John Hancock INSURANCE

Supplementing Retirement Income with Life Insurance

ADVISOR COMPANION

INDIVIDUAL NEEDS

A solution that can provide protection for today and income for tomorrow

Helping to ensure your clients have sufficient savings for a long retirement is a challenging task, particularly for clients who are already fully funding their qualified plans. For your clients who have protection needs and are also looking to supplement their retirement income in a tax-favored way, a permanent life insurance policy can provide the solution for both.

82% OF AMERICANS
not confident they'll have enough money in retirement. How confident are your clients?*

Supplementing retirement income with life insurance allows your clients to address both death benefit protection and retirement income needs. When properly designed and funded, permanent insurance can help provide numerous living benefits – most notably, cash value to supplement income in retirement.

Life insurance can offer ways to bolster retirement income in a tax-advantaged vehicle that simultaneously offers the protection, flexibility and tax diversification they need.

When adding additional living benefits such as the critical illness benefit rider, long term care rider, and the John Hancock Vitality Program to a permanent policy, your clients will have comprehensive coverage for today and tomorrow, as well as motivation and support for healthy living. John Hancock is unique in that it can help secure your clients' financial future while also rewarding them for maintaining a healthy lifestyle.

Protection
in the form of an income tax-free death benefit

Flexibility
in design, premium and distribution

Tax diversification
and tax-advantaged withdrawals

Living benefits
such as an optional Long-Term Care rider, Critical Illness Benefit rider and the John Hancock Vitality program

Creditor protection
for all or a portion of the death benefit and cash value (depending on the state)

* Source: A research report from the EBRI Education and Research Fund © 2017 Employee Benefit Research Institute, released March 21, 2017.

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How it Works

Once you and your client have determined that a permanent insurance policy may be an effective solution, the next step is to determine how to best illustrate the concept.

OPTIONS

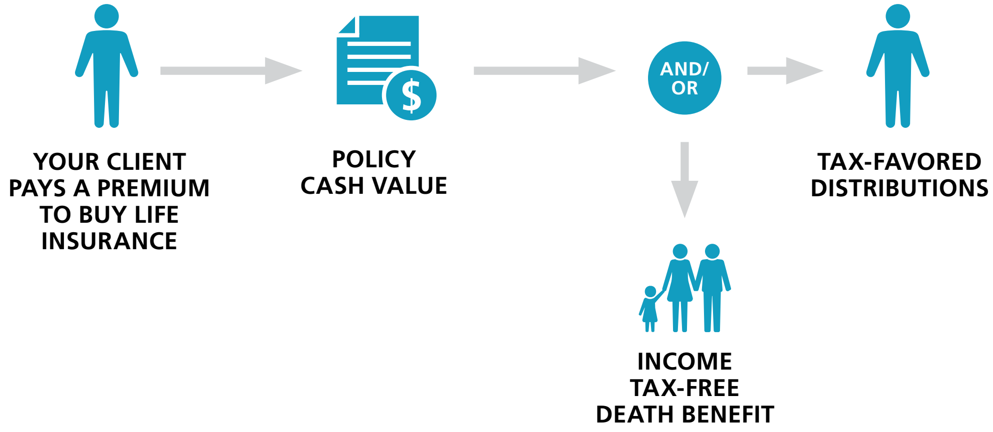
Approach I: Discretionary income approach
This approach uses the available discretionary income that the client has to fund a policy. A typical design is to take the discretionary income and use it to fund a minimum non-MEC policy (a policy with the lowest death benefit that will not cause the policy to become a Modified Endowment Contract (MEC)). Then, illustrate tax-favored policy distributions starting at age 65 through age 85.

Approach II: Short-fall approach
A short-fall approach takes a more holistic approach when evaluating a client's total retirement income needs. It analyzes current retirement accounts and determines if there is a shortfall in desired retirement income. This method inputs the supplemental retirement income needed as a distribution and solves for the premium stream (also using a non-MEC policy). Visit our online John Hancock retirement calculator found at *www.jhretirementcalculator.com* to calculate a short-fall.

BENEFITS OF LIFE INSURANCE

Once the policy has been designed, the client applies for and purchases a permanent life insurance policy on his/her life. The client overfunds the policy. Under either design approach, the policy provides benefits in multiple stages of the client's life:

1. **During the client's working years,** the policy will provide an income tax-free death benefit to the client's heirs. A permanent life insurance policy also has the potential to develop a cash value, which will grow on a tax-deferred basis.
2. **At retirement,** the client can access any potential policy cash value via tax-favored loans and withdrawals to supplement retirement income.



