John Hancock
LIFE INSURANCE

Advanced Markets
Central Intelligence

QUARTERLY EDITION: **October 2009**

IN THIS ISSUE

- Estate of Malkin v. Commissioner: IRS Prevails in Tax Court on FLP Case
- Estate of Murphy v. United States: Taxpayer Victory in an FLP Case
- Keller v. U.S.: Another Taxpayer Victory in an FLP Case
- First MetLife Investors Ins. Co. v. Zilkha: Insurable Interest for Co-Venturers
- Giannaris v. CIR: No Deduction for Interest on Life Insurance Policy
- Heckerman v. U.S.: Transfers to LLC Ruled Indirect Gifts Subject to Gift Tax
- PLR 200920031: CLAT Use of Appreciated Property Triggers Tax to Grantor
- New York's New Power of Attorney Law
- Case in Point: Private Financing

IRS Prevails in Tax Court on FLP Case

Estate of Malkin v. Commissioner: Tax Court Memo 2009-212 (Sept. 16, 2009)

Facts: Round 1 – Transfers of Stock to MFLP: Taxpayer wanted to transfer over $16 million worth of shares in Delta & Pine Land Co. (Company) to his son and daughter. He created trusts for each of his children and also formed the Roger D. Malkin Family Limited Partnership (MFLP), to which he contributed Company shares over $16 million in return for a 1% general partnership (GP) interest and a 98.494% limited partnership (LP) interest. The Taxpayer then sold 88.594% in LP interests to the trusts for $880,000 cash and 9 year secured SCINs (self-cancelling installment notes), reflecting a valuation discount of approximately 40%.

Although the sale transaction was structured with consideration of 10% down payments and 90% notes, in the first two years following the transaction, the Taxpayer loaned cash to his children which they loaned to their trusts, and the trusts used that cash to make interest payments to the Taxpayer. The Taxpayer also pledged almost all of the shares he transferred to MFLP to Bank of America to secure his personal debts, and then pledged them to another bank when he refinanced his debt.

Round 2 – Transfers to CRFLP: The Taxpayer and his son also owned interests in five LLCs (Limited Liability Companies) that owned interests in private equity ventures and a partnership. The Taxpayer created a new FLP, known as Cotton Row Family Limited Partnership (CRFLP), and Taxpayer transferred all of his interests in the LLCs to CRFLP in exchange for a 1% GP interest and a 99% LP interest. He then sold 89% of his LP interests in CRFLP to two new trusts for his children, in exchange for cash and secured promissory notes. Taxpayer later transferred 80,000 Company shares to CRFLP, although he had already pledged the shares to a bank to secure a personal debt.

Following Taxpayer's death in 2001, his estate tax return was filed late and reflected an insolvent estate with about $15.5 million in assets. The estate claimed deductions for a $12.9 million loan secured by Company stock and a $2.3 million obligation to one of the LLCs.

Ruling: The Tax Court ruled in favor of the IRS on the following issues:

1) All of the Company shares contributed to MFLP and CRFLP were included in the taxable estate under Section 2036(a)(1);
2) The transfer of the LLC interests to the CRFLP was an indirect gift of interests in the LLCs and was not eligible for a valuation discount;
3) Taxpayer's payment of LLC debts was an indirect gift to his children;
4) Cash loans to Taxpayer's children were shams and were treated as gifts;
5) The loan secured by Company stock is a non-recourse loan and is deductible only to the extent of the value of collateral.

The Tax Court cited the following reasons in support of its holding:

1) The Bona Fide Sale exception of Section 2036 did not apply since the estate could not offer legitimate non-tax reasons for establishing the FLPs;
2) No Centralized Management – the FLP assets were not pooled and they were treated as the Taxpayer's personal assets even after the transfers;
3) The pledging of the Company shares to secure a personal loan reflected a retained interest in the shares by the Taxpayer; and
4) The Taxpayer made loans to his children but several of them were not evidenced by promissory notes, were not secured and were not repaid at all.

