



WEALTH TRANSFER PLANNING WITH INCOME MAXIMIZATION

LEVERAGING CURRENT ASSETS TO PROVIDE GUARANTEED INCOME FOR LIFE

As clients settle into their retirement years, they may reposition their portfolios and shift their investments into conservative investment vehicles such as certificates of deposit, money market funds, and corporate or municipal bonds. However, they may also realize that these investments are not providing the level of after-tax income that they need or desire for their retirement. As clients live longer and the benefits that they receive from pensions and Social Security decrease, they may find that they need to maximize their income as much as possible. For some clients in this situation, an income maximization strategy may allow them to increase income and the amount they transfer to heirs.

WHAT IS INCOME MAXIMIZATION?

Income maximization is a technique by which assets such as certificates of deposit, money market funds, municipal or corporate bonds are sold or liquidated and the proceeds are used to purchase a Single Premium Immediate Annuity (SPIA).¹ By purchasing the SPIA, the client is locking in an annual income payment. The income generated by the SPIA may be more than the client needs. A gift of the excess income can be made to an Irrevocable Life Insurance Trust (ILIT)² which will purchase a John Hancock universal life insurance product with guaranteed coverage for life.³

WHY INCOME MAXIMIZATION?

Income Maximization is best suited for clients, age 70 and older, who are concerned with the amount of income that is generated from their conservative retirement vehicles such as municipal bonds, certificates of deposit, and corporate bonds. They are looking for a more secure way to obtain a larger monthly stream of income. By repositioning their assets, clients can potentially gain returns over time. Using an Income Maximization approach, they can also feel the security and peace of mind that a fixed, guaranteed income provides.

HOW INCOME MAXIMIZATION WORKS

Income Maximization is a strategy that entails two simple steps.

- 1) Liquidate or sell existing assets and purchase a SPIA.

This may provide clients a guaranteed income for life. The SPIA may generate more income than is actually needed since a portion of it will be income tax-free.⁴

- 2) Give the excess income to an ILIT using annual exclusion gifts.

The trustee will purchase a John Hancock universal life insurance policy. John Hancock universal life insurance policies have strong guarantees for life.⁵

To better understand how this works, let's look at an example.

CASE STUDY: JOELLEN WADSWORTH

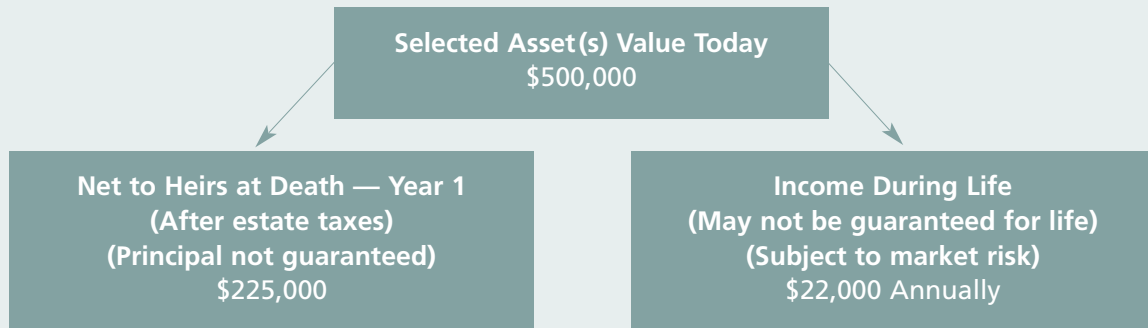
Facts: JoEllen Wadsworth (76), a Preferred Non Smoker underwriting risk, is retired. She is a widow with three kids and three grandchildren. Part of her retirement portfolio contains \$500,000 in a Certificate of Deposit (CD) which provides her with an annual income of \$22,000. JoEllen was expecting a better rate of return. In addition, she wants to create a legacy for her heirs. She set up a meeting with her financial advisor to explore her options.

Solution: Her advisor recommends income maximization. JoEllen is going to liquidate her CD and purchase a SPIA. She will use any excess income to fund a John Hancock Protection UL-G policy with a level face amount of \$500,000 policy inside an ILIT.

