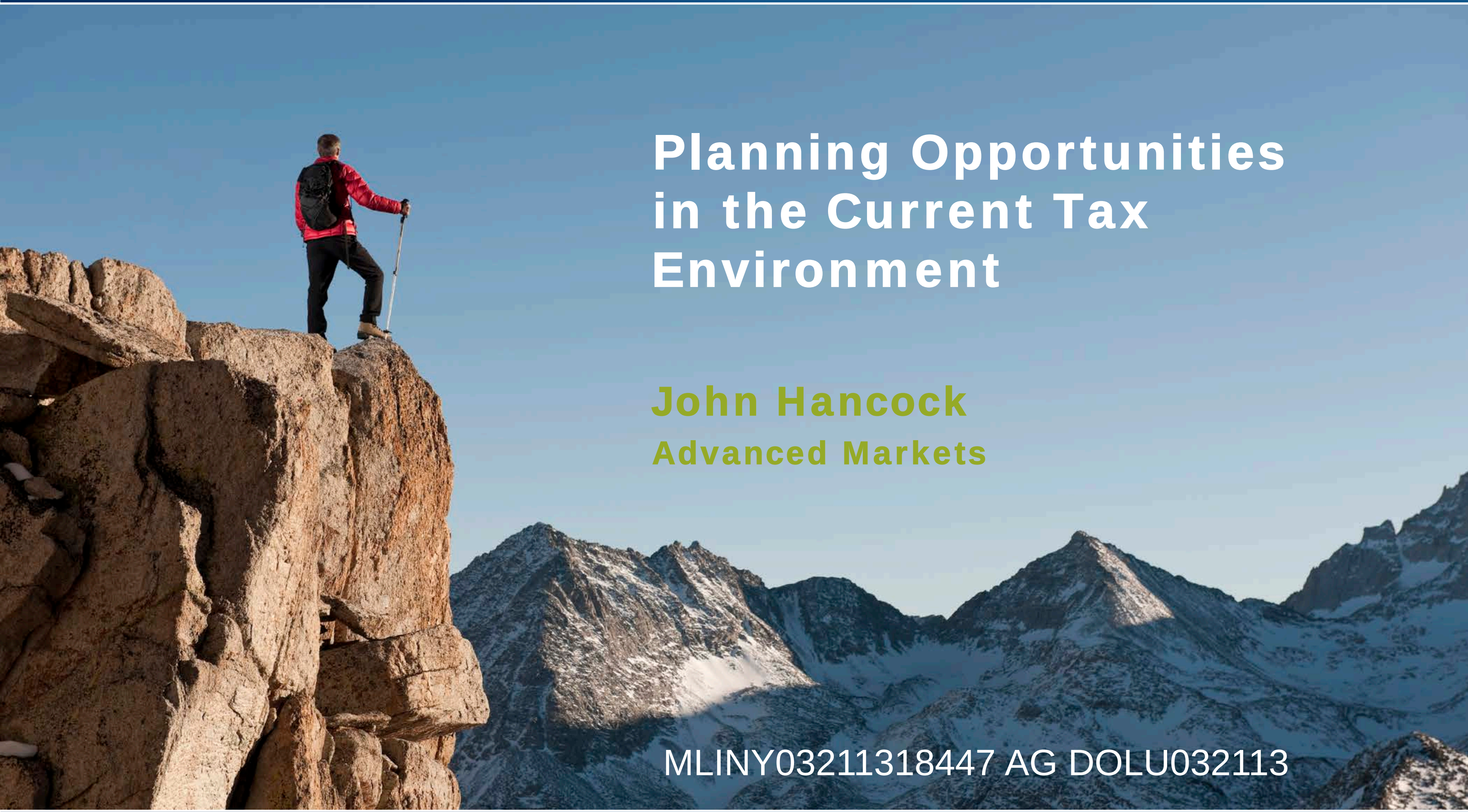
The American Taxpayer Relief Act of 2012



Planning Opportunities in the Current Tax Environment

John Hancock

Advanced Markets

MLINY03211318447 AG DOLU032113

Key Federal Estate, Gift & GSTT Changes

Permanent Changes

- $5,000,000 exclusion
  - Inflation Indexed annually (2010 base) 5.25M in 2013
  - Unified estate and gift tax system
- 40% maximum federal transfer tax rate
- Portability made permanent (not for GSTT)
- Retains the deduction for state estate/inheritance taxes
- Effective for decedent's dying after 12/31/12

