JOHN HANCOCK
LIFE INSURANCE

Sales Strategy
The Power of Lifetime Giving

GIVE MORE BY GIVING NOW

INTRODUCTION

Many affluent clients express a desire to provide for their loved ones "after I'm gone." Savvy estate planners have long known that one of the best ways to provide for loved ones is by planning now. Lifetime giving allows the donor to have greater privacy and probate avoidance, and may also increase the net amount passed to the heirs. This savings may be further leveraged through the use of life insurance to provide a substantial legacy to the client's family.

TAX BENEFITS OF LIFETIME GIVING

Annual Exclusion Gifts. Annual exclusion gifts are an easy way for clients to reduce their taxable estates. The annual exclusion gift is the amount of money that may be gifted each year from one individual to another free of gift tax.[1] The current annual exclusion amount is $13,000 per recipient per year in 2009 and will be annually indexed for inflation in $1,000 increments.

Lifetime Gift Exemption. In addition to the annual exclusion, each person also has a $1,000,000 gift exemption to use during his or her life. Although using the gift exemption can reduce the amount of exemption that a person has available at death, it can also enable wealthy individuals to make large gifts and to remove assets, along with the future appreciation and income from those assets, from their taxable estate.[2] This approach can be particularly important for people who own assets that are expected to appreciate in the future and/or can be transferred at a discounted gift tax value, such as interests in a family limited partnership (FLP).[3] If the estate tax rate is 50%, each gift of $13,000 during life can result in a savings of at least $6,000 at death, plus the appreciation on the asset following the gift. If the gift tax value of an asset is discounted, that further increases the savings on the transfer.

NON-TAX BENEFITS OF LIFETIME GIVING

Many clients are reluctant to make gifts because they do not understand the benefits that gifting provides, and they do not want to relinquish control of their property to their children. However, lifetime giving provides more than just tax benefits. Lifetime giving also allows clients to:

- see loved ones enjoying the gifts now;
- protect gifted assets from the donor's and the beneficiary's creditors (if owned by a trust);
- avoid probate for gifted assets and protect family privacy;
- make gifts of certain assets at a discounted value; and
- use gifts to purchase life insurance, which may increase the amount of money left to the heirs.

GIFTING APPRECIATING ASSETS

CASE STUDY: MARIA DONOFRIO

This case study shows the benefits of gifting assets, such as stock, which are expected to appreciate in the future. Maria Donofrio, a widow, inherited $10,000,000 when her husband died. $1,000,000 of that amount is stock in a software company that is about to go public and is appreciating at 10% a year. Maria wants to use her $1,000,000 lifetime gift exemption to give the stock to her children (gifts that use the lifetime gift exemption are sometimes referred to as "taxable gifts," since it reduces the total amount of exemption available, even if no tax is actually due on the transfer). Maria believes that if she gives the stock to her three children in 2009, her total estate tax bill (federal and state) will be smaller than if she leaves them the stock at her death.[4]

	Without Gifting	With Gifting
Non-Stock Assets in 2009	$9,000,000	$9,000,000
Value of Stock 2009	$1,000,000	$1,000,000
Total Estate 2009	**$10,000,000**	**$10,000,000**
Gift of Stock	$0	$1,000,000
Gift Exemption Used	$0	$1,000,000
Remaining Estate Value 2009	**$10,000,000**	**$9,000,000**
Non-Stock Estate Assets in 2019	$9,000,000	$9,000,000
Stock Value in 2019	**$2,593,742**	**$2,593,742**
Taxable Estate in 2019	$11,593,742	$9,000,000
Estate Taxes due in 2019	**$5,751,245**	**$4,795,000**
After-Tax Estate to Heirs in 2019	$5,842,497	$4,205,000
Gift to Heirs Stock Value 2019	$0	$2,593,742
Net to Heirs in 2019	**$5,842,497**	**$6,798,742**

The 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.

Assuming Maria dies in 2019, the total potential estate tax savings from the gifting plan is $956,245, and the net to her heirs increases by the same amount if she gives them the stock in 2009, rather than waiting to transfer it after her death.

GIFTING AND LIFE INSURANCE

Gifting and life insurance are a particularly powerful combination. If life insurance is owned by an Irrevocable Life Insurance Trust (ILIT), the trust will generally receive the policy death benefit free of estate and income tax. Clients can make annual exclusion gifts to an ILIT, up to the number of trust beneficiaries who are given "Crummey" rights of withdrawal.[5] If the trustee uses the gift dollars to purchase life insurance, the death benefit to the heirs often can be substantially leveraged as compared to the value of the original gift.[6]

CASE STUDY: SEAN AND KELLEY MACCAULY

Background. Sean and Kelley MacCauly are both 55, Preferred Non Smokers and have two children. Their estate is currently worth $10,000,000, and is growing at an after-tax rate of 4% a year. They have never done any planned gifting in the past, and are interested in looking at the ways that lifetime gifting can reduce their estate tax exposure. Their financial planner, Todd Markham, recommends that they establish an Irrevocable Life Insurance Trust (ILIT) and fund it with annual exclusion gifts of $52,000 each year.

