John Hancock

LIFE INSURANCE

*Advanced Markets*

# The Many Uses of Permanent Life Insurance

*Beyond Protection*

# The Market's focus on *value* and *flexibility* is sharper than ever, giving insurance advisors a significant opportunity.

Beyond death benefit protection, a permanent life insurance policy offers both value and the flexibility to address priorities that can change over lifetime. In fact, the permanent policy can work double duty.

**In Retirement:** Permanent life insurance can provide flexibility, first as a protection vehicle during the working years and then as a tax-advantaged income supplement at retirement. As a supplemental savings vehicle, it can be funded above Roth and 401(k) contribution limits.

**Creditor Protection:** State rules can make a permanent policy more valuable than ever as an asset- and income-protection tool, both during lifetime and in retirement.

Focus on the *Art of Saving*

# Permanent Coverage for a Lifetime of Needs

Permanent or cash value life insurance is built to last a lifetime. The permanent policy can offer ongoing life insurance coverage for a lifetime to:

- replace income for the family,
- cover the cost of care provided by a non-earning spouse,
- repay debt obligations, or
- plan for business succession or estate plan in the event of premature death.

### The Benefits of Cash Value Life Insurance:

- Unlike term insurance, a permanent policy provides cash value accumulation that can be tapped to supplement income or to fund an emergency need.
- Term insurance provides only temporary protection with limited opportunity for continuation of coverage at older ages.[1]
- Unlike a term policy, a permanent policy does not terminate and can replace income from an earning spouse, as well as assist in replacing functions that would have been provided by a non-earning spouse throughout the working years.

**Features of Term and Permanent Insurance**

| | Term | Permanent |
|---|---|---|
| Death Benefit Protection | Yes | Yes |
| Cash Value Accumulation | No | Yes |
| Acceleration of Death Benefit during lifetime to cover long-term care expenses | No | Yes* |
| Death Benefit Protection for Life | No | Yes** |
| Flexibility based on changing needs | No | Yes |

*A Long-Term Care rider to accelerate policy death benefit for long-term care expenses may be added at issue at additional cost. Acceleration would reduce death benefit dollar for dollar, and cash value would be reduced proportionately.

**Providing lifetime scheduled premiums are paid when due.

## Beyond Death Benefit Protection: Life Insurance as a Retirement Solution

Cash value life insurance can be designed to provide both death benefit protection for a lifetime and the potential for cash value accumulation to address changing needs. The benefits can include:

- ***Flexible premiums*** based on design and product.
- A rider may be added to the policy contract to help with ***long-term care*** expenses by accelerating death benefit during lifetime.[2]
- ***Cash Value advantages:*** The permanent policy can build cash value over time. In the case of Universal Life policies, premium payments in excess of the fees and expenses associated with the death benefit protection element of the policy are deposited in the cash value account, which grows tax deferred each month based on the current rate that is being credited to the account.
  - ***Cash values can accumulate*** on a tax-deferred basis and may help the insured to recover premiums.
  - A portion of the cash value ***can be withdrawn*** in the event of an emergency or to supplement retirement income, keeping in mind that the policy death benefit is reduced.
  - Withdrawals are ***not taxed*** unless an amount above premiums paid into the policy is withdrawn and, as long as the policy is not designed as a Modified Endowment Contract (MEC), can provide a ***tax-deferred contribution resource*** for retirement income.
  - Use of cash values to supplement retirement income may offset a potential shortfall due to taxes payable on qualified plan distributions at retirement.
  - The policy's ***cash value can be borrowed*** in the event of unexpected needs.

# Life Insurance as a Creditor Protection Tool

Depending on the laws of the client's state, the cash value savings and/or death benefit of a permanent policy may be protected from the claims of creditors.[3]

## Permanent Life Insurance

### Benefits

**Permanent Death Benefit Protection** – The death benefit provides protection for a lifetime against economic loss.

**Cash value accumulation** – A permanent policy has the potential to accumulate cash values on a tax-deferred basis and may help you to recover premiums.

**Tax-favored income** – Distributions from cash values may be taken on a tax-free basis as long as cumulative withdrawals do not exceed cost basis and policy loans are taken thereafter.

**Death benefit acceleration to cover long-term care costs** – When a permanent policy is issued with a Long-Term Care rider, the policy's death benefit may be accelerated to cover qualified long-term care costs.

**Flexibility** – The permanent policy may be designed to provide the insured with the flexibility to address changing needs, such as a need or ability to adjust premium payments and/or to switch the focus of the insurance protection from death benefit protection to cash value accumulation to long-term care protection.

### Considerations

**The low cost of term insurance** – The cost of term insurance at younger ages can be significantly less than the cost of permanent insurance.

**Death benefit adjustment** – The death benefit is reduced dollar for dollar and the policy's cash values are reduced proportionately with each Long-Term Care benefit payment.

**Additional tax, risk and expenses** – The purchase of life insurance has life insurance and administrative costs including surrender charges, investment management fees and risks associated with it.

**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 to a MEC if the loan or withdrawal is taken prior to age 59½. Cash value available for loans and withdrawals may be more or less than originally invested. Withdrawals are available in the 2nd policy year.

1. A conversion privilege may be available on some term insurance policies in which the insured may convert the policy to a permanent policy within a period of time and without evidence of insurability. This privilege can be valuable if the insured's health has deteriorated and coverage lasting a lifetime becomes necessary.
2. When the policy death benefit is accelerated for long-term care expenses, the death benefit is reduced dollar for dollar, and the cash value is reduced proportionately. The policy account value is also reduced proportionately. There may be additional costs associated with such a rider.
3. Clients should consult legal and tax advisors regarding their individual situation and exemption available in their state. Creditor protection is not available for a life insurance policy when the owner/insured is insolvent or is contemplating filing for bankruptcy. Limits on cash values and death benefits in certain states may reduce the effectiveness of this planning technique.

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The Long-Term Care (LTC) rider is an accelerated death benefit rider and may not be available in some states. Maximum face amount is $5 million with the LTC rider. The LTC rider is not considered long-term care insurance in some states. When the death benefit is accelerated for long-term care expenses, the death benefit is reduced dollar for dollar, and the cash value is reduced proportionally. The policy account value is also reduced proportionally. There are additional costs associated with this rider. Please go to www.jhsalesnet.com for a complete list of up-to-date state approvals.

**For prospective policyholders in New York, this product is a life insurance policy that accelerates the death benefit for qualified long term care services and is not a health insurance policy providing long term care insurance subject to the minimum requirements of New York Law; it does not qualify for the New York State Partnership for Long-Term Care program and is not a Medicare supplement policy.**

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.

Insurance policies and/or associated riders and features may not be available in all states.

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