Planning Opportunities – Estate, Gift & GSTT Tax Changes

- Greater certainty
- Many Estates not subject to Estate Taxation
  - Personally owned policies with a Long Term Care rider
  - Positioning cases – it's not about paying estate taxes
    - Income Replacement (protection and needs analysis)
    - Retirement planning
    - Creditor protection
    - Debt
    - Legacy Planning
    - Estate Equalization
    - Business Planning
    - Charitable Planning
- Annual gift tax exclusion inflation indexed to 14K in 2013

Planning Opportunities – Estate, Gift & GSTT Tax Changes

- Larger Estates – Expected Estate Tax Liability
  - Ease of making gifts
  - Inflation indexing
    - Planning with inflation indexing
    - Revisiting prior planning
  - Effectiveness of Existing Planning Tools
  - Credit Shelter Trusts vs. Using Portability

- Importance of Provisions NOT included in the 2012 Tax Act
  - Limitations on Valuation Discounts
  - Limitations on the Duration of Dynasty Trusts
  - Limitations on the term of GRATs
  - Grantor Trust Changes

Key Income Tax Rate Changes

Permanent Changes

- Bush era individual income tax rates made permanent, except for:
- Taxable income > $400,000 (>$450,000 married filing jointly)
  - 39.6% on ordinary income (up from 35% in 2012)
  - 20% on capital gains (up from 15% in 2012)
  - 20% on dividends (up from 15% in 2012)
  - Lower Bush era rates still apply to taxable income below the threshold
  - The threshold is inflation indexed after 2013
  - $11,950 threshold for trusts and estates

Top Marginal Federal Income Tax Rates

Income Type	2012	2013	2013[1]
Ordinary income	35.0%	39.6%	39.6%
Short-term capital gains	35.0%	39.6%	43.4%
Long-term capital gains	15.0%	20.0%	23.8%
Interest income	35.0%	39.6%	43.4%
Qualified dividend income	15.0%	20.0%	23.8%

1. In 2013 the top federal tax rate includes income taxes and the 3.8% surtax on investment income.
2. Trusts and estates reach the 39.6% bracket at $11,950 in income in 2013

Income Tax Provisions in Health Care Reform

The 3.8% Surtax on Net Investment Income

- Effective **January 1, 2013**
- Only applies to the **lesser of:**
  - ➢ **Net Investment income,** or;
  - ➢ Modified adjusted gross income in **excess of the "threshold amount"**
    - $200,000 for single
    - $250,000 for married filing joint
    - $11,950 (2013) for trusts and estates

Investment Income

What constitutes investment income?

- Generally applies to passive capital gains, dividends, rents, interest, royalties, and taxable income from non-qualified annuities
- Also applies to gross income derived from trade/business income from a "passive activity" (with respect to taxpayer)
- Does not apply to qualified plans, IRAs, Roth IRAs, and tax-exempt municipal bonds
- Would not apply to amounts received from a non-MEC life insurance policy as withdrawal (up to basis) or a loan from a life insurance policy

Other Income Tax Changes

- Phase out of Itemized Deductions (Pease Limitation)
  - Itemized deductions reduced by 3% of the amount by which adjusted gross income exceeds the threshold (80% cap)
  - Threshold $250,000 single, $300,000 married filing jointly or surviving spouses (inflation adjusted after 2013)

- Personal Exemption Phase Out (PEP)
  - Exemptions which can be claimed are reduced by 2% for each $2,500 (or portion thereof) by which AGI exceeds the threshold
  - Same threshold as itemized deduction phase out

Focus - Income Tax Planning Opportunities

- When income tax rates are increased, tax favored vehicles become relatively more attractive

- Potential for future rate increases

- Examples
  – Life Insurance in Retirement Planning (LIRP and LIRP Plus)
  – Annuity Maximization
  – Qualified Plan Maximization

Planning Opportunities

- When income tax rates are increased, tax favored vehicles become relatively more attractive
  - Consider potential for future rate increases
- The basic requirements of a good plan
  - Move assets out of taxable estate
    - Gifting, Private Financing, Sales
  - Diversify assets held outside of the taxable estate, look at Internal Rates of Return (IRR) and minimize income taxes
    - Life Insurance is one asset class that can do all of this
- Every solution should provide flexibility and access
  - Always true; more true when the only tax certainty is they will change
  - Holding assets in trust can provide flexibility and access
- Other important considerations
  - Is survivor income protection thru life insurance important
  - Is tax advantaged cash values to supplement retirement important