UNDERSTANDING CASH VALUE AND DISTRIBUTIONS

The key to these techniques is the cash-value buildup in the policy and understanding how life insurance policy cash value works. First and foremost, it is important to understand that building cash value takes time.

Cash value built up in the policy can be accessed via withdrawals and loans. Both withdrawals and loans will reduce overall death benefit. When deciding how and when to take withdrawals and/or loans from a policy, is important to structure such distributions to ensure that the policy remains in-force. If the policy lapses, in addition to losing the death benefit coverage, there could be a taxable event of realized gain if loans were taken (see our BYA on Policy Loans for more information). Note that John Hancock offers an overloan protection rider to that creates a paid-up policy in the event of excessive indebtedness to keep the policy in force and prevent adverse taxation.

Avoiding Modified Endowment Contracts (MECs)

Generally speaking, permanent life insurance policies can provide tax efficiency because the cash value builds income-tax free and that cash can be withdrawn on a FIFO (first in, first out) basis. That means that distributions from life policies, up to basis, are received income-tax free. Moreover, loans taken against policy cash value are also generally received income-tax free, even when there is little basis in the policy. Together, withdrawals and loans against cash value provide a substantial tax benefit to the policy owner.

Life insurance policies designated as MECs do not receive as favorable tax treatment as non-MEC policies. Distributions from a MEC contract are taxed on a LIFO (last in, first out) basis - meaning that any gain in the contract is distributed first before there is a tax-free return of basis. This treatment applies whether the cash value is withdrawn from the contract or borrowed against (i.e. a loan). In addition, any taxable policy distributions from a MEC prior to age 59 ½ may be subject to an additional 10% penalty.

Consequently, when designing a life insurance policy for supplemental income purposes, it is prudent to illustrate premium designs that avoid MEC status.

Comparing life insurance to other alternatives

Life insurance may be a suitable alternative when qualified plans are fully funded and your client is looking for cash accumulation potential for future life events, such as supplemental retirement income, college funding, and paying off debts. The chart outlines some important features of a variety of financial vehicles. An understanding of these features may help you determine which of these products may meet your clients' needs, and if life insurance can complement your existing financial portfolio.

	LIFE INSURANCE	TAXABLE INVESTMENTS	QUALIFIED PLAN/ TRADITIONAL IRA	ROTH IRA	MUNICIPAL BONDS
Tax-Favored Withdrawals	✔	X	X	✔	✔
No Mandatory Withdrawals	✔	✔	X	✔	✔
Tax-Deferred Accumulation	✔	X	✔	✔	✔
Income Tax-Free Death Benefit	✔[1]	X	X	X	X
No Tax Penalties for Early Withdrawal	✔[2]	✔	X	X	✔
Cost of Insurance Charges	✔	X[3]	X	X	X
Market Risk	✔	✔	✔	✔	✔

Some factors to consider during the accumulation phase of planning for retirement:

Your clients may not be able to fund 100% of their retirement with qualified plans. There are contribution limits, and some have income restrictions (like a Roth), that can prevent them from fully funding their retirement income goals. In fact, the more money they make, the less likely they will be able to save fully for retirement with qualified plans alone. The more money your client makes the harder it is to fund their retirement planning goals with just qualified plans.

Some other factors to consider during the distribution phase of retirement include:

- Social Security benefits will become taxable at a certain income thresholds
- Medicare premiums will increase at a certain income thresholds
- If married, a client who is the remaining widow may be subject to higher taxes (due to going from "married filing jointly" to "single" filing status)

For more information on the impact of taxes on retirement income, see our Tax Diversification Client Guide.

