Using Life Insurance to Maximize the Value of an Annuity

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JOHN HANCOCK PLAYBOOK

Maximizing a legacy

IF AN ASSET IS NOT NEEDED TO SUPPORT A CLIENT'S LIFESTYLE, it often becomes earmarked as an inheritance for the next generation. The question then becomes, **"What is the most efficient way to pass the asset to my heirs?"** Frequently, an asset that is great for accumulating funds is not a very efficient vehicle to pass on wealth to the next generation. Annuities, CDs, municipal bonds, and Social Security benefits are some examples. By repositioning these wealth accumulation assets into a life insurance policy, clients can leverage them in a tax-efficient manner and maximize the legacy for their heirs.

This playbook focuses on how this can be done.

* For help in retirement planning discussions, see the Appendix of this document: *Digging Deeper – A Guide to Exploring Death Benefit Protection and Legacy Maximization.*

Start the conversation

USING THE "THREE BUCKETS" TO UNCOVER LIFE INSURANCE OPPORTUNITIES

This simple "three bucket" level-setting conversation about wealth or assets can help your clients identify and pinpoint their financial planning priorities, which in turn helps you identify the strategies that are most appropriate — and where life insurance fits in. Use the "three buckets" to help your clients have a better understanding of their overall strategy — **and to be ready to move forward with solutions.** See below for how the conversation would go. (See page 8 for questions to help your client explore legacy maximization.)

CONSUMPTION (LIFESTYLE)

Assets that you use, touch, or enjoy during your lifetime, or that generate the income to support your lifestyle, e.g., your home, car, toys, investment portfolios, retirement accounts, etc.

HOW LIFE INSURANCE CAN HELP:

- Retirement funding
- College funding

CONTINGENCY (RISK)

Assets that cover the "just-in-case" risks that could impact your lifestyle, e.g., health changes, catastrophic casualty risks, untimely death, or anything that impairs the value of an asset in the first bucket.

HOW LIFE INSURANCE CAN HELP:

- Income replacement
- Long-term care protection
- Business-succession planning
- Key-person insurance
- Spousal access trusts

CUSTODIAL (LEGACY)

Assets you will not need during your lifetime for the first or second bucket. These are, by definition, assets that are for someone or something else.

HOW LIFE INSURANCE CAN HELP:

- The "Maxes" (CD, annuity, municipal bond, etc.)
- Gifting
- Dynasty trusts
- Charitable planning
- Wealth-transfer planning

Focus on the need and solution

MAXIMIZING THE VALUE OF AN ANNUITY

When your clients identify an annuity that is not needed for retirement income (see "Legacy" bucket, page 3), life insurance that can offer a tax-free death benefit might be a better solution than holding the annuity to pass to the heirs.

Why Choose Life Insurance?

- Provides income tax-free death benefit protection, while a deferred annuity may be subject to both income- and estate-taxes at death
- Offers cash value potential — on permanent policies — based on premiums paid
- Allows access to any policy cash value via tax-favored loans and withdrawals
- Allows creditor protection (in some states)
- Can increase the amount left to heirs (through death benefit), compared to an annuity
- Offers optional riders, such as long-term care, that may provide additional benefits to the insured

How it works

REPOSITION AN ANNUITY INTO A MORE EFFICIENT ASSET BY:

- Converting annuity to Single Premium Immediate Annuity (SPIA) OR take withdrawals
  - **SPIA** — portion of each payout excluded from income tax
  - **Withdrawals** — gain will be taxed as ordinary income (last in/first out)*

USE ANNUITY INCOME STREAM TO PAY LIFE INSURANCE PREMIUMS

LIFE INSURANCE

POLICY

ADD LTC RIDER
(any payments will be deducted from death benefit)

PAID TO BENEFICIARIES AS TAX-FREE DEATH BENEFIT

*May be subject to surrender charges and/or penalty taxes if taken before age 59½.

Offer a great fit

JOHN HANCOCK'S PROTECTION UL

Competitive premiums may be reduced even more with the John Hancock Vitality Program

By choosing the Vitality solution, clients can potentially reduce their premiums and also realize several benefits for living a healthy life, including:

- Using any premium savings to help offset the cost of the LTC rider (if chosen)
- Earning entertainment, shopping, gym, and travel rewards and discounts for everyday healthy steps
- Saving up to $600 annually on healthy food purchases with the Vitality HealthyFood™ benefit

Innovative tool to help keep policy on track

Clients can opt to take advantage of LifeTrack, a policy-management service that helps them stay on track to meet their insurance goals.