Estate Planning Opportunities

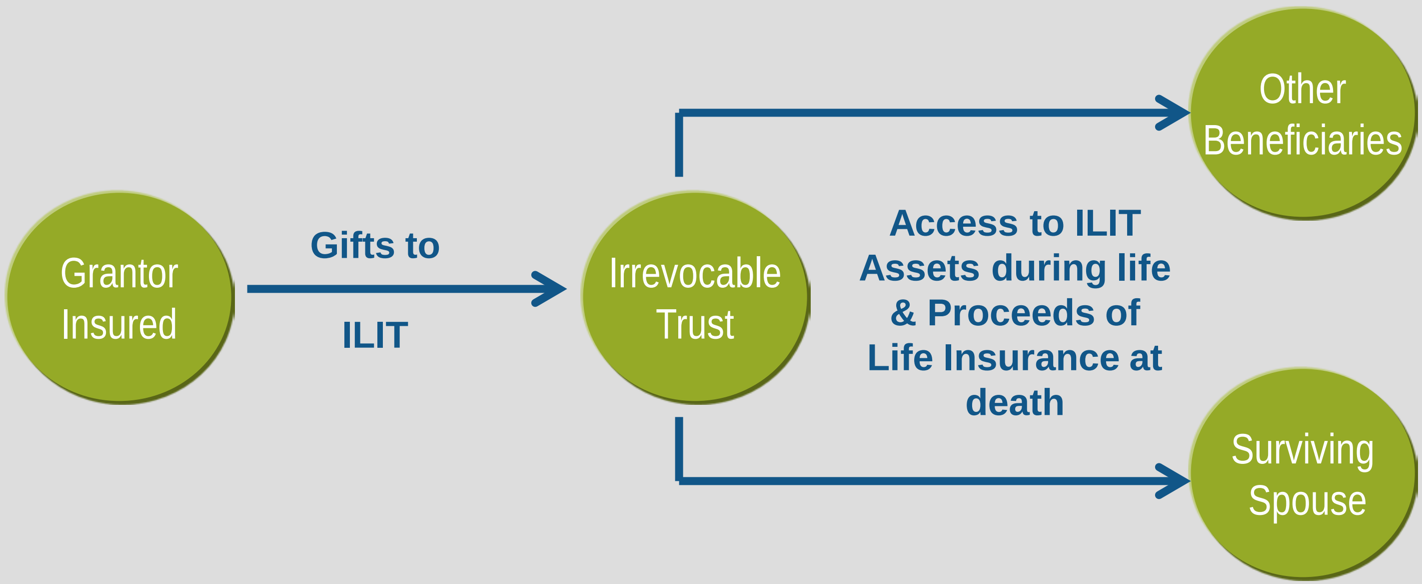
Spousal Access Trusts

Where flexibility is key

Flexible Planning – Making Gifts

Spousal Access Trust

- Grantor (Insured-Spouse) Creates Trust
- Trust Owns Single/Survivorship Life Insurance Policy
- Spouse is Trust Beneficiary



Additional Benefits of Spousal ILIT over Traditional Single Life ILIT

	Traditional Single Life ILIT	Spousal ILIT
Distributions to Family During Insured's Lifetime?	No	Yes
Family's Access to Policy's Cash Values?	No	Yes
Supplemental Retirement Income for Spouse	No	Yes
Death Benefit Available to Spouse?	No	Yes
Spouse as Trustee	No	Possibly

Please consult local law.

Single Life Spousal ILIT

- Married couple who are 70 and 69 respectively, both Preferred Non Smokers
- Their estate is valued at about $12M, including a $5M muni bond generating income of $100K a year.
- Want to have a source of supplemental retirement income
- Husband creates an ILIT, to which he transfers the muni bond, offset by his $5M lifetime exemption
- Wife has access to income from the trust as a beneficiary for health, education, maintenance, and support

Withdrawals and loans from life insurance policies classified as modified endowment contracts may be subject to income tax, and may also be subject to a federal tax penalty if the withdrawal or loan is taken prior to age 59 ½. Policy withdrawals and loans may cause the policy to lapse, which can result in the loss of the death benefit and adverse income tax consequences.