Hypothetical policy summary at age: 85

INITIAL FACE AMOUNT: $209,149

PREMIUM IN

Initial Planned Premium:
$10,000

X

Duration:
20 Years

=

TOTAL PREMIUM PAID:
$200,000

INCOME OUT

Annual Distribution Amount:
$38,041

X

Duration:
20 Years

=

TOTAL DISTRIBUTIONS:
$760,820

+

DEATH BENEFIT PAID:
If death occurs at age **85**
$51,325

=

Total Distributions + Death Benefit Received:
If death occurs at **age 85**
$812,145

Internal Rate of Return (IRR)
on Death Benefit if death occurs at age **85**
7.04%

PRE-TAX EQUIVALENT IRR:
9.43%

Accumulation IUL. Male, age 45, Best Class, Death Benefit option 2 to 1 optimal year, reduce face optimal year, Capped account at max rate, income from age 66-85, solving for $1 at lifetime.

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.

The Internal Rate of Return (IRR) 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, and an amount equal to the illustrated distributions could have been removed from that investment, to arrive at the net death benefit of the policy at the year listed. The Pre-Tax Equivalent IRR is the amount that investment must have earned to arrive at the net death benefit of the policy assuming an effective tax rate of 25%.

The John Hancock Advantage

Whether your clients are looking for universal life, indexed universal life or variable life, John Hancock offers a robust portfolio of product options to help meet their needs. In addition, your clients can enhance their policy with our popular living benefits rider:

JOHN HANCOCK VITALITY PROGRAM

At John Hancock, we believe in helping your clients live longer, healthier lives. It's why we introduced the John Hancock Vitality Program, which offers clients the opportunity to enhance their policy value and earn discounts and rewards for the everyday things they do to stay healthy like exercising, eating well, and visiting the doctor. For more information, visit JHRedefiningLife.com.

CRITICAL ILLNESS BENEFIT RIDER

During your clients working years, they may suffer an unexpected critical illness such as a heart attack or cancer, which can have a debilitating effect on their finances, and even the ability to save for retirement. Our new critical illness benefit rider provides a one-time, lump-sum, income tax-free[4] benefit up to $250,000, which is paid upon initial diagnosis of a covered critical illness. Payment is made from a separate pool and has no impact on the death benefit.

LONG-TERM CARE RIDER

When combined with a John Hancock permanent life insurance policy, the Long-Term Care (LTC) rider allows policy owners to accelerate their death benefit to help pay for long-term care expenses. The LTC rider is designed to help clients protect themselves and their families from the high costs of a long-term care event.

Important consideration: Policy distributions can affect long-term care benefits and long-term care benefits can affect policy distributions. Please refer to the Acceleration of Death Benefit for Qualified Long-Term Care Services rider for additional information.

Conclusion

Talk to your clients today about how life insurance can help supplement their retirement income. John Hancock can create custom client approved presentations to help present the solution to your clients.

Why Consider John Hancock Vitality?

Of the over-65 group, 81% ranked health above all other considerations for a happy retirement, far higher than financial security; 86% said maintaining or improving their health could help them manage their out-of-pocket medical expenses in retirement.*

* cbsnews.com, Here's what retirees are most worried about. Steve Vernon. March 29, 2017. https://www.cbsnews.com/news/heres-what-retirees-are-most-worried-about/

Not valid without all pages.

For more information on using Life Insurance to supplement retirement income, please contact John Hancock's Advanced Markets Group at 888-266-7498 and select Option 3 to reach an AMC, or Option 4 to reach an attorney.

1. 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. See IRC Sec 101(a)(1).

2. Per IRC 7702(g), the inside build-up of cash surrender values is generally not taxed.

3. If the underlying investment is a deferred annuity, cost of insurance charges and/or withdrawal penalty may apply.

4. John Hancock anticipates that the Critical Illness Benefit paid under this rider will generally be excludable from income under Internal Revenue Code Section 104(a)(3). However, the benefit may not qualify for this exclusion with certain third-party ownership arrangements.

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The policy owner should consult a tax advisor as to the potential tax implications of exercising the Overloan Protection Rider.

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 www.jhsaleshub.com to verify state availability.

The Critical Illness Benefit Rider provides a one-time lump sum benefit for covered critical illnesses subject to eligibility requirements. The benefit will not be paid for critical illnesses initially diagnosed before the rider effective date or during the waiting period. See the product producer guide for additional details.

Before you make any estate or retirement planning decisions (or change title to any assets or change beneficiary designations) your legal and tax advisors should be consulted to determine (1) the suitability of a particular planning alternative for you and (2) the precise legal, tax, investment, and accounting consequences of that alternative.

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 59½. Cash value available for loans and withdrawals may be more or less than originally invested. Withdrawals are available after the first policy year.

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