In general, this case is an example of bad planning for a Family Limited Partnership, which did not have a significant non-tax reason for its creation and did not manage the assets in a way that clearly treated the partnership assets as separate from the taxpayer's personal assets.

Taxpayer Victory in an FLP Case

<u>Estate of Murphy vs. United States</u>, Case No. 07-CV-1013 (2009)

Facts: Taxpayer was CEO and Chairman of a publicly traded oil company and also owned substantial interests in a timberland and farmland company and a bank, worth almost $90 million. He formed a family limited partnership (FLP) and funded it with assets from the three companies to centralize management and protect dissipation of the family assets. He was concerned about dissipation of assets after two of his four children sold or pledged family assets given to them or their trusts. His two other children shared his business philosophy and became involved in the management of the FLP.

Taxpayer retained assets worth about $130 million. He acquired a 96.75% limited partnership interest in the FLP and an LLC (owned 49% by the taxpayer and 51% by two of his children) held a 2.25% general partnership interest in the FLP. The FLP purchased timberland and farmland, made capital improvements

to the land and made two distributions during the decedent's lifetime. Taxpayer made annual exclusion gifts of FLP interests to his children, their spouses and his grandchildren until his death. At the time of his death, the assets in the FLP were worth $131 million. The Taxpayer's estate borrowed money from the FLP to raise cash for payment of estate tax, and three years after the estate tax return was filed, the IRS issued a Notice of Deficiency for $34 million, alleging that the FLP assets were includable in the taxable estate under Sections2036 (a)(1) and (a)(2).

Ruling: The U.S. District Court for the Western District of Arkansas ruled that the transfers to the FLP qualified for the bona fide sale for full consideration exception to Section 2036. The court held that the FLP did have a legitimate non-tax purpose, noting that the taxpayer retained $130 million of personal assets, he did not treat the FLP assets as his own and two of his children took an active role in the FLP (his daughter was represented by her own attorney). In addition, the interest in the FLP was proportionate to the value of the assets contributed and the value of each partner's contribution was credited to the partner's capital account.

In valuing the FLP interests, the Court reviewed the opinions of the estate's expert and the IRS' expert and generally followed the opinions of the estate's expert appraiser for all of the valuation issues other than the value of timberland in the plantation. The Court allowed a discount for Rule 144 restrictions, as well as a lack of control discount of 12.5% and a lack of marketability discount of 32.5% (the combined discount was approximately 40% and the two-tier discount on the LLC general partner interest was about 52%). The court also allowed a deduction on the interest that the estate paid on the $11 million loan from the FLP to the estate.

Another Taxpayer Victory in an FLP Case

Keller v. U.S., Civil Action No. V-02-62 (S.D. Tex. August 20, 2009).

Facts: The Taxpayers (Maude and Roger Williams) established a revocable trust agreement, which formed a Family Trust to hold approximately $300 million in cash certificates of deposit and bonds. Following Mr. Williams's death in 1999, the Family Trust was funded and divided into two parts: Trust M, which held Mr. Williams's separate property and one-half of the community property, and Trust A, which held Mrs. Williams's separate property and one-half of the community property.

In 2000, Mrs. Williams and her advisors decided to form a limited partnership of which a 0.1% general partner interest was owned by a limited liability company (LLC), a 49.95% limited partnership interest was owned by Trust M, and a 49.95% limited partnership interest was owned by Trust A. On May 9, 2000, Mrs. Williams (while in the hospital) signed the Partnership Agreement and the incorporations papers for the LLC. The Partnership was to be primarily funded with Community Property Bonds. Two days later, the documents were filed with the Texas Secretary of State and four days after that Mrs. Williams died.