Single Life Spousal ILIT

- Trust purchases a **$2 million policy** on Husband's life with annual premiums of $50K
- $100K annual income generated by muni-bond used to fund premiums on life insurance and provide Ann with **$50K of annual supplemental income** from age 71 through age 99

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.

Estate Planning Opportunities

Paying Premiums with Arbitrage

Leveraging Investment Returns against Low Interest Rates

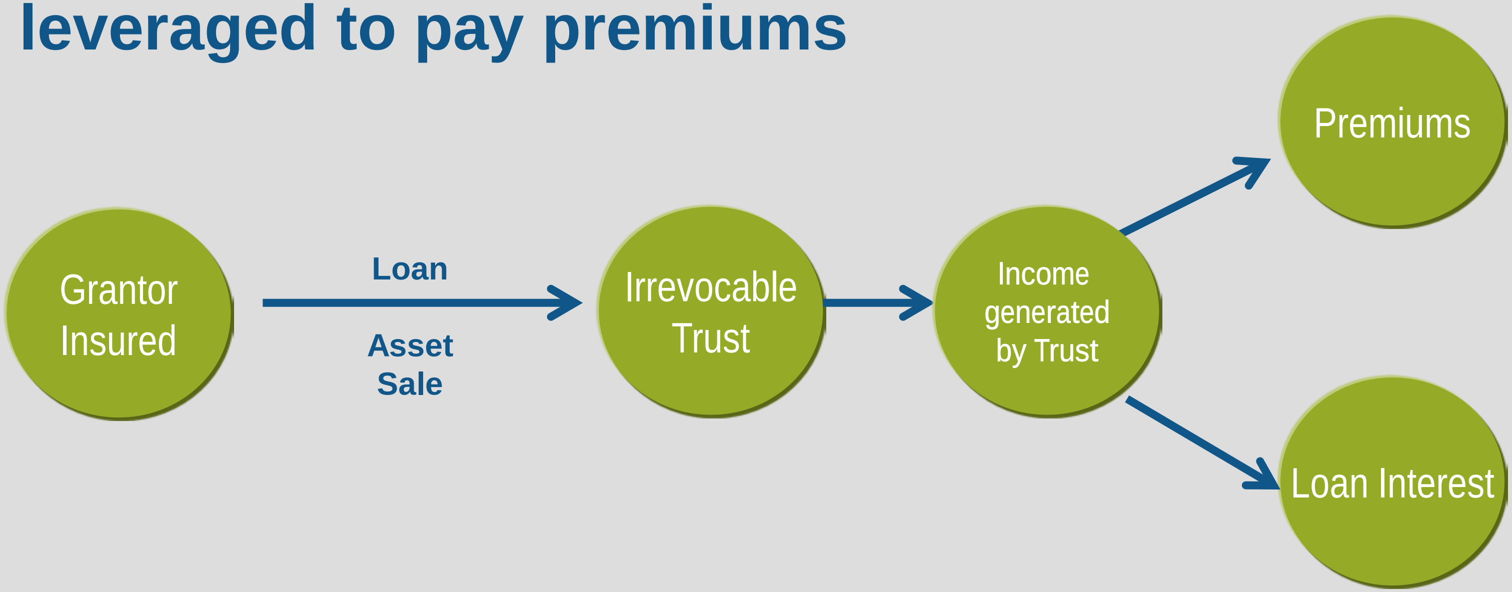
Low Interest Rates

Take advantage now before rates go up!

	Short -Term	Mid-Term	Long-Term
Nov 2012	.22	.89	2.40
Dec 2012	.24	.95	2.40
Jan 2013	.21	.87	2.31
Feb 2013	.21	1.01	2.52
March 2013	.22	1.09	2.66
April 2013			

Interest Rate Arbitrage

- **Private Financing or Asset Sale**
- **Income generated from cash/asset pays interest on note**
- **Difference in income generated and loan interest leveraged to pay premiums**



Paying Premiums with Arbitrage

$5,000,000 Loaned at *1.07%* interest (June ‘12 AFR) Assume 3% income return and $90,000 to premiums

