John Hancock
LIFE INSURANCE

SUCCESS STRATEGY

NEEDS ANALYSIS | Advanced Markets

Blended Families

Planning For Your Loved Ones

Every day you and your spouse take steps to care for and protect the ones you love. How can you make sure your family will still be protected when you are gone? Life insurance is a way to offer your loved ones protection that continues beyond your lifetime, even if the structure of your family is complicated by the blending of several family groups into one.

Planning Concerns

While each family unit is unique, your blended family has its own considerations that need to be kept in mind when doing your estate and financial planning.

For example, you or your spouse may have children that you want to provide for should something happen. Planning for adult children may not be your only concern when establishing an estate plan for your blended family. You and your spouse's mutual children may be significantly younger than their step-siblings, and it is important to ensure the younger children receive the same level of support and care, even if one of their parents predeceases. It is also crucial to make sure that there are sufficient financial resources to support your surviving spouse, any children still living in the home, and any ongoing support obligations you may have towards your children from a prior marriage.

The Solution

Consider engaging in a comprehensive Needs Analysis, which takes into account salary replacement needs, estate settlement costs, outstanding debt, college funding, and any existing life insurance.

Life insurance can help meet the needs of the various members of your blended family, because it can provide a pool of liquid assets that can be used to offset any income your surviving spouse lost at your death. Life insurance can also provide the means to satisfy ongoing child support obligations, both by giving your surviving spouse the means to provide for your children and by fulfilling any court-ordered posthumous child support payments.

Finally, life insurance can provide liquidity to your adult children so that they receive some or all of their inheritance in a timely manner, rather than having to wait until the death of your surviving spouse. Additionally, your adult children can use the life insurance death benefit to purchase specific assets from your estate, thereby satisfying any estate plan and creating liquidity inside your estate.

How Life Insurance Fits

The original purpose served by life insurance is still the most compelling; in the event of the premature death of an income earner, life insurance will provide asset and income protection for surviving family members. Life insurance provides cash to your family at exactly the time they may need it, regardless of market or economic conditions. This can help a family maintain its economic position after a death.

Benefits of Life Insurance

The life insurance death benefit provides cash to fund your family's income needs, your survivor's retirement needs, to satisfy debt obligations, or to establish an education fund. Liquidity from a death benefit can also help meet estate taxes and administrative expenses.

In your blended family, life insurance can be used in many ways. If the beneficiaries of your life insurance policy are children from a previous marriage, the death benefit could be used to equalize an estate (all the other assets could pass to your spouse). Sometimes, especially when a family business is involved, the business could be passed to your children and the life insurance beneficiary could be your spouse (so as to account for the loss of the business). Finally, the business could be passed to your spouse, and the life insurance proceeds could be used by your children to buy out the business from your spouse. In any scenario, the ultimate goal is for the life insurance to provide the adequate liquidity based on your wishes.

The beneficiary, such as your survivor, will generally receive life insurance proceeds income tax free.[1] In addition, the cash values of a life insurance policy grow income tax-deferred and life insurance permits income tax-free loans and withdrawals from the policy, when such transactions are properly structured.

If the policy is owned by an Irrevocable Life Insurance Trust (ILIT), the proceeds will not be included in your taxable estate with proper planning. An ILIT can be structured so that amounts not needed by your surviving spouse will be protected from estate taxes at your surviving spouse's death. An ILIT also allows you to control when, and by how much, your beneficiaries access the policy's death benefit. In addition, the ILIT can provide the policy's death benefit and/or cash values protections from the claims of creditors, depending on your state of residence. A properly drafted ILIT can also take advantage of your gift tax exemption amounts so that you may be able to fund your ILIT without paying gift taxes.

Planning For the Future

With proper planning, you and your spouse can ensure that your family is taken care of and your wishes for the future are carried out for all members of your family. Consider the following action items in your planning process:

- **Create a Will.** Both spouses should create a Will that specifically designates the surviving spouse as the recipient of certain assets, rather than relying on the state's intestacy statute.
- **Powers of Attorney.** Both spouses should also create durable powers of attorney, which give you and your spouse the ability to manage each other's assets.
- **Health Care Proxies.** Both spouses will need health care proxies that name your current spouse as the individual in charge of making medical decisions in the event of mental or physical incapacity or fulfilling end of life decisions.
- **Letters of Intent.** Both spouses should create letters of intent that provide the survivor with instructions for managing the burial arrangements to the extent desired by the deceased spouse.
- **Meet with Your Attorney.** Tailor these action items to address the concerns specific to your family's situation.

A Needs Analysis is simply a way of determining how much your family would need to meet the necessities of life and can also factor in the needs and wants for your children from a previous marriage. Life insurance is one of the best ways to provide necessary liquidity for your family in the event of your untimely death.

1. Exceptions may include when a life insurance policy has been transferred for valuable consideration.

The life insurance amount calculated is a projection based on the information you have provided. 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 calculated here.

Trusts should be drafted by an attorney familiar with such matters in order to take into account income and estate tax laws, including generation-skipping tax applicable to beneficiaries who are more than one generation removed from you. Failure to do so could result in adverse tax treatment of trust proceeds.

The purchase of life insurance has costs and risks associated with it, including the cost of insurance. If the design of the life insurance policy does not meet the requirements of life insurance in the Internal Revenue Code, it will be classified as a modified endowment contract (MEC). Withdrawals and loans from a MEC may be subject to tax at the time the withdrawal or loan is made. A federal tax penalty may also apply if the withdrawal or loan is taken from a MEC prior to age 59 ½. Please consult your tax advisor.

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IM7026 MLINY06211216960 08/12

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