



LIFE INSURANCE



**NEW *Central Intelligence* Feature**

## Case In Point SUMMARIES

John Hancock's Advanced Markets Group offers a new monthly *Case In Point* section in *Central Intelligence* where you can find summaries of actual Advanced Markets cases that have recently sold. Three of the case studies are highlighted on the following pages. Each summary presents an example of the ways our team's focus on client and advisor concerns, case design expertise, consultation process and software capability translate into real-life solutions.

Please log on to [www.jhsalesnet.com/Advanced Markets](http://www.jhsalesnet.com/Advanced Markets) for additional examples of recently closed cases. Or see the Advanced Markets *Case In Point Summaries* brochure. To receive your copy, call the Advanced Markets Group at 888-266-7498 option 3 — or call your John Hancock Representative.

# Private Financing with Lifetime Gifts

## CLIENT PROFILE

STATUS	Married Couple: Male, Age 54, Preferred Non Smoker and Female, Age 53, Super Preferred Non Smoker. Two children.
NET WORTH	\$35,000,000 of which securities represented 75%.
CURRENT LIFETIME GIVING PLAN	Annual exclusions gifts were already being used in other planning and \$1M of the couple's \$2M lifetime gift tax exemption was available for future planning.
NEED	Additional \$15M survivorship life insurance for estate liquidity.
CLIENT CONCERNS	Keep current planning in place and do additional planning without incurring any gift taxes. Most importantly, the couple did not want to commit to a long-term funding arrangement.

## Initial Discussion

Joe Scianna, Advanced Markets Senior Consultant, designed several scenarios. The clients, with the help of their insurance advisor and the clients' advisory team, preferred the scenario which illustrated a lump-sum privately financed note made to an Irrevocable Life Insurance Trust (ILIT), from which insurance payments would be made. The lump sum was calculated to take into account the amount needed to repay the note in year 13, after 10 years of premium payments.

Joe, with the help of the Advanced Markets proprietary JH Solutions software, calculated that it would take a \$3,000,000 lump sum of cash made to the trust to fund the 10 annual premiums of \$150,000 for 9 years on a John Hancock Protection SUL-G policy, following a first-year premium gift of \$1,000,000, the clients' joint remaining lifetime exemption. This \$3,000,000 figure was based on an assumed 7.8% trust side fund that would accumulate to repay the loan principal, including accrued interest payments, in year 13. The privately financed note was established as a long-term note subject to the then applicable federal rate of 4.4% of interest.

## Solution

Clients expressed concern that the side-fund rate assumption of 7.8% might be too high. Joe then provided two "what if" scenarios to illustrate the shortfall in loan repayment if the side fund earned only 5%, as well as refinancing the note in year 13 at the lower assumed side-fund rate. Although there would be sufficient funds to pay the premiums over the 10-year period at the 5% assumed side-fund scenario, there would not be sufficient assets to repay the loan in year 13 under the 5% return assumption. Joe was able to alleviate these concerns by then illustrating the feasibility of refinancing the note, if necessary, under a 30-year note arrangement that utilized the trust side fund to pay loan interest annually, with a loan principal repayment from death proceeds.

# Creating an Asset Class with Protection SUL-G

## CLIENT PROFILE

STATUS	Married Couple: Male, Age 61, Preferred Non Smoker and Female, Age 59, Preferred Non Smoker.
NET WORTH	\$25,000,000
CURRENT LIFETIME GIVING PLAN	The husband and wife each had two annual exclusion gifts, but did not want to use their annual exclusions or gift exemptions to fund a life insurance policy.
NEED	\$10 million of survivorship life insurance for estate liquidity purposes.
CLIENT CONCERNS	Fund life insurance to take care of future generations without making any gifts.

## Initial Discussion

Joe Scianna, Senior Advanced Markets Consultant, designed several scenarios to show the clients, including Invest in Your Life (Quick Concepts) and Private Financing. The producer was able to use the Invest in Your Life presentation to show the clients that a guaranteed life insurance product (Protection SUL-G) could be an asset allocation tool in their overall portfolio. During this discussion, a universal life product with guarantees was compared to owning a bond with a guaranteed coupon rate. In the Invest in Your Life presentation, the clients saw that the Internal Rate of Return (IRR) on the life insurance policy in Year 30 is 8.03% after tax.

## Solution

The clients had available cash and decided to use a Private Financing arrangement with an Irrevocable Life Insurance Trust (ILIT) to fund a \$10,433,807 John Hancock Protection SUL-G insurance policy. Joe used the JH Solutions software to illustrate a lifetime exit strategy from the Private Financing arrangement in year 30. The arrangement was set up with the clients making a \$2,000,000 loan to their ILIT in year 1, and then the loan proceeds will be invested in a side fund inside of the trust with a projected growth rate of 5%. The case closed quickly once the clients saw the benefits of purchasing a guaranteed universal life product and using a Private Financing arrangement to fund a trust without making any gifts.

# Private Split Dollar

## CLIENT PROFILE

STATUS	Married Couple: Male, Age 60, Preferred Non Smoker and Female, Age 59, Super Preferred Non Smoker. Three children.
NET WORTH	\$50,000,000, including a privately owned family business.
CURRENT LIFETIME GIVING PLAN	The husband and wife each had three annual exclusion gifts, but the couple's combined \$2,000,000 lifetime gift tax exemption was not available.
NEED	\$20 million of survivorship life insurance for estate liquidity purposes.
CLIENT CONCERNS	Fund life insurance to take care of future generations without incurring any gift taxes. Much of the couple's cash was already tied up in the family business.

## Initial Discussion

During a regular review of their insurance, these clients realized that the value of their business had grown so much that they needed additional life insurance to supplement their existing coverage. Rich Gutowski, Advanced Markets Senior Consultant, designed several scenarios for the clients, including a Sale to a Grantor Trust and Private Split Dollar. The clients, with the help of their insurance advisor and their legal and tax advisors, preferred the scenario using a Private Split Dollar arrangement with an Irrevocable Life Insurance Trust (ILIT) and a \$20,000,000 John Hancock Protection SUL-G insurance policy.

## Solution

Rich, with the help of the JH Solutions software, was also able to illustrate a lifetime exit strategy from the Private Split Dollar arrangement through the use of a Grantor Retained Annuity Trust (GRAT). Rich illustrated a "zeroed-out" 10-year GRAT as a vehicle to transfer shares in the family business to the clients' heirs without having to make taxable gifts. Using a GRAT in a low-interest-rate environment enabled the clients to take advantage of the low Section 7520 rates, in addition to transferring the stock at a discounted value. When the GRAT terminates, the balance of the GRAT will transfer to the ILIT. The ILIT will then use the income from the stock in the GRAT to repay the amount due on the Private Split Dollar arrangement in year 10, and also to pay ongoing insurance premiums.

Initial Call to Advanced Markets: **September 2008**  
Case Closed: **February 2009**

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