Year	Note Balance	Interest on Note (1.07%)	Principal	Income Generated (3%)	Arbitrage Amount	Premiums	Death Benefit
1	$5,000,000	$53,500	$5,000,000	$150,000	96,500	$90,000	$4,503,886
2	$5,000,000	$53,500	$5,006,500	$150,195	96,695	$90,000	$4,503,886
3	$5,000,000	$53,500	$5,013,195	$150,396	96,896	$90,000	$4,503,886
4	$5,000,000	$53,500	$5,020,091	$150,603	97,103	$90,000	$4,503,886
5	$5,000,000	$53,500	$5,027,194	$150,816	97,316	$90,000	$4,503,886
6	$5,000,000	$53,500	$5,034,509	$151,035	97,535	$90,000	$4,503,886
7	$5,000,000	$53,500	$5,042,045	$151,261	97,761	$90,000	$4,503,886
8	$5,000,000	$53,500	$5,049,806	$151,494	97,994	$90,000	$4,503,886
9	$5,000,000	$53,500	$5,057,800	$151,734	98,234	$90,000	$4,503,886
10	-	-	$57,800	$1,734	-	-	$4,503,886

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Estate Planning Opportunities

Maximizing IRA/Qualified Plan Distributions

Focus on Transferring Assets Efficiently

The Concern

- Client has 401(k) or IRA account may not be needed for income
  - Prospective clients at or near retirement
- Required Minimum Distributions (RMD) must be taken at age 70 ½, subject to taxation
- Client may be designating this asset for heirs but:
  - Subject to double taxation when left in estate or to heirs directly:
    - Estate tax
    - Income in respect of a decedent (IRD)
    - No step-up in basis at death like stock or real estate transfers

The Solution: QPlan Max

Take distributions from 401(k) plan or IRA currently and fund an Life Insurance policy to transfer more wealth

Case Example: QPlan Max

- Mary Haines, age 70 and Preferred Non Smoker
- Estate includes a $1,000,000 IRA growing at 7%
- Mary does not need IRA & plans on passing it to her children and/or grandchildren

Case Study - QPlan Max

To Maximize Wealth Transfer:

- Mary takes annual RMD from IRA
- She uses net after-tax amount to purchase a current assumption universal life insurance policy with annual premium of $21,645 and $1,000,000 death benefit
- Any annual excess distributions (based on RMDs which increase each year) are saved at an assumed growth rate of 5% annually
- At death, the qualified plan (IRA) balance transfers to the family, net of income and estate taxes:
  - Which is in addition to the tax free life insurance death benefit
  - Consider potential legacy if IRA balance left to grandchildren rather than children

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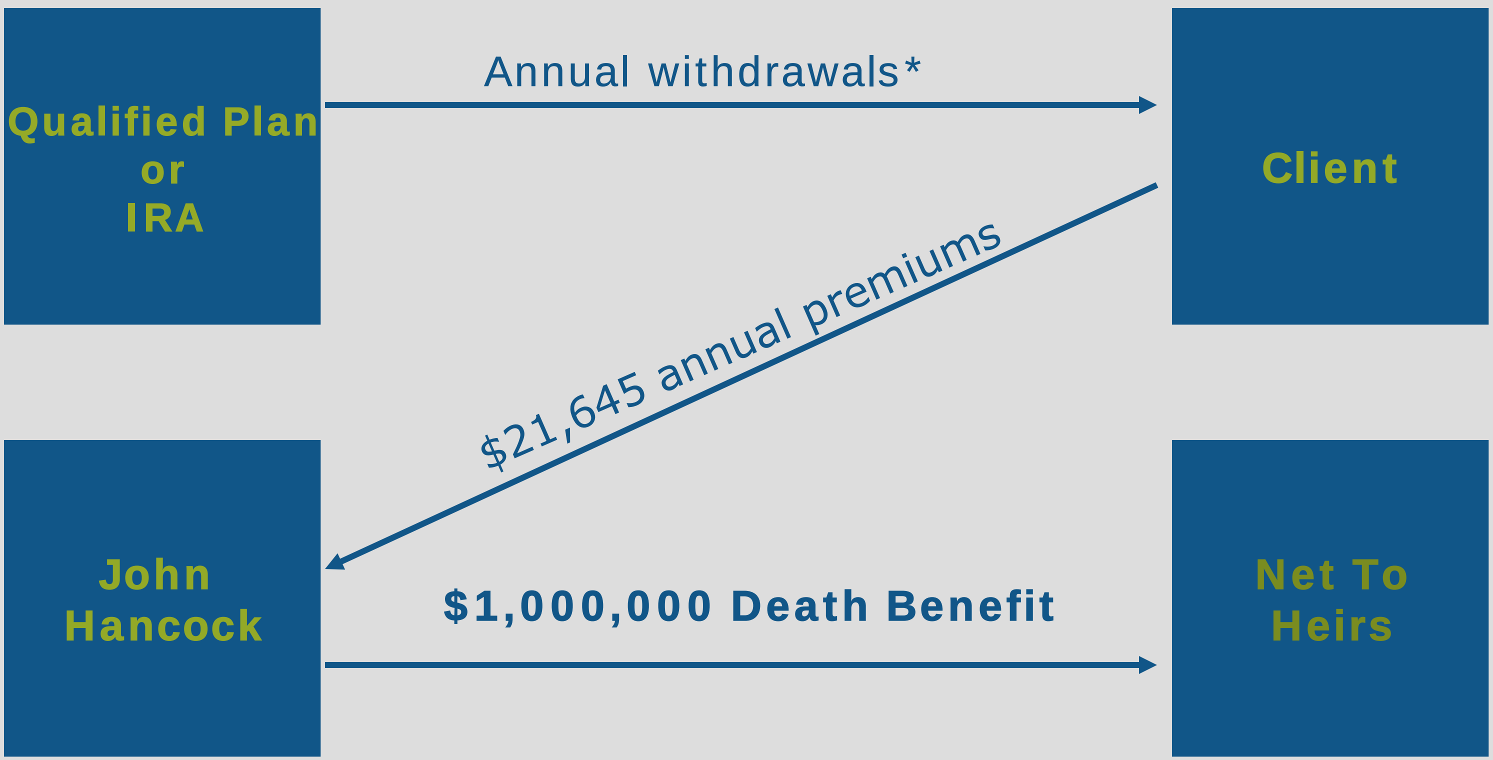
What It Looks Like



