John Hancock
LIFE INSURANCE

SALES STRATEGY

ESTATE PLANNING | Advanced Markets

Estate Equalization

Distributing Assets Fairly and Equitably

Deciding what, and how much, to leave to heirs will be among a client's basic considerations in developing an estate plan. What if dividing certain assets equally among heirs will be difficult, due to the nature of the asset or otherwise? Life insurance can provide a solution.

The Concerns

Certain assets, such as a residence or a business, can present administrative and practical challenges for multiple owners. With a family business, for example, multiple-ownership might lead to conflict, especially if some heirs are more active in running the business than others. On the other hand, leaving a single asset entirely to certain heirs is almost sure to create inequality unless the estate has sufficient liquidity to balance inheritances. In circumstances like those, liquidating the asset and distributing the proceeds can seem like the only option if good relations are to be maintained.

The Solution

Liquidity in an estate is an important factor in achieving a distribution of assets among heirs in the proportions that the client might like. Because a life insurance death benefit offers a pool of liquidity at exactly the time liquidity is needed, it can facilitate estate planning goals, helping to give each heir the inheritance the client would want them to receive.

How it Works

The first step is to identify and determine the clients' intent for distributing assets. For example, the client may want to leave their business to one child, and their real estate to another. The second step is to figure out how they want to equalize the estate. There are two options:

1) **Equal Share:** This approach ensures that each heir gets at a minimum an amount equal to their share of the *existing* estate.
2) **Equal Amounts:** This approach will increase the total estate so that each heir gets an identical amount based on *future* growth.

Based on inheritance allocations, growth factors, and equalization method, a recommended minimum share per heir is determined and an analysis can illustrate where life insurance can be used to help make things fair or equitable. The client (or their trust)[1] would purchase a life insurance policy on the client's life. Using life insurance helps balance out the value of a "hard-to-divide" asset that is left to some heirs but not to others.

Benefits

- **Liquidity** — Life insurance can help provide cash to equalize inheritances among heirs, as well as help protect a family's income in the event of premature death.
- **Return on Premiums** — Heirs may receive more money and a better return on the premiums than if those dollars had been invested in a taxable asset.[2]
- **Income-Tax-Free Death Benefit** — Life insurance death benefit proceeds are generally income tax-free (exceptions may include when life insurance has been transferred for valuable consideration).
- **Cash Value** — The cash values of a life insurance policy grow tax deferred, and tax-free withdrawals are permitted when structured properly.[3]
- **Source of Premiums** — It may be possible to tap into income and/or stock from a family business as a source of premiums.

Considerations

- **Reasonable Projections** — Selecting an appropriate level of death benefit protection for estate equalization will be affected by the projected values of assets for a chosen focus year. Consult qualified professionals to determine reasonable projections. Consider potential future heirs, such as those who come to the business after estate planning is completed.
- **Insurance** — Life insurance eligibility will be based on financial and medical underwriting. Sufficient resources will be needed to meet premiums for the desired level of death benefit protection.