- **Adjusts premium notices** each year to reflect real-life policy performance and updated future assumptions
- **Ensures clients** will always understand what to pay to keep pace with their policy's objectives

LifeTrack: GPS for your clients' policies

On each billing date, you and your clients will receive a LifeTrack premium notice that reflects the current policy value, crediting rate and Vitality Status (as applicable), and missed premium payments.

LIFETRACK ANNUAL NOTICES SHOW THE PREMIUMS THAT ARE PROJECTED TO KEEP YOUR CLIENTS ON TRACK!

Show how it works

A CASE STUDY: PROVIDING LOW-COST DEATH BENEFIT TO HELP MAXIMIZE LEGACY LEFT TO HEIRS — PLUS LTC PROTECTION WHILE LIVING.

The situation

Mr. Tom Malone, age 65, recently retired. He has an annuity valued at $250,000, with a $100,000 cost basis, growing at 5%. He no longer needs the annuity for retirement income and would like to leave the annuity to his daughter.

The solution

The advisor met with Tom and proposed using withdrawals from the annuity to help fund the premiums for a John Hancock Protection UL policy. This concept will offer a higher benefit to his daughter due to the income-tax free death benefit offered by life insurance.

Take a look at Tom's plan:

- Take annual withdrawals from annuity
- Use the after-tax amount — $11,954 — to fund premium for a Protection UL with Vitality policy with a $529,458 death benefit
- Add a Long-Term Care rider, making funds available to help pay for a long-term care need

Protection UL with Vitality and the LTC Rider

MALE, 65, PREFERRED NON-SMOKER, $11,954 PREMIUM FOR 20 YEARS BUYS $529,458 FACE AMOUNT, 2% LTC RIDER

	CURRENT ANNUITY STRATEGY	PROPOSED PROTECTION UL STRATEGY
Annuity in Year 20	$602,929	—
Income Taxes Due At Death	$176,025	—
Net to Heirs in Year 20	$426,904	$529,472
POTENTIAL GAIN		**$102,568**

In addition to potentially leaving more to his heir, Tom's life insurance policy also has long-term care benefits available, along with John Hancock Vitality to help him lead a healthy life (with all the savings and rewards that come with it).

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.

Easy application process

SELLING LIFE INSURANCE IS EASIER THAN EVER

Convenient and quick ticket submission

With our **JH Life Paper Ticket**,[1] spend less time on paperwork and more time on selling:

- Provide some basic information and John Hancock handles the rest
- Convenient tracking through your usual case status tools

Opportunity for faster underwriting decisions

When applications are initiated via our new ticket process, eligible clients[2] will be considered for quicker underwriting decisions with **John Hancock ExpressTrack™**.

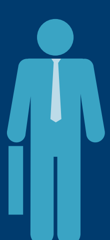
- No in-person medical screenings, lab work, or pre-issue medical requirements[3]
- Underwriting decisions in as little as three days[4]

How it works

Track your submission's progress via your usual pending case status tools.

PRODUCER SUBMITS A JH LIFE PAPER TICKET

- Prior to the client being contacted to complete his/her tele-interview, provide the client with our *Preparing For Your Telephone Interview* flyer



TELEPHONE INTERVIEW WITH CLIENT

- Conducted by a John Hancock representative who completes the application and orders paramedical exam if needed
- Client signs application (eSignature is encouraged for quicker processing)

CASE PROCEEDS TO UNDERWRITING

Underwriting review — will be considered for ExpressTrack or go through traditional underwriting

POLICY ISSUED AND DELIVERED

Digging deeper

A GUIDE TO EXPLORING DEATH BENEFIT PROTECTION AND LEGACY MAXIMIZATION

Use the following questions to help uncover information about your client's annuity and his/her legacy planning needs:

What are your plans for your annuity?

If your clients tell you that this money is meant to transfer to their heirs, do they know that there are tax consequences that could erode the value of the annuity? If your clients say this money will be used to help pay any long-term care expenses and/or for an emergency, then perhaps they have sufficient other assets/income for their retirement. In either or both cases, permanent life insurance policy with a long-term care rider could offer a better solution than an annuity.

Why did you buy the annuity?