Mrs. Williams's gross estate value at death was $383,669,668, most of which was attributable to the assets held by Trust A and Trust M ($368,766,230). Of the $368,776,230 held by the Trusts, $260,781,622 was attributed to the Trusts' interests in the Partnership. The estate's initial estate tax liability was $143,450,169. However, after the estate tax was paid, Mrs. Williams's advisors determined that they had successfully formed the Partnership under Texas law, and they decided to formally fund the Partnership by transferring Community Property Bonds to the Partnership. Following the funding of the Partnership, the estate filed a Claim for Refund in the amount of $40,455,332, plus interest, as a result of a valuation discount on the Partnership interests.

Ruling: The court ruled in favor of the Taxpayer, and allowed a 47.51% valuation discount to be applied to valuation of the 49.95% partnership interests. This enabled the estate to prevail in its claim for a refund of over $40 million in estate tax.

Analysis: Although the Government argued that the transfer of the Bonds to the Partnership was not a bona fide sale under IRC Section 2036(a) (following the Strangi case), the Court ruled that the Partnership had a "significant and legitimate non-tax business purpose," in addition to estate tax savings. The primary purpose of the Partnership was to "consolidate and protect family assets for management purposes and make it easier for these assets to pass from generation to generation."

The Court cited the following factors in support of its decision:

- Extensive discussions and efforts by Mrs. Williams and her advisors regarding the formation of the Partnership;
- The substantial amount of personal wealth retained by Mrs. Williams outside the Partnership ($100 million);
- Mrs. Williams's focus on protecting family assets from attachment by ex-spouses; and
- The validly executed Partnership Agreement with provisions on each partner's capital account and distributions.

The Government did not try to argue that there was an indirect gift in this case, as in the Senda, Holman and Gross cases, since the LLC, as well as Trust M and Trust A, all received a proportionate amount of limited partnership interests in consideration for the assets which they contributed to the Partnership. With regard to valuation of the Partnership interests held by Trust M and Trust A at Mrs. Williams's death, the Court accepted the Plaintiff's expert's use of the "asset-based" valuation approach, which concluded that the fair market value of the Partnership assets on the date of death was $261,042,664. The Court found that the Government's valuation expert "violated several of the tenets of the hypothetical willing buyer and seller standard" and agreed with the Plaintiff's expert that the 49.95% limited partner interests were each worth $68,439,000, approximately a 47.51% discount. In addition, the Court also found that $30,000,000 of interest on a loan that was made to the estate from the Partnership was deductible by the estate, since the loan was made to provide liquidity for estate taxes.

Insurable Interest for Co-Venturers

First Metlife Investors Ins. Co. v. Zilkha, 209 WL 2999607 (SDNY 2009)

Facts: Dr. Zilkha, an ophthalmic surgeon in Brazil, bought a $2 million life insurance policy on Dr. Bosniak, a New York ophthalmic surgeon, and named herself as the beneficiary. Dr. Bosniak bought a similar policy on Dr. Zilkha's life and named himself as the beneficiary.

Dr. Bosniak died soon after the purchase of these policies, and his estate sued to contest payment of the proceeds of the policy on his life to Dr. Zilkha. The estate argued that Dr. Zilkha lacked an insurable interest in Dr. Bosniak's life under New York law since she was not authorized to practice medicine in New York. The issuer of the policy, First Metlife Investors Insurance Company, interpleaded and the U.S. District Court for the Southern District of New York dismissed First Metlife from the action and ruled on how the policy proceeds should be paid.

Ruling: The court ruled that because Dr. Zilkha and Dr. Bosniak had a business relationship between them, they did have an insurable interest in each other's lives. Despite the fact that Dr. Zilkha was not licensed to practice medicine in New York, she was able to present evidence that the two doctors had developed a new surgical procedure together, developed a machine to administer this procedure, created a line of cosmetic products, co-wrote a book on their business enterprise and products and contracted to establish beauty spas under the Bosniak Zilkha name. As a result, the court held that Dr. Zilkha had "a substantial economic interest in the continued life" of Dr. Bosniak.

This case shows that an insurable interest can exist even in a situation where there is no formal business partnership, such as a joint medical practice, but there is a joint business venture which establishes a business or financial relationship.