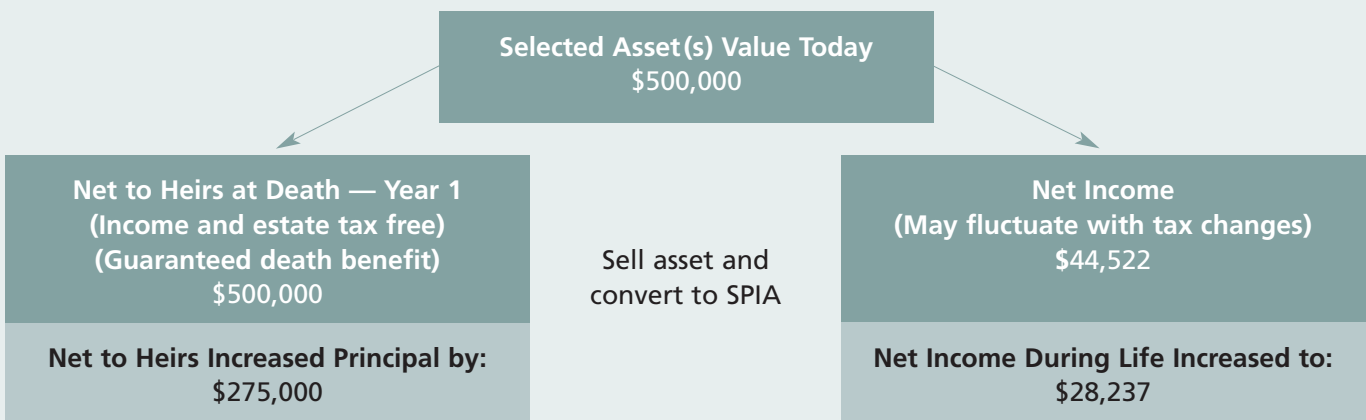
The Numbers: JoEllen is going to exchange her CD for a SPIA. The SPIA will provide an annual after-tax income stream of \$44,522. JoEllen will give \$16,285 a year to her ILIT to fund the policy. JoEllen's net spendable income after the gift is \$28,237.

Here is what it looks like:

CURRENT SITUATION: RETAIN SELECTED ASSET(S) IN THE ESTATE



PROPOSED SITUATION: SELL, ANNUITIZE, AND PURCHASE LIFE INSURANCE



Conclusion: By liquidating her CD, JoEllen is able to replace it with a guaranteed life insurance policy to benefit heirs while increasing her after-tax annual income stream.

The data shown is taken from a hypothetical calculation. It assumes a hypothetical rate of return and may not be used to project or predict investment results.

Life insurance death benefit proceeds are generally excludable from the beneficiary's gross income for income tax purposes. There are a few exceptions such as when a life insurance policy has been transferred for valuable consideration.

ADVANTAGES AND DISADVANTAGES

The following outlines the Benefits and Considerations of the Income Maximization approach:

Benefits	Considerations
<ul style="list-style-type: none">• Reduces market risk during volatile times.• Enhances net after-tax income.• Potentially increases the net rate of return in investment income.• Removes assets from taxable estate, thus increasing legacy to heirs.• Provides a guaranteed income stream for lifetime.	<ul style="list-style-type: none">• Principal is irrevocably exchanged for guaranteed income.• Conversion and purchase of life insurance requires medical underwriting.• SPIA and life insurance may have more risk associated with them than other investments.• The exchange may be taxable and/or result in additional charges and/or risks.



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1. A SPIA is a Single Premium Immediate Annuity that provides an income stream for a chosen number of years based on a single deposit made to purchase the annuity. The annuity income stream is calculated on a Life-Only No-Refund basis so that the income will last for the client's lifetime, or the joint lifetime of the client and spouse, if applicable, and no balance will be payable to the taxable estate at death. The SPIA guarantee is based on the claims paying ability of the insurer issuing the SPIA and John Hancock does not issue such contracts.
2. 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 tax). Failure to do so could result in adverse tax treatment of trust proceeds.
3. Guaranteed product features are dependent upon minimum premium requirements and the claims-paying ability of the issuer.
4. In 2009, the amount of annual gifts that can be made to anyone person per year is \$13,000 without gift taxes. This amount is adjusted annually for inflation in increments of \$1,000.
5. Insurance policies and/or associated riders and features may not be available in all states. Some riders may have additional fees and expenses associated with them.

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