Assumptions. The table below shows three different possible scenarios for the MacCaulys: no lifetime gifting, gifting to an irrevocable trust (IT) and investing the gifts, and gifting to an ILIT and having the trustee purchase life insurance.[7] In this example, the hypothetical growth rate for assets inside their irrevocable trust is 5%.[8] It is assumed that the MacCaulys also establish a Credit Shelter Trust at death to take advantage of using one of their $1,000,000 lifetime gift tax exemptions.[9] If the MacCaulys make $52,000 annual exclusion gifts every year to an irrevocable trust, the trust will be able to purchase a $6,192,125 John Hancock Protection Survivorship UL-G 09 policy on their lives.[10]

Comparison of Benefits in Year 30	Scenario 1 No Gifting	Scenario 2 Lifetime Gifts to an Irrevocable Trust and Investing at 5%	Scenario 3 Lifetime Gifts to an Irrevocable Trust with Life Insurance
Cumulative Gifts Years 1–30	$0	$1,534,000	**$1,534,000**
Total Estate Value (Year 30)	$31,393,975	$28,387,942	**$28,387,942**
Estate Taxes Due	$16,920,886	$15,267,568	**$15,267,568**
Assets in Trust (Year 30)	$0	$3,600,261	**$6,192,125**
Credit Shelter Trust	$1,000,000	$1,000,000	**$1,000,000**
Net to Heirs in Year 30	$15,473,089	$17,720,635	**$20,312,499**

The data shown is taken from an illustration. It assumes a hypothetical rate of return and may not be used to project or predict investment results.

As the above chart indicates, by giving to an ILIT and purchasing life insurance, the MacCaulys can leave $20,312,499 to their heirs, over $2.5 million more than if they gifted to a trust and invested the proceeds, and nearly $5 million more than doing no gifting at all.[11]

SUMMARY

Lifetime giving is a powerful tool in the estate-planning arsenal. Gifting can reduce estate taxes, maximize gifts to loved ones, and help avoid the probate process, as well as potential creditors' claims. However, the real power of lifetime giving becomes apparent when it is combined with purchasing life insurance in an ILIT. Life insurance often multiplies the value of the gift and provides a lasting legacy to future generations.[12]

The Advanced Markets Group has created the JH Solutions software system to help demonstrate to your clients the benefits of life insurance as part of their lifetime gifting program.

For more information, contact your local John Hancock Representative or the Advanced Markets Group at 1-888-266-7498, option 3.

1. Gifts to a trust may qualify for the annual exclusion if they are "present interest gifts" and the trust beneficiaries must have "Crummey" rights of withdrawal over the gifts.
2. The Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) has increased the estate and GST tax exemptions to $3,500,000 in 2009. The lifetime gift exemption is set at $1,000,000 and is not expected to change. However, the provisions of EGTRRA expire after December 31, 2010. The estate and GST tax will be repealed for one year in 2010, but unless the law is changed before December 31, 2010, the estate and gift tax exemption will be $1,000,000 per person and the GSTT exemption will be $1,060,00 in 2011. This Sales Strategy assumes that EGTRRA will not be extended after 2010.
3. Under IRC Sec. 2035, certain gifts made within three years of death will be includable in the decedent's estate when calculating the gross estate. The three-year rule applies to certain gifts such as life insurance proceeds, and gifts with a retained life estate.
4. For purposes of simplicity, we are assuming the following: 1) the current year is 2009, 2) she has no annual exclusions available, 3) the other assets in the estate show no appreciation or depreciation, 4) the estate tax exemption in 2009 is $1,000,000, and 5) Maria lives in a state with the "sponge tax." The estate tax calculation shows the estimated federal and state estate tax due in 2019, assuming the maximum allowable credit for state death tax.
5. Clients can also use their lifetime gift exemption to make gifts to an ILIT.
6. 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.
7. 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 treatments of trust proceeds.
8. In this example, the trust growth rate is pretax and the assumption is that the ILIT is a grantor trust for income tax purposes, i.e., the grantor pays the income tax on the trust income, rather than the trust.
9. With proper planning, at the death of the first spouse a specified amount of assets, known as the applicable exemption amount, can be transferred to the Credit Shelter Trust, free of estate tax.
10. The premiums paid for Mr. & Mrs. MacCauly's new Protection Survivorship UL-G contract are based on rates in Florida for a male, age 55, Preferred Non Smoker and female Florida resident, age 55, Preferred Non Smoker. At the current crediting rate of 5.05% and current policy charges, neither of which is guaranteed, the policy could be kept in force until death with an annual premium of $48,000 for all years.
11. Insurance policies and/or associated riders and features may not be available in all states.
12. Guaranteed product features are dependent upon minimum premium requirements and the claims-paying ability of the issuer.

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