*Withdrawals increase over time due to RMDs

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Current vs. Proposed

Highlight Year 20 L.E.	Current Plan	Proposed Plan QPlan Max
QPlan Balance	$1,243,547	$1,243,547
Side Fund on excess distributions @ 5%	$1,398,810	$647,312
Death Benefit	-	$1,000,000
IRD Taxes @ 35%	(435,241)	(435,241)
Net to Heirs	**$2,207,115**	**$2,455,617**

$248,502 More!

In proposed plan, net distributions taken from $1M Q Plan asset growing at 6% are used to fund life insurance. Distributions in excess of life insurance premium are saved in estate and assumed to grow at 5%. In current plan, when Required Minimum Distributions (RMDs) are taken beginning at age 70 ½ it is assumed the net distributions are saved in the estate and grow at 5% as well.

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L.E. = Joint Life Expectancy Year 20 (Age 89) based on 2008 Valuation Basic Table

Case Study - QPlan Max

To Maximize Wealth Transfer: Another Option

- Mary takes distribution from IRA that exceeds RMD for first 10 years and then takes RMD amount thereafter
- She uses net after-tax amount to purchase a current assumption universal life insurance policy with annual premium of $38,823 and $1,800,000 death benefit
- Any annual excess distributions (based on RMDs which increase each year) are saved at an assumed growth rate of 5% annually
- At death, the qualified plan (IRA) balance transfers to the family, net of income and estate taxes:
  - Which is in addition to the tax free life insurance death benefit

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.

Current vs. Proposed

Highlight Year 20 L.E.	Current Plan	Proposed Plan QPlan Max
QPlan Balance	$1,243,547	$1,064,891
Side Fund on excess distributions @ 5%	$1,398,810	$111,936
Death Benefit	-	$1,800,000
IRD Taxes @ 35%	(435,241)	(372,712)
Net to Heirs	**$2,207,115**	**$2,604,115**

$397,000 More!

In proposed plan, net distributions taken from $1M Q Plan asset growing at 6% are used to fund life insurance. Distributions in excess of life insurance premium are saved in estate and assumed to grow at 5%. In current plan, when Required Minimum Distributions (RMDs) are taken beginning at age 70 ½ it is assumed the net distributions are saved in the estate and grow at 5% as well.

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For more information, please contact John Hancock's Advanced Markets at (888) 266-7498 – select:

Option 3 (Consultant) or
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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.

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. Comments on taxation are based on John Hancock's understanding of current tax law, which is subject to change. No legal, tax or accounting advice can be given by John Hancock, its agents, employees or registered representatives. Prospective purchasers should consult their professional tax advisor for details.

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