JohnHancock INSURANCE

SUCCESS STRATEGY

WEALTH TRANSFER | Advanced Markets

Annuity Maximization

Maximizing the Value of an Annuity By Using Life Insurance

Planning Concerns

You've worked hard to accumulate wealth and take care of your family, and like many investors, you saved for retirement with tax-favored assets such as annuities. Now that you are near retirement, you realize that you don't need additional retirement income. Instead, your ultimate goal is to leave your assets intact to your heirs. The problem is that while an annuity is an excellent vehicle for retirement planning, it is often a poor vehicle for wealth transfer. That's because at your death, the value of your annuity could be eroded by 70% due to income and estate taxes. Income taxes will affect all annuities that have a gain. If you have a large estate, your annuity will also be affected by estate taxes. When estate taxes are a concern, an Irrevocable Life Insurance Trust (ILIT) should be considered.[1] How can you best use your surplus annuity to create a larger legacy for your heirs?

The Solution

Annuity Maximization is a solution to move assets from your annuity to fund a life insurance policy. By purchasing a life insurance policy on you (and your spouse), you can potentially increase the amount of money left to your heirs.

How It Works

First, you can create an income stream from your annuity either by converting it to a Single Premium Immediate Annuity (SPIA approach), or by taking withdrawals as permitted under your annuity contract (withdrawals approach). Then, you can fund life insurance with the after-tax annuity distribution.

If you have an estate tax issue, you may want to have the life insurance owned by an Irrevocable Life Insurance Trust (that way the life insurance does not compound your estate tax problem). If the life insurance is owned by an ILIT, you will have to gift the money to the trust — this is usually done through annual gifts ($14,000 per person per year in 2017). The trust will receive the life insurance proceeds free of estate and income tax.[2]

Benefits of Annuity Maximization

An Annuity Maximization approach can help:

- Reduce estate and income taxes
- Increase amount of money left for your heirs

Considerations

- The SPIA approach generally creates a larger income stream, and one that is guaranteed for the life of the annuitant. A larger potential income stream means a larger potential death benefit for your heirs. However, once an annuity is converted to a SPIA, the principal is gone and is not available to you in case of an emergency.
- The withdrawals approach is sometimes preferred because you can retain access to the principal of the annuity in case of an emergency. However, the income stream used with this approach is not guaranteed and is generally less than the SPIA, so less life insurance can be purchased. Depending on the specific annuity contract, withdrawals may be subject to surrender charges or penalty taxes if taken prior to age 59½.

Although an annuity is a great vehicle to accumulate funds for retirement, at death, the value could be eroded by 70% due to income and estate taxes. Life insurance can help in these situations.

For more 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 the generation-skipping transfer tax). Failure to do so could result in adverse tax treatment of trust proceeds.
2. 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. 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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