No Deduction for Interest on Life Insurance Policy

Alex Giannaris v. CIR., T.C. Summ. Op. 2009-114 (July 22, 2009)

Facts: In October 1965, Petitioner purchased a life insurance policy from Mass Mutual with a face value of $50,000. Beginning in the early 1970s, Petitioner periodically borrowed against the value of the policy and used the proceeds to supplement his income. Petitioner did not make any significant repayments of those loans or any payment on the interest that accrued on the loans. As a result, the unpaid interest became a part of the overall loan against the policy.

In 2005, when the loan balance (including unpaid interest) exceeded the value of the policy, Mass Mutual notified Petitioner that the policy would terminate unless the shortage was paid. Petitioner did not make the required payment, and the policy terminated in February 2006. Petitioner received $792 as the net proceeds of the policy upon its termination which represented the difference between the total loan amount of $149,872 and the $150,664 cash value of the policy. Mass Mutual issued a Form 1099-R to Petitioner reporting a taxable gain of $105,190 resulting from the termination of the policy. Petitioner claimed a deduction for the total unpaid interest of $111,727 included in the loan balance, reporting that this interest was home mortgage interest.

The Service determined in the notice of deficiency that the Petitioner was not entitled to deduct any of the $111,727 as home mortgage interest because the Petitioner did not pay any home mortgage interest during the year.

Ruling: Section 163 generally allows a deduction for any interest paid or accrued in the taxable year on indebtedness. Personal interest, however, is excluded under §163(h)(1). The term "personal interest" includes all interest except to the extent that the interest is: (i) trade or business interest; (ii) investment interest; (iii) interest used to compute passive income or loss; (iv) qualified residence interest; (v) interest use in extended estate tax payments; and (vi) educational loan interest.

Petitioner claimed the interest expense as home mortgage interest on his tax return for 2006. In that year, however, petitioner paid no home mortgage interest. The Service held that the interest on the policy loan is not home mortgage interest because the loans underlying the interest were not secured by a residence. The Petitioner contended that it was unjust to include the $105,190 in his income because he only received

$792 upon termination of the policy. The Court held that the Petitioner did benefit from the use of the loan proceeds and that the $792 he received corresponds to the net proceeds of the policy after subtracting the loan amount and accrued interest. Therefore, the Court held that the Petitioner is not entitled to deduct any of the $111,727 as an interest expense.

Assets Transferred to LLC Were Indirect Gifts Subject to Gift Tax

David E. Heckerman and Susan B. Heckerman v. U.S., No. 2:08-cv-00211 (District Court Western District of Washington, Seattle)

Taxpayers (David and Susan Heckerman) brought suit to recover $511,498 each, arguing that they are entitled to the gift tax refund because the Service improperly labeled the transactions as "indirect gifts."

Facts: On November 28, 2001, the Taxpayers created trusts for their children and formed three limited liability companies (LLCs): Heckerman Investments LLC, Heckerman Real Estate LLC, and Heckerman Family LLC, an umbrella LLC that owned Investments LLC and Real Estate LLC. On December 28, 2001, the Taxpayers began to fund the entities, transferring ownership of a $2,000,000 beach house to Family LLC and then to Real Estate LLC. On January 11, 2002, Taxpayers transferred $2,850,000 in mutual funds and cash from their personal investment account to Investments LLC.

Taxpayers then transferred 1,217.65 units of Family LLC to each of their children's trusts. The signed gift documents state that the assignments were executed on January 11, 2002, and the Family LLC documents also state that the children's trusts were admitted as members of the Family LLC on the same day. The Taxpayers hired a valuation expert to establish the value of the Family LLC ownership interests as of January 11, 2002. Finally, the Taxpayers' gift tax return reported the date of the gifts of LLC units to the children's trusts as of January 11, 2002.

