



LIFE INSURANCE

## Private Financing

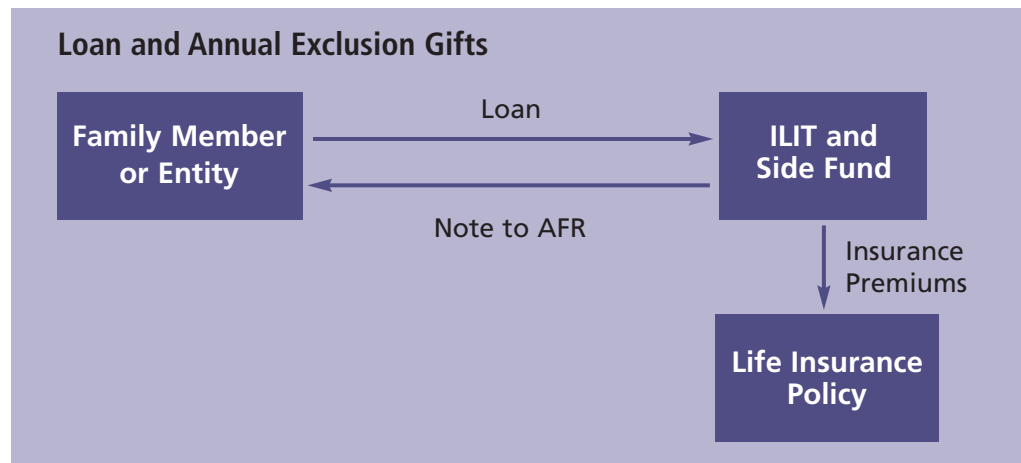
*Funding Solutions That Stand the Test of Time*



For some of your high net worth clients with large estates, money is no object; they have the assets and liquidity to pay for the life insurance they need. What these clients sometimes lack are enough annual exclusion gifts and gift tax exemptions to get the premium into an Irrevocable Life Insurance Trust (ILIT)<sup>1</sup> without having to pay gift taxes. And while money is no object when it benefits their heirs, benefiting the government is another story. How can you help these clients fund their ILITs without getting overwhelmed by gift taxes? Private Financing is a sophisticated planning technique that helps to reduce the size of the taxable gift by using fair-market loans between the donor and the ILIT.

### How it Works

- The client loans the premiums for a life insurance policy to an Irrevocable Life Insurance Trust (ILIT). This can be either an annual loan or a one-time lump sum.
- The ILIT pays the loan interest based on the Applicable Federal Rate (AFR) as published monthly by the government. This usually occurs at the death of the insured and is paid from the life insurance death benefit.
- At death, the ILIT receives the proceeds and repays the premium loan, along with any accumulated loan interest. The beneficiaries will receive the ILIT proceeds, and if they are beneficiaries of the estate as well, they will receive the loan repayment net of estate taxes.



## Benefits

- The heirs, in many cases, receive the loan repayment net of estate tax.
- The cost of a Return of Premium rider on the death benefit, if needed, can be minimized through the use of a partial Return of Premium rider (ROP).<sup>2</sup>
- The gift tax costs of the plan may be avoided or significantly lowered since the gift is only the loan interest and not the full premium.
- No collateral deposits are required to secure the loan. Likewise, there is no risk of the loan being called by a third-party lender.
- The loan can be made in an up-front lump sum, allowing the client to fix the loan interest rate at the current AFR.

## Considerations

- The loan repayment may be subject to estate tax if the insured is the lender.
- Loan interest payments are subject to income taxation if a trust or partnership is the lender.
- Cash flow must be available through an existing entity or from the insured for the premium loan payments.

## Tools to Help

John Hancock has created many tools to help you demonstrate the potential benefits of Private Financing to your clients. The Private Financing Sales Tool Kit contains a Sales Strategy, Client Profile, Success Strategy, and other tools to help you determine which approach might work well for your clients. Additionally, John Hancock's JH Solutions software system can create a customized presentation for your client to demonstrate the consequences of doing nothing compared to the net amount transferred to the heirs with Private Financing.

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. Anyone interested in these transactions or topics should seek advice based on his or her particular circumstances from independent professional advisors.

1. 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.
2. The Return of Premium rider (ROP) allows clients to select the percentage of the return of premium desired. The rider will increase the death benefit each year by that percentage of the premium loan selected so that in any given year, the lender will get back from the death benefit what it paid to date in premiums, keeping a larger portion of the balance of the original death benefit intact for the family. There may be a cost associated with this rider.

**For Agent Use Only. This material may not be used with the public.**

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

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.

© 2007 John Hancock. All rights reserved.

MLINY0410077802

