John Hancock

LIFE INSURANCE

# Client Profile

## Life Insurance in Retirement Planning



| CLIENT PROFILE | |
|---|---|
| **Age:** | 40–60 |
| **Status:** | Maxed out on contributions to qualified retirement plans |
| **Concern:** | Would like additional options for supplementing retirement savings |

### SITUATION

- Client would like to save money for retirement but has maxed out on available qualified plans (401(k)s, IRAs).
- Client would like additional life insurance protection for income replacement needs if death occurs prior to retirement.

### SOLUTION

Client will purchase a John Hancock universal life insurance policy and pay the premium. Pre-retirement, the policy will provide income-tax free death benefit protection; post-retirement, the potential policy cash value can be used to supplement retirement income.[1]

### HOW IT WORKS

- Client applies for and purchases life insurance policy on his/her own life. Client pays the premium of the policy.
- During the client's working years, the policy will provide income-tax free death benefit to the client's heirs.
- At retirement, the client can access any potential policy cash value via tax-favored loans and withdrawals to supplement retirement income.

### BENEFITS

- Life insurance death benefit will be received by the heirs income-tax free.
- The life insurance policy cash value grows on a tax-deferred basis.
- As long as the policy is not designed as a Modified Endowment Contract (MEC), the client can take tax-free loans and withdrawals from the cash value.
- Withdrawals from insurance policies are not mandatory and may occur at any time or not at all, unlike distributions from qualified retirement plans which may be subject to an early withdrawal penalty at age 59½ and/or mandatory distributions at age 70.

### CONSIDERATIONS

- Using life insurance as a form of supplemental retirement income is not tax-deductible.
- Policy should not be structured as a MEC. Policies classified as MECs may be subject to tax when a loan or withdrawal is made, and a federal tax penalty of 10% may also apply if the loan or withdrawal is taken prior to age 59½.
- The policy cash value available for loans and withdrawals may be worth more or less than the original investment amount, depending on the performance of the policy crediting rate.
- Withdrawals and loans can reduce the policy death benefit and cash surrender value and may cause the policy to lapse. Lapse of a life insurance policy can cause the loss of the death benefit and potential adverse income tax consequences.

## CASE STUDY: JIM SNYDER

**Client:** Jim Snyder

**Status:** Male NS Preferred, Age 45, 40% Tax Bracket, Florida Resident.

**Product:** $931,666 Accumulation UL policy,
$50,000 initial premium for 20 years, 5.3% Policy Crediting Rate
Death benefit Option 2 yrs 1-20, Option 1 yrs 21+

**Options:** Use life insurance for retirement planning vs. a taxable investment earning 5.3%

| Year | Age | TAXABLE INVESTMENT AT 5.3% | | | | ACCUMULATION UL | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Side Fund Contribution | Interest at 5.3% (After-tax 3.18%) | Net Withdrawal | End of Year Value | Annual Premium | Net Cash Value | Loans/ Withdrawals | Net Death Benefit |
| 1 | 45 | $50,000 | $1,590 | $0 | $51,590 | $50,000 | $22,910 | $0 | $931,666 |
| 10 | 54 | $50,000 | $18,397 | $0 | $596,348 | $50,000 | $580,818 | $0 | $1,467,137 |
| 20 | 64 | $50,000 | $43,515 | $0 | $1,411,906 | $50,000 | $1,606,449 | $0 | $2,364,222 |
| 21 | 65 | $0 | $41,034 | $121,532 | $1,331,408 | $0 | $1,564,281 | $121,532 | $2,242,690 |
| 30 | 74 | $0 | $14,837 | $121,532 | $481,398 | $0 | $1,061,162 | $121,532 | $1,130,818 |
| 35 | 79 | $0 | $0 | $19,592 | $0 | $0 | $657,829 | $121,532 | $742,198 |
| 40 | 84 | $0 | | $0 | $0 | $0 | $114,016 | $121,532 | $223,840 |

This is a supplemental illustration authorized for distribution only when preceded or accompanied by a basic illustration from the John Hancock Life Insurance Company (U.S.A.). Benefits and values are not guaranteed; the assumptions on which they are based are subject to change by the insurer. Actual results may be more or less favorable. Refer to the basic illustration for guaranteed elements and other important information.

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



1. 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. Please consult your professional tax advisor.



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IM1398 04/08 MLINY0409088993

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