For many, their motivation to buy a annuity may have come from the tax advantages, namely that an annuity offers tax-deferred growth. If taxes were a main motivator for purchase, explain to the client the tax ramifications of passing the annuity at death. The heirs will receive the annuity, but will pay ordinary income on the gain in the contract ("What is the basis in the annuity?" is a good question to determine the potential tax). In addition to income tax, there may be either a federal estate tax and/or state estate tax (this would apply to affluent clients).

What is your current tax bracket? What is the income tax bracket of your heirs? How will leaving the annuity to your heirs affect their tax bracket?

One of the key components to this strategy is to help mitigate the tax consequences if your clients leave this money to their heirs. Remember, taking distributions from an annuity will ultimately lead to taxation, whether during life or at death. But you can help your clients create a tax strategy using life insurance to try to reduce the overall tax hit. This generally works well, especially for clients in a lower tax bracket. But also consider that there is inherent flexibility in taking distributions from the annuity (i.e., clients can factor current income and spread out the taxation over their lifetime, as opposed to the possibly greater taxation that will be due on a lump sum at death).

John Hancock
INSURANCE

Check out how you can meet your clients' death benefit protection, LTC, wellness, and legacy maximization needs — all in one affordable policy. Run a Protection UL with Vitality and the LTC rider illustration today!

1. JH Life Paper Ticket is available for single-life term or permanent submissions. The new ticket process is available for all ages and face amounts (except juveniles) based on regular product rules. It is not available for SmartProtect Term with Vitality, Simplified Life, Simplified Life with Vitality or survivorship policies.
2. Consumers, ages18-60, initiating their application with a JH Life Paper Ticket and applying for single-life coverage of up to and including $1 million, may qualify for John Hancock ExpressTrack.
3. John Hancock will be requesting post-issue attending physician statements (APSs) on ExpressTrack cases for quality assurance review purposes.
4. Elapsed time to generate underwriting decision from the time Underwriting receives the interview results.

For agent use only. This material may not be used with the public.

Insurance policies and/or associated riders and features may not be available in all states. Some riders may have additional fees and expenses associated with them.

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. Please go to your John Hancock producer website to verify state availability.

This rider has exclusions and limitations, reductions of benefits, and terms under which the rider may be continued in force or discontinued. Consult the state specific Outline of Coverage for additional details.

This material does not constitute tax, legal, investment or accounting advice and is not intended for use by a taxpayer for the purposes of avoiding any IRS penalty. Comments on taxation are based on tax law current as of the time we produced the material.

Life insurance death benefit proceeds are generally excludable from the beneficiary's gross income for income tax purposes. There are few exceptions such as when a life insurance policy has been transferred for valuable consideration. Comments on taxation are based on John Hancock's understanding of current tax law, which is subject to change. No legal, tax or accounting advice can be given by John Hancock, its agents, employees or registered representatives. Prospective purchasers should consult their professional tax advisor for details.

Loans and withdrawals will reduce the death benefit and the 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. Withdrawals in excess of the cost basis (premiums paid) will be subject to tax and certain withdrawals within the first 15 years may be subject to recapture tax. Additionally, 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 59 1/2. Withdrawals are available after the first policy year.

All information and materials provided by John Hancock are to support the marketing and sale of our products and services, and are not intended to be impartial advice or recommendations. John Hancock and its representatives will receive compensation from such sales or services. Anyone interested in these transactions or topics may want to seek advice based on his or her particular circumstances from independent advisors.

HealthyFood savings are based on qualifying purchases and may vary based on the terms of the John Hancock Vitality Program.

Premium savings will apply based on the Vitality Status attained by the life insured.

In New York, entertainment, shopping, and travel rewards are not available and are replaced by healthy living and active lifestyle rewards.

Life insurance death benefit proceeds are generally excludable from the beneficiary's gross income for income tax purposes. There are a few exceptions such as when a life insurance policy has been transferred for valuable consideration.

Vitality is the provider of the John Hancock Vitality Program in connection with policies issued by John Hancock.

Rewards may vary based on the ownership and inforce status of the insurance policy, and the state where the insurance policy was issued.

John Hancock Vitality Program rewards and discounts are available only to the person insured under the eligible life insurance policy.

Insurance products are issued by John Hancock Life Insurance Company (U.S.A.), Boston, MA 02210 (not licensed in New York) and John Hancock Life Insurance Company of New York, Valhalla, NY 10595.

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