



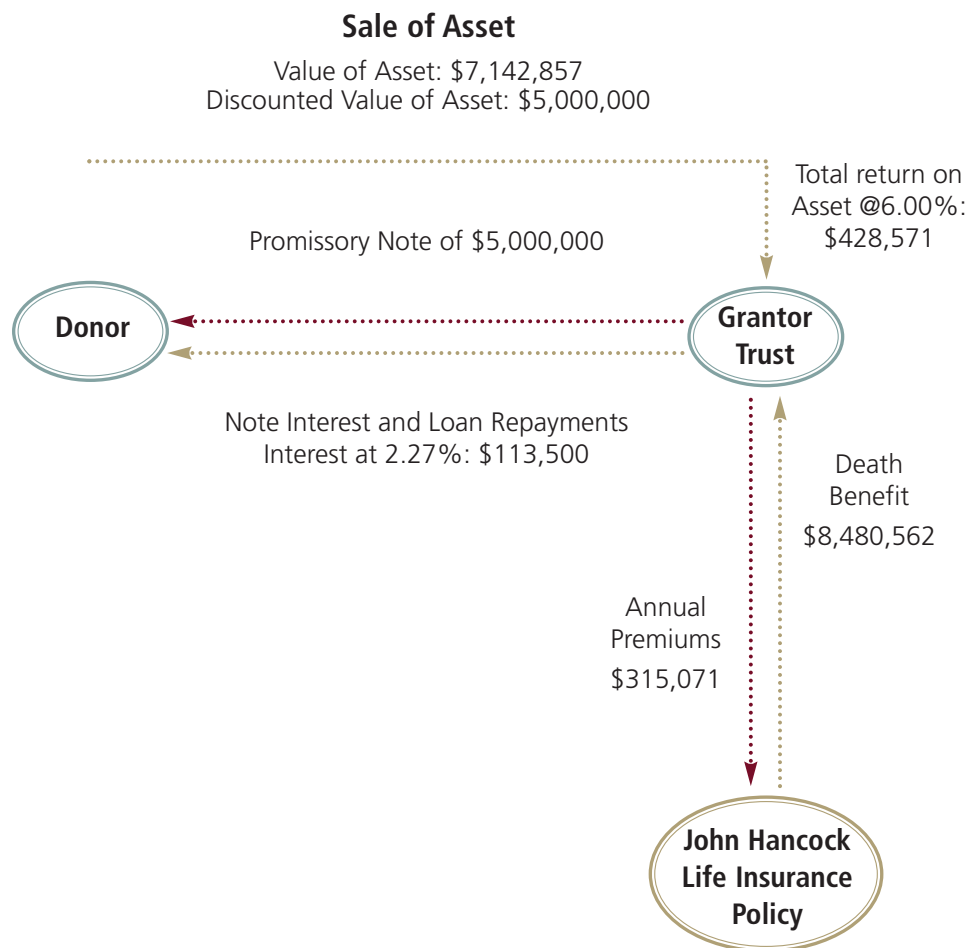
LIFE INSURANCE



Advanced Markets Paying Premiums with Arbitrage

TODAY we find ourselves in an economic environment that features some of the lowest interest rates in the past century. In the right circumstances, clients who have an asset that is currently producing a return that exceeds today's low interest rates can use the arbitrage to pay premiums. This may offer them a way to fund an Irrevocable Life Insurance Trust while minimizing transfer and income taxes.

Take a look at how this strategy works when an asset is transferred to the trust in exchange for a fair market installment note with a 9-year term. The note is based on the June 2011 mid-term Applicable Federal Rate of 2.27% and would be locked in for 9 years:



Consider the cost of waiting:

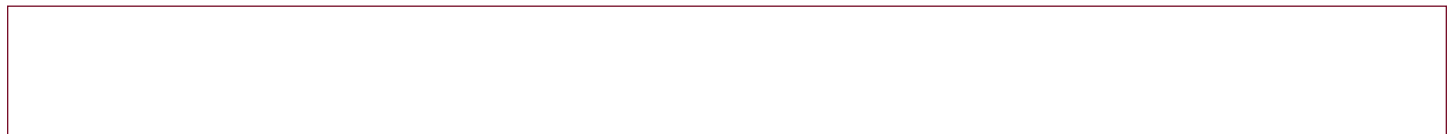
If the AFR increases by just 1%, the loan interest required would increase to \$163,500, leaving only \$265,071 for premium. The life insurance death benefit that could be purchased would then decrease to approximately \$7.1M or approximately \$1.3M, less than what can be purchased under current conditions.

The installment note is assumed to be established as a balloon payment so that the principal is repaid at the end of the 9-year term. The business is assumed to qualify for a valuation discount of 30% based on its marketability. 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. Assumes a John Hancock Protection UL on a Male, age 65, Preferred Non smoker for \$8,480,562 death benefit with a premium for \$315,071 based on a policy crediting rate of 5.2%. Loan interest was calculated based on June 2011 Mid Term AFR rate of 2.27%.

Repayment of the Note

The trust will then repay the estate the remaining note balance at the end of the trust term with funds from the trust growth, the asset itself or the life insurance proceeds.

To learn more, [click here](#) to see our new JH Solutions module that illustrates this strategy.



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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.

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