JohnHancock
LIFE INSURANCE

CLIENT PROFILE

WEALTH TRANSFER | Advanced Markets

Social Security Maximization

Wealth Transfer Planning with Social Security

CLIENT PROFILE	
Age:	62 and older
Concerns:	Nearing retirement or already retired. Would like to increase amount left to heirs.

Situation

- Client does not need their social security income for retirement.
- Client wants to create an inheritance for heirs.

Solution

- Use social security income to fund a life insurance policy to potentially increase the amount left to their heirs.

How it Works

- Client purchases a life insurance policy on their life. If estate taxes are a concern, the client should create an Irrevocable Life Insurance Trust (ILIT)[1] to own the life insurance policy.
- Client uses all (or part) of their social security income to fund the life insurance policy.
- The death benefit will pass to the heirs.

Benefits

- Life insurance can increase amount to heirs.
- Life insurance provides a tax free death benefit.
- Life insurance policies have additional riders, such as long-term care riders, that may provide benefits to the insured.
- Life insurance cash value grows tax deferred and can be accessed tax free through withdrawals and loans.
- Life insurance, depending on the state, can offer creditor protection.
- If owned in an ILIT, life insurance can help reduce estate taxes.

Considerations

- Life insurance eligibility will be based on financial and medical underwriting.
- Life insurance policies have charges associated with them, such as cost of insurance and potential surrender charges. There may be costs with creating an ILIT.
- 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.
- 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. Withdrawals are available in the 2nd policy year.

CASE STUDY

CLIENTS: **Percival and Holly Dartie**, Ages 67 and 63, Preferred Non Smokers. The Darties have an estimated monthly Social Security Benefit of $2,500 before taxes ($19K annually after taxes), and they have plenty of retirement income coming in from a pension and other retirement accounts. The proposed strategy is to purchase a Current Assumption Survivorship Universal Life policy, which buys approximately $1.7M of death benefit using a $19K premium.

EFFECTS OF USING SOCIAL SECURITY BENEFITS TO FUND LIFE INSURANCE

	CURRENT STRATEGY	PROPOSED STRATEGY
Social Security Benefit Consumer Price Index (i.e. Benefit Inflation Rate)	$2,500 1.00%	$2,500 1.00%
Total Premiums Paid by Year 29	–	$551,000
Side Fund in Year 29 (A/T Growth rate of 2%) Death Benefit in Year 29	$877,831	$126,037 $1,700,000
Net to Heirs in Year 29	**$877,831**	**$1,826,037**
Potential Gain Due from Planning	–	**$948,206**

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.

For more information, please contact your local John Hancock Representative or call 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.

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