Retirement Income "Backstop"

Help Eliminate the Risk of Outliving Assets in Retirement

John Hancock's Accumulation IUL can help address longevity concerns. By allocating extra income to Accumulation IUL premiums, clients may have a secondary source of income if they outlive their retirement savings.

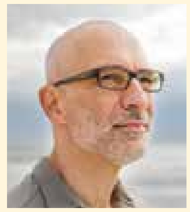
During working years (or the accumulation period) most people try to save for retirement. They often meet with a financial advisor to determine how much they should be saving and what investment vehicles they should use to achieve their goals. In determining this amount, clients often consider how much they need, when they will need it, what they think their money can earn and for how long it will need to last. The savings amount is based on the current and projected future worth of the client's IRAs, 401(k)s, Roth IRAs, and perhaps even life insurance.

During the accumulation period, in most cases, individuals are not concerned about the sequence of returns, so long as they average the assumed rate of return over an extended period of time. If they assume their accounts will grow at 8% overall, does it matter if in year 1 they earn 4% and in year 2 they earn 12%? The risk of the timing of return rates is minimized over an extended accumulation period. You will notice that the sequence of returns is more damaging during the distribution period (or in retirement), which we will discuss later in this article.

The accumulation of retirement savings is only one phase. Yet, what happens if one of the many risks associated with retirement occur that was never considered in the analysis, such as:

- **LONGEVITY** – What if clients live beyond the years they expected? What is the probability of one of the spouses living 30 years or longer in retirement? (Consider this risk "squared" if married.)
- **TAXES** – Can anyone predict with accuracy what taxes (in all forms) might look like in 20 years or more? Do your clients believe tax rates will go up? Will they be able to control taxation?
- **INFLATION** – Was this aspect factored into the retirement needs analysis accurately? How erosive is inflation over a long duration of time? What is the effect of inflation on the cost of health care for the elderly?
- **ILLNESS** – A sudden illness can erode assets very quickly. It is estimated that approximately 70% of people over age 65 will require long-term care services at some point in their lives.[1]
- **WITHDRAWAL RATE** – What happens to accounts if, as a result of the risks above, the amount needed exceeds the planned amount? What if an unexpected cash need occurs?
- **SEQUENCE OF RETURN DURING DISTRIBUTION PERIOD** – This risk is usually ignored. If accounts underperform during the distribution period, it is difficult to make up for the loss. When you combine this likely event to the withdrawal rate risk, it is unlikely accounts will last as long as expected.

CASE STUDY ILLUSTRATION: Mr. Quigley, 55, Preferred Non-Smoker



Mr. Quigley and his wife have established a variety of retirement accounts during his working years. He has saved regularly and is now at his peak earning period. The Quigleys are at the point in their lives where many of their large expenses are behind them. The kids are out of college and out of the house, and the mortgage has been paid. They can now focus their attention on their future, as they both are in excellent health and have some "extra income." When they review their retirement plan, they realize that there is a real possibility that one or both of them could live past age 85, which was their estimated "end date" for their retirement income.

Using the **Invest in Your Life** module in JH Solutions, Mr. Quigley's life expectancy is 85, but the chances of survival are 55%. If we look at Mrs. Quigley (also age 55), their joint life expectancy is age 92 and there is a 51% chance one of them will live longer than that! There is over a 30% probability that their retirement income needs to last 30 years.

Mr. Quigley can commit to a monthly additional savings of $1,500/month for another 10 years. By using **John Hancock's Accumulation IUL** at a 6% Capped Indexed Account rate with increasing death benefit option for 10 years plus a 4% Long-Term Care rider, this policy can give the couple a retirement income backstop of:

- Roughly $268,000 of death benefit on Mr. Quigley's life that can grow.
- About $268,000 of total LTC benefits with a $10,733 monthly benefit.
- Non-reportable tax-free income of $50,000 a year beginning at age 85 through age 100 via loans (no withdrawals).
- The IRR on cash value by age 100 is 5.04% assuming a 6% indexed return. That means that the expense for benefits was only 0.96%.
- For that 0.96% expense, Mr. Quigley secured a death benefit, long-term care benefits and discretionary, non-reportable tax-free distributions.

This is a supplemental illustration. Not all benefits and values are guaranteed. The assumptions on which the non-guaranteed elements are based are subject to change by the insurer. Actual results may be more or less favorable.

Introducing the retirement income "backstop"

A cash value life insurance policy with a Long-Term Care (LTC) rider can be a very useful backstop against these risks. Consider the many benefits cash value life insurance can provide:

- Death benefits can help replenish diminished retirement assets for surviving spouse.
- Tax deferred growth of cash value and discretionary, non-reportable, tax-free distributions (loans or withdrawal of basis) help minimize tax risk.
- Indexed Universal Life or Variable Universal Life can help offset the risk of inflation as accounts are indexed to (or participate in) market performance.
- LTC riders help protect the other investment accounts from unexpected costs due to illness risk.
- In an Indexed Universal life insurance policy, the indexed accounts can control sequence of return risk, as cash values are protected from market losses. In addition, the fixed accounts of all cash value products provide a stable yield to minimize the sequence of return risk.

The retirement income backstop plan helps minimize the risks of death and illness with the policy death benefit and long-term care benefits. Tax risk is eliminated as policy values grow tax-deferred. Loans from the policy are free of taxation and not reportable as income (unlike 401(k)s or IRAs). The withdrawal rate risk is minimized by being able to vary the loan amounts (unlike IRAs where Required Minimum Distributions must be taken). The sequence of return risk is minimized in Indexed UL as the indexed account cash values are protected from market losses. In addition, the fixed account of all cash value products provides a stable yield to minimize the risk.

Best of all, this sales idea will work well with John Hancock's comprehensive portfolio of Universal, Indexed and Variable Universal Life insurance products:

✔ Current Assumption Universal Life (minimal risk)

✔ Indexed Universal Life (moderate risk)

✔ Variable Universal Life (risk tolerant)

✔ Premier Life (guaranteed cash values)

1. U.S. Department of Health and Human Services, National Clearinghouse for Long-Term Care Information, www.longtermcare.gov, September 2010.

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Loans and withdrawals will reduce the death benefit, cash surrender value, and may cause the policy to lapse. Lapse or surrender of a policy with a loan may cause the recognition of taxable income. Policies classified as modified endowment contracts may be subject to tax when a loan or withdrawal is made. A federal tax penalty of 10% may also apply if the loan or withdrawal is taken prior to age 59½.

The IRR on death benefit is equivalent to an interest rate at which an amount equal to the illustrated premiums could have been invested outside the policy to arrive at the net death benefit of the policy.

Life expectancies shown in this article are based on Valuation Basic Table 2008.

The Long-Term Care (LTC) rider is an accelerated death benefit rider and may not be considered long-term care insurance in some states. There are additional costs associated with this rider. The Maximum Monthly Benefit Amount is $50,000. When the death benefit is accelerated for long-term care expenses it is reduced dollar for dollar, and the cash value is reduced proportionately. This rider has exclusions and limitations, reductions of benefits, and terms under which it may be continued in force or discontinued. Consult the state specific Outline of Coverage for additional details. Please go www.jhsalesnet.com to verify state availability.

Guaranteed product features are dependent upon minimum premium requirements and the claims-paying ability of the issuer.

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MLINY040317010