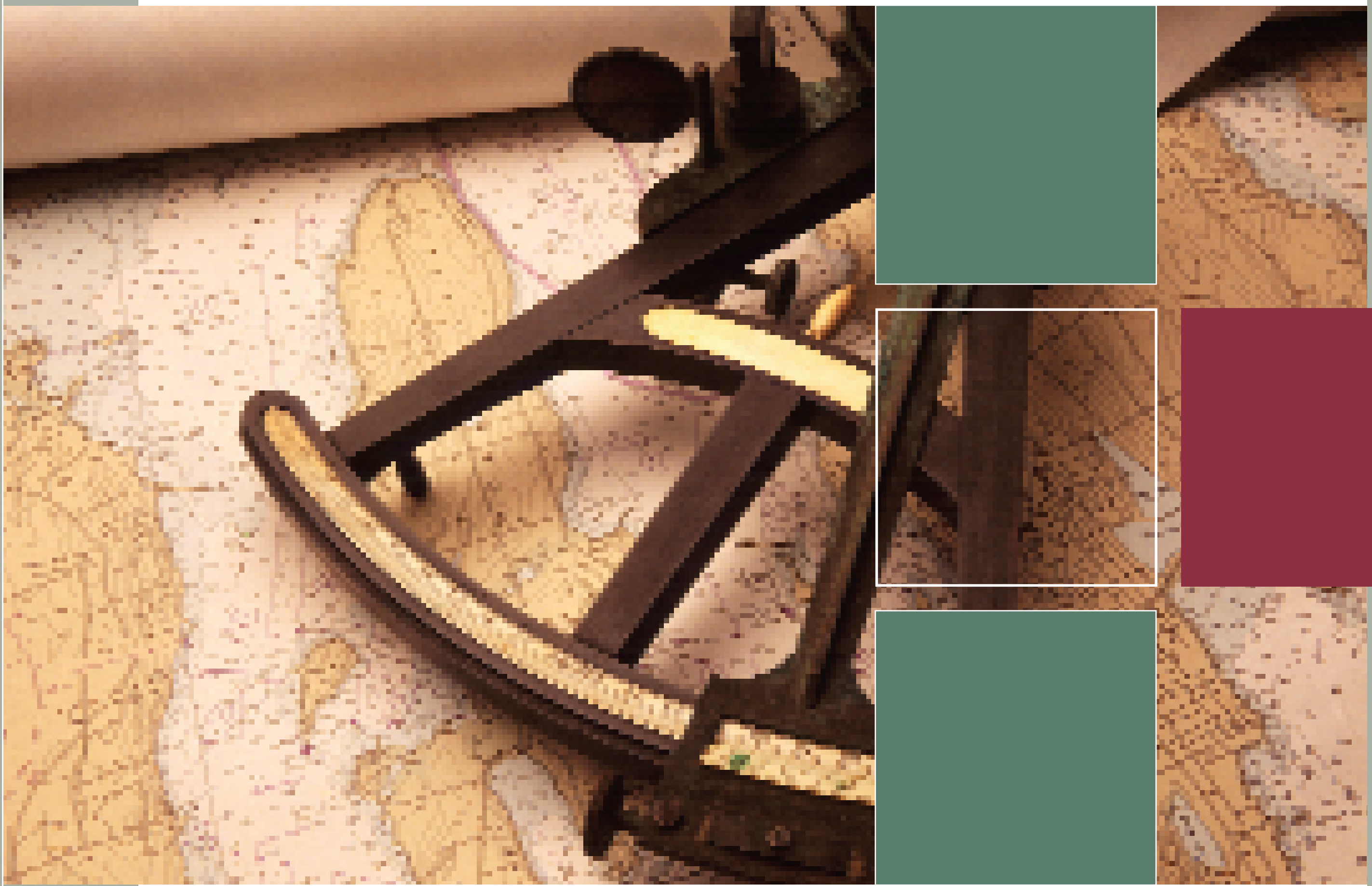
Advanced Markets Client Guide

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 can maximize your net after-tax income and guarantee it for your life.
- 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% 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 $2,539,766. Under current tax law, it will be subject to combined estate and income taxes of $2,003,168, leaving only $536,599 for the Malone's three children.

Here is how it works: Sam and Maggie decide to take an annual withdrawal of $42,346 from the deferred annuity, which at the Malone's 40% tax bracket produces an after-tax income stream of $25,408 every year.[4] The Malones will give this money to an ILIT which will purchase a $2,295,638 John Hancock Survivorship UL-G Policy on their lives.[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.

As the chart below indicates, by liquidating a deferred annuity and purchasing a SPIA, the Malones can leave a total of $2,462,705 to their heirs; nearly five times more than without planning.

Comparison Summary Chart:

	DO NOTHING	ANNUITY MAXIMIZATION
ANNUITY VALUE IN YEAR 25	$2,539,766	$417,668
LIFE INSURANCE PROCEEDS	$0	$2,295,638
ESTATE AND INCOME TAXES DUE ON ANNUITY	$2,003,168	$250,601
NET TO HEIRS	$536,599	$2,462,705

The data shown is taken from an illustration. It assumes a hypothetical rate of return and is not a representation of expected future 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 (74) 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 getting as much as possible of her assets 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 $46,074 gross income, or $40,823 net income, for her life time. She will keep $28,456 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 $12,367.

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	$40,823
INCOME GIFT TO ILIT	$0	$12,367
NET SPENDABLE INCOME	$22,000	$28,456
ASSET VALUE IN YEAR 13[7]	$500,000	$500,000
ESTATE TAX	$275,000	$0
NET TO HEIRS	$225,000	$500,000

The data shown is taken from an illustration. It assumes a hypothetical rate of return and is not a representation of expected future 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 $4,000,000, 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, James is receiving $40,000 tax-free income from the municipal bonds. The Weingarts would like to generate more income from the bond investment but are unwilling to invest more aggressively since their remaining assets are tied up in real estate and other taxable investments. At a minimum, they would like to maintain their current income.

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 $68,555 net income, for their joint lifetime. They will keep $45,445 to spend and make tax-free gifts of the remaining income to an ILIT using available annual exclusions. The trust will purchase a John Hancock Survivorship UL-G policy with an initial death benefit of $1,300,000 for an annual premium of $23,110.

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.

Comparison Summary Chart:

	RETAIN MUNICIPAL BONDS	MUNICIPAL BOND MAXIMIZATION
NET ANNUAL INCOME	$40,000	$68,555
INCOME GIFT TO ILIT	$0	$23,110
NET SPENDABLE INCOME	$40,000	$45,445
ASSET VALUE IN YEAR 19	$1,000,000	$1,300,000
ESTATE TAX	$550,000	$0
NET TO HEIRS	$450,000	$1,300,000

The data shown is taken from an illustration. It assumes a hypothetical rate of return and is not a representation of expected future results.

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

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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 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, NS Preferred age 67 and Female, NS 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.

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