In 2005, the Service determined that the Taxpayers' transfer to Investments LLC on January 11, 2002 was an indirect gift of the proportionate amount of cash and mutual funds to each child's trust. The Service found that the cash was not an asset of Investments LLC when Family LLC units were transferred to each child's trust. Alternatively, the Service found that the transfer to Investments LLC and the transfer of Family LLC units on the same day were merely part of an integrated transaction intended to pass cash and mutual funds to the children in a tax-advantaged form.

Ruling: In reaching a determination as to whether the cash gift was an indirect gift to the children's trusts, the Court began with a review of the existing case law concerning indirect gifts (the *Senda, Jones*, and *Shepherd* cases) In this case, the Service argued that Plaintiffs' contribution to Investments LLC on January 11, 2002, should be regarded as an indirect gift to the children's trusts because, as with the taxpayers in *Senda*, the Plaintiffs cannot establish that they contributed the cash to the entity before giving the entity interest to their children's trusts. The Service also argued, in the alternative, that the transfer of cash to Investments LLC and the gifting of Family LLC units were nothing more than integrated transactions under the step-transaction doctrine.

The Court agreed with the Service and found that the Plaintiffs could not establish that they had made the cash gifts to the entity before transferring the LLC interests to the children's trusts. The Court also stated that it was persuaded by the Defendant's alternative argument that, like the transactions in *Senda*, the transfer of

cash to Investment LLC and the gifting of the Family LLC units to the children's trusts, were integrated transactions. The Court found that the two-step transactions transferring the cash to the Investments LLC and the gifting of the LLC units to the children's trusts were properly characterized as one integrated transaction in which the Taxpayers indirectly gifted the cash to the children's trusts. Having ruled that the end result test and the interdependence tests were met, and that the general characterization of the transaction was correct as a matter of law, the Court found that the Service properly assessed federal gift tax liability on the transfer as an indirect gift to the children's trusts.

CLAT's Use of Appreciated Property to Pay Annuity Triggers Tax to Grantor

Private Letter Ruling 200920031 (May 15, 2009)

Facts: Grantor contributed partial interests in a family owned limited liability company (LLC) to a trust that was intended to qualify as a grantor charitable lead annuity trust (CLAT) under §2522(c)(2)(B). Under its terms, the CLAT is to make an annuity payment to a private foundation each year equal to a fixed percentage of the initial value of the CLAT's assets for 20 years.

The CLAT's trustee wants to disburse appreciated securities to the private foundation in satisfaction of the annuity payment rather than using income to make the payment. The CLAT's trustee has requested a ruling that if the annual payment to a private foundation by the CLAT is satisfied with appreciated marketable securities, then such payment will not trigger gain or loss to Grantor or to the CLAT.

Ruling: In reaching its determination, the Service first looked to the decision in *Kenan v. CIR* 114F.2d 217 (2nd Cir. 1940) in which the trustees of a testamentary trust were directed to pay the beneficiary $5,000,000 upon the beneficiary's reaching age 40. The trustees had the option of making the payment in cash or through securities or some combination of the two. The trustees chose to make the payment with the trust's securities, transferring them directly to the beneficiary in satisfaction of the required payment. The Court held that the transfer of the securities resulted in a taxable exchange as the beneficiary had a claim against the trust for an ascertainable value. The Court noted that since the trustee exercised its choice to make a transfer from the corpus of the trust, instead of selling the stock first, realizing the gain, and then paying the beneficiary, the transfer of the securities should not result in different tax consequences.

Rev. Rul. 83-75 adopted the reasoning in *Kenan* and found that a distribution by a non-grantor irrevocable trust of appreciated securities in satisfaction of its obligation to pay a fixed annuity to a charitable organization resulted in taxable gain to the trust. Based on the decisions in *Kenan* and Rev. Rul. 83-75, the Service concluded that the use of appreciated securities to satisfy the CLAT's obligation to make its annuity payment to the foundation would be a recognition event. Since the CLAT is a grantor CLAT under Rev. Proc. 2007-45, the use of appreciated securities would cause the grantor to realize the gain on the appreciated securities.