How it Works

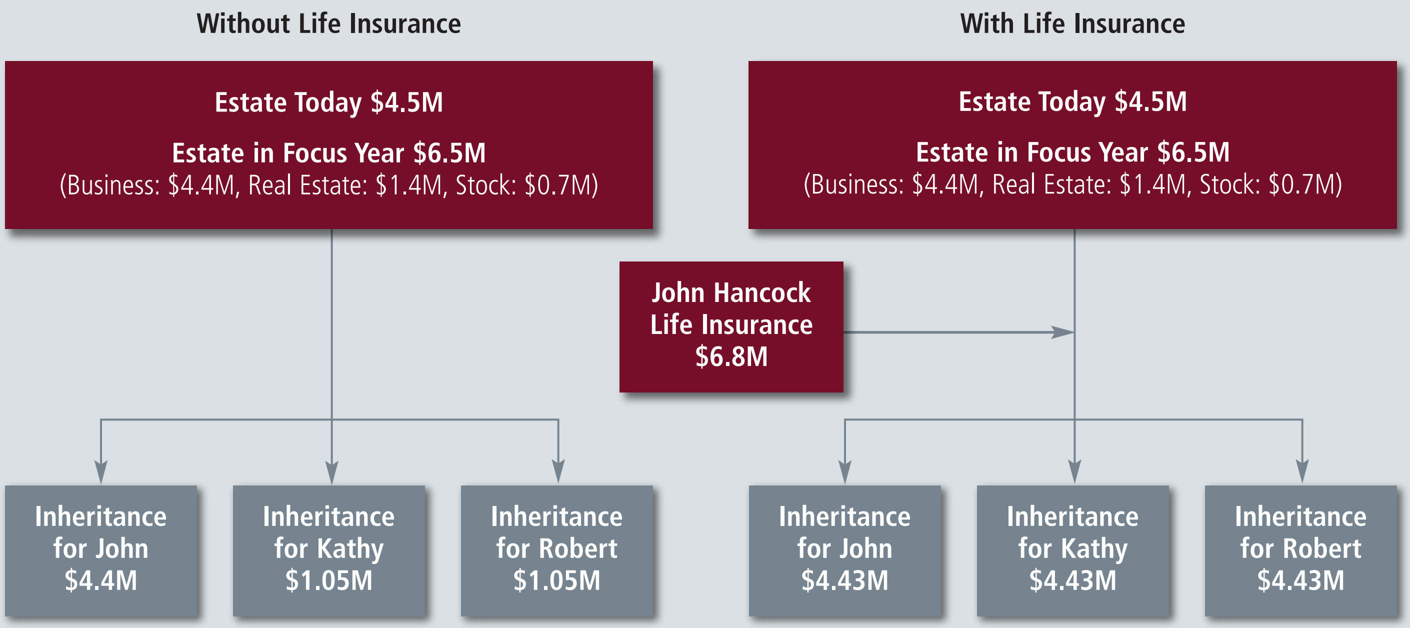
CASE STUDY: JOHN AND LILY EAMES

John and Lily Eames are ages 58 and 57, respectively, both Preferred Non Smokers, with a $4.5M estate. The jewelry business they began ten years ago has done well, with the help of John Jr., one of their three children.

At their death, they plan to leave the business to John Jr., and divide the rest of their estate between their two other children, Kathy and Robert.

Let's consider how that would work, using year 10 as the focus year. Their advisors project the business and securities will continue to grow at 4% a year, with their real estate increasing in value at 3% annually. At those rates, they anticipate that their estate will be valued at about $6.5M 10 years from now. A distribution like John and Lily anticipate would leave John Jr. with a business worth over $4.4M. Kathy and Robert would inherit about $1M each.

John and Lily purchase a John Hancock survivorship universal life policy with a death benefit of around $6.8M and annual premiums of approximately $50k. By the time their estate has to be distributed, this policy would help ensure each of the three children receive inheritances of equal value, and play an invaluable role in maintaining good family relations.



The figures used in this case study are hypothetical, for discussion purposes only, are not guaranteed and may not be used to project or predict results. Actual results may be more or less favorable. Specific product and policy elements would be found in a policy illustration provided by an insurer. With any decision regarding the purchase of life insurance, a client would need to determine which type of life insurance product is most suitable for their specific needs.

SUMMARY

By providing a pool of liquid assets at exactly the time it is needed, the death benefit from a life insurance policy may offer an important advantage in maintaining good relations among heirs while promoting estate planning goals at the same time. Use our JH Solutions module on Estate Equalization to demonstrate this technique to your client(s).

For additional information, please contact your local John Hancock Representative or the Advanced Markets Group at 888-266-7498, option 3.

1. 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.
2. The Rate of Return on death benefit is equivalent to an interest rate at which an amount equal to the illustrated premiums could have been invested outside the policy to arrive at the net death benefit of the policy.
3. 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 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.

This material does not constitute tax, legal or accounting advice and neither John Hancock nor any of its agents, employees or registered representatives are in the business of offering such advice. It was not intended or written for use and cannot be used by any taxpayer for the purpose of avoiding any IRS penalty. It was written to support the marketing of the transactions or topics it addresses. Comments on taxation are based on John Hancock's understanding of current tax law, which is subject to change. Anyone interested in these transactions or topics should seek advice based on his or her particular circumstances from independent professional advisors.

For Financial Professional Use Only. Not intended for use with the General Public.

Insurance products are issued by John Hancock Life Insurance Company (U.S.A.), Boston, MA 02116 (not licensed in New York) and John Hancock Life Insurance Company of New York, Valhalla, NY 10595.

IM7010 MLINY040913059 04/13

INSURANCE PRODUCTS:		
Not FDIC Insured	Not Bank Guaranteed	May Lose Value
Not a Deposit	Not Insured by Any Government Agency	