LIFE INSURANCE

SUCCESS STRATEGY

WEALTH TRANSFER | Advanced Markets

Municipal Bond Maximization

Repositioning Municipal Bonds By Using Life Insurance

You may have municipal bond holdings and enjoy the security of the tax-free income that they generate. However, you may be giving up potentially higher returns that you might achieve by using other assets. Also, if you plan to transfer the bond principal to your heirs at your death there may be tax issues[1] associated with this transfer, and you will end up passing more to the IRS than to heirs. By using a Municipal Bond Maximization planning approach, you may be able to increase your income *and* transfer more wealth to heirs.

The Solution

Municipal Bond Maximization is simply an asset repositioning strategy in which you use your low income producing municipal bonds to purchase life insurance, thus providing a larger legacy for your heirs.

How It Works

You can exchange your municipal bond portfolio for a Single Premium Immediate Annuity (SPIA)[2] and by doing this, you can secure guaranteed income for life. Then, some (or all) of the SPIA income can be used to purchase a life insurance policy. The result? Potentially higher guaranteed net spendable income during your lifetime, and a tax free death benefit for your heirs. Alternatively, you could use the income from your bonds and fund life insurance with that amount. If you have an estate tax issue, you may want to have the life insurance owned by an Irrevocable Life Insurance Trust (ILIT). If the life insurance is owned by an ILIT, the trust will receive the life insurance proceeds free of estate and income tax.[3]

Benefits

- Life insurance can increase the amount of money left for heirs.
- Life insurance provides an income tax free death benefit.
- Life insurance cash values grow tax deferred.
- Life insurance, depending on the state, can offer creditor protection.
- If life insurance is owned in an ILIT, the proceeds can help reduce estate taxes.

Considerations

- If using the SPIA approach, the asset will be permanently exchanged for a guaranteed income stream and the exchange may be taxable.
- The amount of life insurance protection you qualify for will be subject to medical and financial underwriting requirements and may be more (or less) than the amount applied for.
- The purchase of life insurance has costs and risks associated with it, including the cost of insurance.
- There may be costs associated with creating an ILIT. Once you make gifts to the trust, they become irrevocable and they may not be returned to you without adverse tax consequences.

By exchanging all (or part) of your municipal bond portfolio and using it to fund a life insurance policy, you can provide a larger legacy for heirs.

1. Not all municipal bonds are exempt from federal and state income tax. Consult your tax advisor(s) to determine taxation.
2. A SPIA is a Single Premium Immediate Annuity that provides an income stream for a chosen number of years based on a single deposit made to purchase the annuity. The annuity income stream is calculated based on a Life-Only No-Refund basis so that the income will last for your lifetime, or the joint lifetime of you and your spouse, if applicable, and no balance will remain in the taxable estate at death. The SPIA guarantee is based on the claims-paying ability of the insurer issuing the SPIA and John Hancock does not issue such contracts.
3. 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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