New York's New Power of Attorney Law

New York has made significant changes to its power of attorney law, which applies to all powers of attorney executed in New York on or after September 1, 2009. Any powers of attorney executed on or after September 1, 2009 that do not comply with the new law will not be valid.

- **Short Form Power of Attorney –** The new law includes two new forms, a New York statutory short form of power of attorney and a statutory major gifts rider needed to authorize gifts in excess of $500 per year to any person.
- **Statutory Major Gifts Rider (SMGR) –** The new statutory short form power of attorney cannot be used to make gifts of more than $500; the new statutory major gifts rider must be executed simultaneously with the short form power of attorney in order for the agent to make gifts in excess of $500. The SMGR must be witnessed in the manner described in Section 3-2.1 of the New York Estates Powers and Trusts Law, by two persons who are not named in the rider as permissible recipients of gifts and other transfers.

New Requirements for Validity of all Powers of Attorney (POA) executed in New York by an Individual as Principal:

- The POA must be typed or printed using legible letters or clear type not less than 12 point size;
- The POA must be signed and dated by the principal with capacity and the principal's signature must be acknowledged in the manner prescribed for the acknowledgment of a conveyance of real property;
- The POA must be signed and dated by the agent and the agent's signature must be acknowledged in the manner prescribed for the acknowledgment of a conveyance of real property;
- Contain almost 300 words of language from the statute on "Caution to the Principal" to inform the principal about the nature of the POA; and
- Contain more than 300 words of language from the statute entitled "Important Information for the Agent" explaining the role of the agent, the agent's fiduciary obligations and the legal limitations on the Agent's authority.

NEW IN 2009: CASE IN POINT

Our monthly *Case In Point* section will bring you actual, recent Advanced Markets cases. Check in each month for examples of the ways that our team's focus on client and advisor concerns, case design expertise, consultation process, and software capability translate into real-life solutions.

Initial Call to Advanced Markets: August 2009

Client Profile

Status: Female, Age 72, Preferred Non Smoker

Net Worth: $100,000,000

Current Lifetime Giving Plan: The client has five annual exclusions which she is already using and her $1,000,000 lifetime gift tax exemption was not available for funding a life insurance policy inside of an Irrevocable Life Insurance Trust (ILIT).

Need: $10 million of life insurance for estate liquidity purposes.

Client Concerns: Fund life insurance without incurring any gift taxes.

Initial Discussion: In the beginning of August, a Brokerage General Agency (BGA) called Advanced Markets Consultant Ana Medinaceli with a common dilemma. They had a client who was in the final stages of underwriting for a $10 million John Hancock Protection UL-G policy, who had plenty of money to pay the premium, but had limited gifting capabilities left. She had five children, but she was currently gifting $13,000 per year to her children and did not want to redirect her gifts to pay her premium; moreover, she did not have enough annual exclusions to cover the annual premium of $229,979. She did not want to use her lifetime gift exemption, and she did not want to pay gift taxes.

Solution: Ana discussed several options with the BGA and ultimately decided that the Private Financing solution was probably the best approach to present to the client's advisor, who would then present it to the client and client's attorney. With the Private Financing approach, the client would lend money to the trust, and the trust would be responsible for paying the note plus the interest due. Ana used the JH Solutions Private Financing module to illustrate a lump-sum loan approach in the following two scenarios:

1. **The Long-Term Note Approach:** This approach assumed that the client would loan $3.2 million to the trust at a long-term interest rate of 4.26%. Trust would then pay the $229,979 premium annually, and the remainder would be invested in a side fund earning 6%. With this approach, the interest would be deferred and the loan would be paid off from the life insurance proceeds at the client's death. The proposal showed that at life expectancy, the cumulative loan would be $6 million, the trust assets in the side fund would be $2 million, the death benefit would be $10 million and the loan net of estate taxes would be $3.4 million. With this approach, the client's net to heirs would be $9.5 million at life expectancy.

