie decide to take an annual withdrawal of $40,488 from the deferred annuity, which at the Malones' 40% tax bracket produces an after-tax income stream of $26,317 every year.[4] The Malones will give this money to an ILIT which will purchase a $2,452,716 John Hancock Protection SUL-G Policy on their lives for an annual premium of $26,317.[5] 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.

Comparison Summary Chart:
Protection SUL-G; Non Smoker Preferred; guaranteed face: $2,452,716

	DO NOTHING	ANNUITY MAXIMIZATION
ANNUITY VALUE IN YEAR 25	$2,860,044	$675,090
LIFE INSURANCE PROCEEDS	$0	$2,452,716
ESTATE AND INCOME TAXES DUE ON ANNUITY	$2,254,228	$405,752
NET TO HEIRS	$605,816	$2,722,752

The data shown is taken from a hypothetical calculation. It assumes a hypothetical rate of return and may not be used to project or predict investment results.

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.[6]

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

Facts: JoEllen Wadsworth (76) is a non-smoker and in excellent health. She has an estate valued at $4,000,000, including $500,000 in a CD at EastSide Bank. The CD is generating 4.4% after-tax income. She has three children and wants to split her estate fairly between the children. She is concerned about giving as much of her assets as possible to her children rather than to the IRS. Currently, she is receiving $22,000 net income from the CD. JoEllen would like to generate more income but has been unwilling to invest more aggressively.

Here is how it works: JoEllen will liquidate her CD and purchase a SPIA with a single life no-refund annuity option. The SPIA will provide her with $44,522 net income, for her lifetime. She will keep $28,237 to spend, and make tax-free gifts of the remaining income to an Irrevocable Life Insurance Trust (ILIT), using available annual exclusions. The trust will purchase a John Hancock Protection UL-G policy with a guaranteed death benefit of $500,000 for an annual premium of $16,285.

As the chart indicates, by converting an inefficient asset to a SPIA and leveraging a portion of the SPIA income with life insurance, JoEllen can secure a potentially higher and guaranteed income stream for life, while transferring more to her family.

Comparison Summary Chart:

	RETAIN CERTIFICATE OF DEPOSIT	INCOME MAXIMIZATION
NET ANNUAL INCOME	$22,000	$44,522
INCOME GIFT TO ILIT	$0	$16,285
NET SPENDABLE INCOME	$22,000	$28,237
ASSET VALUE IN YEAR 12[7]	$500,000	$500,000
ESTATE TAX	$275,000	$0
NET TO HEIRS	$225,000	$500,000

The data shown is taken from a hypothetical calculation. It assumes a hypothetical rate of return and may not be used to project or predict investment results.

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.[8] 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

Facts: James (74) and Ellen (71) Weingart are both non-smokers and in excellent health. They have an estate valued at $5,000,000, including $1,000,000 of municipal bonds generating 4% tax-exempt income. They have three children and four grandchildren and want to split their assets fairly between the children. Currently, the Weingarts are receiving $40,000 tax-free income from the municipal bonds and making annual gifts of the income to their children. They would like to invest more aggressively to increase the amount transferred to heirs but do not want to take the risk since their remaining assets are tied up in real estate and other taxable investments.

Here is how it works: James and Ellen will liquidate their municipal bonds and purchase a SPIA with a joint life no-refund annuity option. The SPIA will provide them with $75,379 gross income, or $67,417 net income, for their joint lifetime. They will make tax-free gifts of the remaining income to an ILIT using available annual exclusions. The trust will purchase a John Hancock Protection SUL-G policy with a death benefit of $1,000,000 for an annual premium of $16,856.

As the chart indicates, by liquidating municipal bonds and purchasing a SPIA, the Weingarts can leverage a portion of the SPIA income with life insurance, secure a higher and guaranteed income stream for life, and transfer more to their family. The remaining income will grow at 5% in the trust.

Comparison Summary Chart:

	RETAIN MUNICIPAL BONDS	MUNICIPAL BOND MAXIMIZATION
NET ANNUAL INCOME	$40,000	$67,417
PREMIUM	$0	$16,856
ANNUAL EXCLUSION GIFTS	$40,000	$67,417
ASSET VALUE IN YEAR 19	$1,000,000	$1,000,000
ESTATE TAX	$550,000	$0
NET TO HEIRS AT YEAR 19	$450,000	$1,000,000

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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 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. 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.
3. 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.
4. 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.
5. Based on Male, Non Smoker Preferred, age 67 and Female, Non Smoker Preferred, age 62.
6. The GST tax applies to transfers of property to a skip generation. Skip persons include lineal descendants of the transferor such as grandchildren, great-grandchildren, grandnieces and nephews, and so forth.
7. Life expectancy year.
8. Not all municipal bonds are exempt from federal and state income tax. Consult your tax advisors.

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

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