LIFE INSURANCE

Client Profile

Private Survivorship Split Dollar

A PLANNING TECHNIQUE WITH LOW GIFT TAX COST

CLIENT PROFILE	
Age:	45 and over
Status:	Married and financially successful with a minimum net worth of $4,000,000. Cash flow is not an issue.
Concern:	Minimizing gift taxes and providing estate liquidity for heirs.

SITUATION

- Your client is considering using a life insurance policy as an estate liquidity tool.
- Gifts in the amount of life insurance premiums made to an Irrevocable Life Insurance Trust (ILIT) may be subject to gift taxes.[1]
- The ILIT alone does not have the cash flow to fund the policy premiums.
- Your client is hesitant about doing irrevocable planning given the potential for estate tax repeal after 2010.
- Financing premiums may not be economical or appealing to your client.

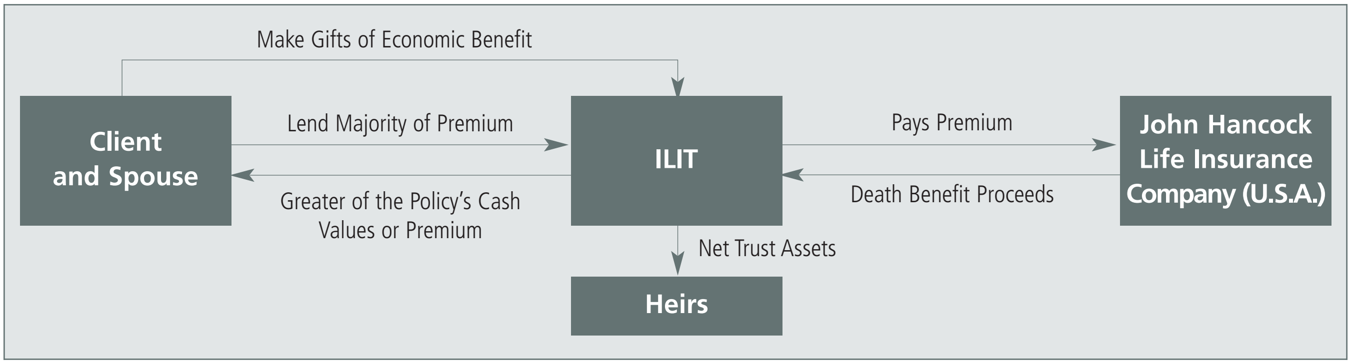
SOLUTION

Your client and his or her spouse can minimize gift taxes by using a private Split Dollar arrangement.

HOW IT WORKS

- Your client and his or her spouse enter into a private non-equity collateral assignment Split Dollar plan with their ILIT.
- The trustee of the ILIT purchases a survivorship life insurance policy on your clients.
- Your clients provide the ILIT with the funds to pay the economic benefit portion of the premiums, which initially represents only a fraction of the full premium due, in the form of an annual gift.[2]
- The balance of the premium is lent to the ILIT by your clients.
- Your clients are assigned the greater of the policy's cash values or premiums paid as collateral.
- If the plan is terminated during lifetime, other funding sources available can be used to repay the amount of the collateral assignment. If the plan terminates at death, the death proceeds will be used to fund the repayment.
- The policy will provide the life insurance needed through 2010 and lock in insurability. If the estate tax is repealed after 2010, the collateral assignment amount can be repaid and the policy may be cancelled or maintained depending on current needs.

(See chart below.)



BENEFITS

- *Estate liquidity.* Your clients can secure the amount of protection they need while minimizing or eliminating gift taxes.
- *Planning flexibility.* Your clients can lock their insurability now.[3] If the estate tax is repealed after 2010, your clients have the flexibility to terminate the arrangement and cancel or maintain the policy depending on their needs.
- *Reduction in gift tax value.* The economic benefit rates for survivorship policies are extremely low, reducing the arrangement's annual gift tax value.
- *Cost-effective alternative to financing premiums.* The gift tax cost of the arrangement can be significantly lower than the gift tax cost of financing premiums.
- *Leveraged gifts.* Annual gift tax exclusion gifts can be leveraged significantly with life insurance, especially when the gift is based on economic benefit rates for a survivorship life insurance policy.

CONSIDERATIONS

- *Cash flow.* Cash flow is required when using a private Split Dollar plan.
- *Increasing economic benefit.* The economic benefit costs will increase over time, thereby increasing the annual gift tax value of the arrangement.
- *Estate taxation of repayment.* The repayment of the collateral assignment amount is included in your client's taxable estate.
- *Lifetime termination of arrangement.* The arrangement is considered terminated only if and when the repayment is made. It is important to consider the funding options available for a lifetime termination of the plan, if necessary.
- *Final Split Dollar Regulations.* The 2003 Final Split Dollar Regulations dictate how a Split Dollar plan can be structured and describe the tax consequences of such plans. Please see the Comprehensive Split Dollar Client Guide for additional information.

For additional 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 generation-skipping transfer tax). Failure to do so could result in adverse tax treatment of trust proceeds.
2. An annual exclusion gift is the amount of annual gifts that each individual can make to an unlimited number of people without federal gift tax. In 2006, this amount is $12,000 per individual per year (indexed annually for inflation and subject to specific rules).
3. Your client must satisfy medical and financial underwriting requirements first.

John Hancock

Insurance products are issued by John Hancock Life Insurance Company (U.S.A.), 197 Clarendon Street, Boston, MA 02116.

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