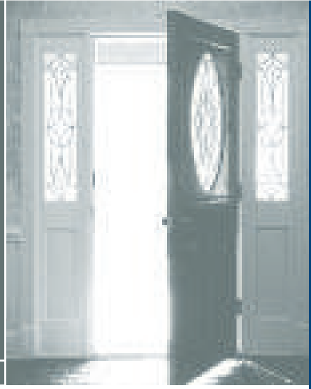
JohnHancock
LIFE INSURANCE



Success Strategy
Spousal Access Trusts

PLANNING STRATEGIES FOR SUCCESSFUL CLIENTS

Married couples often create irrevocable life insurance trusts (ILITs) to replace income in the event of an untimely death, and to pay estate taxes and other expenses of estate administration.[1] ILITs have traditionally been an important vehicle for leveraging lifetime gifts with life insurance, and the trust will usually receive the life insurance death benefit free of income and estate taxes. However, a common complaint about ILITs is that both husband and wife lose the ability to access the life insurance policy's cash value during the insured's life. A Spousal Access Trust is a variation on a traditional ILIT that can provide flexibility and access for married clients who are buying a life insurance policy.

WHAT IS A SPOUSAL ACCESS TRUST?

A Spousal Access Trust is a type of ILIT that enables the spouse of the trust grantor to receive distributions from the trust during his/her lifetime. A Spousal Access Trust names the spouse of the grantor, in addition to the children of the grantor, as trust beneficiaries. A Spousal Access Trust can be used with either a single life or a survivorship life insurance policy, and as long as the trust is drafted and administered correctly, it will also have the tax benefits of a traditional ILIT. A variable life insurance policy, which has the potential for high cash value accumulation during the insured's lifetime, can be an ideal choice for funding a Spousal Access Trust.

HOW DOES IT WORK?

You are allowed to make annual exclusion gifts up to $12,000 per person each year without having to pay gift taxes. You can use the annual exclusion gifts to fund an ILIT for the benefit of your spouse and children. The trust will own a life insurance policy; the trust will receive the death benefit free of estate and income taxes, and the policy cash value will grow inside the trust on a tax-favored basis. The trust document will provide that distributions can be made to your spouse and children during your lifetime, usually for health, education, maintenance and support.[2]

BENEFITS

- The trust will receive the death benefit free from income and estate taxes.
- An irrevocable trust can protect assets from creditors and protect your family's privacy.[3]
- When gifts are used to purchase life insurance, lifetime giving can increase the amount of money left for your heirs.
- A Spousal Access Trust allows distributions to the grantor's spouse and children during his/her lifetime, allowing access to the policy cash value.
- The trustee can make distributions to provide supplemental retirement income for the grantor's spouse via policy loans and withdrawals.

CONSIDERATIONS

- Transfers of assets to an ILIT are irrevocable, and may only be used for the benefit of the trust beneficiaries.
- Taking policy loans and withdrawals from a life insurance policy during the insured's lifetime can reduce the available death benefit.
- Withdrawals and loans from life insurance policies classified as modified endowment contracts may be subject to income tax, and may also be subject to a federal tax penalty if the withdrawal or loan is taken prior to age $59\frac{1}{2}$.
- Variable life insurance has annual fees and expenses associated with it in addition to life insurance related charges, including surrender charges and investment management fees. Variable life insurance products are long-term contracts and are sold by prospectus. The primary purpose of variable life insurance is to provide lifetime protection against economic loss due to the death of the insured person. There are risks associated with each investment option, and the policy may lose value.

CASE STUDY: ROBERT AND ANN SCHULTZ

Robert Schultz (age 45) has a dilemma. He needs about $2,000,000 of life insurance to protect his wife Ann (age 42) and his three children in the event of his death. Since he is contributing fully to his 401(k) plan and wants to save more for retirement, Robert was hoping to use one insurance policy to solve both needs, by purchasing a $2,000,000 policy and funding it with enough money to provide supplemental retirement income. However, if he owns the policy himself, the death proceeds could be subject to estate taxes. The Spousal Access Trust can provide a solution to Robert's dilemma. Robert can make annual exclusion gifts of $36,000 a year to a Spousal Access Trust. The trust will purchase a $2,000,000 Accumulation VUL policy on Robert's life,[4] and will fund the policy with a $36,000 premium for 20 years. Ann will be the trustee during her life.

If anything should happen to Robert today, Ann and the children are protected by the death benefit. However, during Robert's lifetime, the trustee could also use the policy's cash value to make distributions to Ann and the children for their health, education, maintenance and support. By the time Robert retires in 20 years at age 65, the policy's cash value is projected to be $1,281,934. Starting in year 21, the trustee could make distributions of $112,246 a year from the policy for 15 years, if needed, for the benefit of Ann and the children. These hypothetical projected distributions represent withdrawals up to the policy basis and loans thereafter up to the maximum cash surrender value, based on 7.12% growth rate and current charges (non-guaranteed). Based on current projections, the policy would remain in force until Robert attains age 100. By using a Spousal Access Trust, Robert and Ann are able to protect their family but still have access to the policy's cash value in case of an emergency.

Year	Annual Premium by Trust Beneficiaries	Total Amount Received (7.12% net)	Net Cash Value	Net Death Benefit
1	$36,000	$0	$30,678	$2,000,000
15	$36,000	$0	$770,800	$2,000,000
25	$0	$561,230	$1,117,843	$1,438,770
35	$0	$1,683,690	$1,681,300	$667,006

This is from a supplemental illustration authorized for distribution only when preceded or accompanied by a basic illustration showing the maximum mortality and expense charges associated with the policy for each assumed rate of return, as well the effect of a 0% gross rate of return on policy values. It assumes a hypothetical rate of return and/or interest crediting rate and may not be used to project or predict investment results. Unless indicated otherwise, these values are not guaranteed.

Please contact 1-888-266-7498, option 2 to obtain a product and a fund prospectus. The prospectuses contain complete details on investment objectives, risks, fees, charges and expenses as well as other information about the investment company. Please read the prospectuses carefully containing this and other information on the product and the underlying portfolios and consider these factors carefully before investing. Product and/or product features may not be available in all states.

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1. 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 of trust proceeds.
2. See IRC Section 2041. To avoid giving the beneficiary spouse any incidents of ownership with a Survivorship Spousal Access Trust, the authority to make distributions to the surviving spouse may need to be limited to an independent trustee with absolute discretion. See PLR 200617008. Consult your tax advisors.
3. Assuming the proposed initial gift was not a fraudulent conveyance meant to inhibit creditors.
4. This hypothetical example assumes a $2,000,000 Accumulation VUL policy issued on a Male, Age 45, Preferred Non-Tobacco, Colorado resident. The illustrated amount assumes the payment of an annual premium of $36,000 for 20 years, a growth rate of 7.12% net and current charges. At a growth rate of 0% (– .88% net) and maximum charges, the policy lapses in year 22.

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