2. **The Mid-Term Note Approach:** This approach assumed that the client would loan $13.7 million in year 1, BUT that the loan would only be for 9 years. With a 9-year note, the clients could lock in the mid-term interest rate of 2.8% and have more arbitrage between the rate that was charged and the actual rate that was earned. Assuming the trust would earn 6%, by the end of year 9 there would be $20 million in the side fund (assuming the premium would be paid annually from the side fund). The illustration showed the trust paying back the note in year 10. After the repayment, there would still be over $2 million left in the trust to pay for ongoing premiums. The net to heirs using this approach would be $12.1 million.

Ana set up a conference call with the BGA and financial advisor to discuss both alternatives, as well as the pros and the cons of the Private Financing solution. With the two presentations in hand, the agent felt confident to present these strategies to the client and the client's counsel. The client and counsel were impressed with the overall presentations and the solutions that were outlined. The client ultimately decided to go with the mid-term note approach.

Insurance data shown is taken from an illustration.

Non-insurance 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.

ONE YEAR LIBOR RATE
As of October 15, 2009: 1.22%

IRC SECTION 7520 RATE		
October	2009	3.2%
September	2009	3.4%
August	2009	3.4%

The §7520 rate is used to value GRITs, QPRTs, CRATs, CLUTs, CLATs, private annuities, life interest, remainder and reversionary interests. To value a charitable gift for income, gift, or estate tax charitable deduction purposes, use either the rate for the month of the actual gift/transfer or the rate from either of the two previous months (use the highest of the three months for the largest charitable deduction).

APPLICABLE FEDERAL RATES – SEPTEMBER				
	Annual	**Semi Annual**	**Quarterly**	**Monthly**
Short-term AFRs – loans (3 years or less)	0.75%	0.75%	0.75%	0.75%
Mid-term AFR – (More than 3 years up to and including 9 years)	2.66%	2.64%	2.63%	2.63%
Long-term AFRs – (More than 9 years)	4.10%	4.06%	4.04%	4.03%

For more information on various planning topics or to request the John Hancock Advanced Markets suite of marketing and educational tools, including the JH Solutions concept software, please call John Hancock's Advanced Markets Group at 1-888-266-7498 and press #4.

REMINDER: Electronic Distribution of Advanced Markets Group Materials is Available.

Central Intelligence and its companion piece, Sales Strategy, are printed on a quarterly basis. If you'd like to receive Central Intelligence on a monthly basis, it is available by e-mail. To receive the monthly e-mail edition of Central Intelligence, please send a request to advancedmarkets@jhancock.com. In addition, monthly editions of Central Intelligence and Sales Strategy are available on our website at www.jhsalesnet.com. The Advanced Markets Group also sends a monthly electronic newsletter which features a popular estate or business planning concept. To be included on this distribution list, please send an e-mail to advancedmarkets@jhancock.com.

Central Intelligence **is produced by John Hancock's Advanced Markets Group. We can be reached at (888)266-7498, option 3 or option 4; 197 Clarendon Street, C-07-01, Boston, MA 02116; www.jhsalesnet.com.**

Guaranteed product features are dependent upon minimum premium requirements and the claims-paying ability of the issuer.

Insurance policies and/or associated riders and features may not be available in all states.

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.

This material does not constitute tax, legal or accounting advice and neither John Hancock nor any of its agents, employees or registered representatives are in the business of offering such advice. It was not intended or written for use and cannot be used by any taxpayer for the purpose of avoiding any IRS penalty. It was written to support the marketing of the transactions or topics it addresses. Comments on taxation are based on John Hancock's understanding of current tax law, which is subject to change. Anyone interested in these transactions or topics should seek advice based on his or her particular circumstances from independent professional advisors.

Insurance products are issued by John Hancock Life Insurance Company (U.S.A.), Boston, MA 02116 (not licensed in New York) and John Hancock Life Insurance Company of New York, Valhalla, NY 10595.

© 2009 John Hancock. All rights reserved. IM6039 10/09 MLINY10140911679