Success Story

Advanced Markets

Planning in Action

Backstop qualified plan: A plan for tax efficiency and longevity protection

Case in point

A producer who works closely with an Advanced Markets consultant (AMC) at John Hancock — and has a lot of success explaining how permanent life insurance can work as a backstop for retirement needs — had a client who had saved money into a qualified plan and was relying on Social Security and his qualified plan for his retirement income needs. The client also had a need for more life insurance to give his children additional financial protection. Ultimately a permanent life insurance policy was able to address his immediate protection needs, while also potentially offering him a way to enhance his retirement income.

Client profile

- Male Age 50, in very good heath
- $360K in his 401K, which is projected to grow to about $1M with annual contributions
- Projected to receive $2,500 per month ($30K annually) from Social Security
- Wants a retirement income at age 65 of $80K, with annual 1% increase

Designing a case & creating a plan*

In discussing the client's goals, the AMC and producer determined that at age 65, the client will need to withdraw $50K annually from his qualified plan — along with Social Security —to reach the $80K income need. The issue that was uncovered was that an estimated $22,400 in income taxes would be due from the distribution from his qualified plan. Since Social Security is a fixed amount annually, the only way to pay those taxes would be to take additional distributions from the qualified plan in year two. Therefore, at age 66, to achieve the income need and account for taxes due from the prior year's income, he would need to withdraw $72,900 (instead of $50,500) from his qualified plan. As time goes on, due to the impact of income taxes and factoring in only two years of "unexpected expenses," the projected qualified plan would be exhausted by age 81. Life expectancy is age 86.

Working with the AMC, the producer was able to illustrate a way to minimize the tax burden on this plan and extend the life of the qualified plan by using life insurance.

The proposed plan would be that the client allocate $2,000 per month into an Accumulation IUL policy (Capped Account rate 6.05%), payable for the remaining 15 years of his working years. To enhance the value proposition, it was also recommended that he add a Long-Term Care rider (1%) to help protect against this risk. The initial death benefit in this design is about $657,000, which helps protect his children in the event of premature death. By age 65, this policy is illustrated to accumulate cash value of about $465,000 and the death benefit will have increased to over $915K, giving the client the opportunity to turn to the policy's cash value to offset the tax costs on his distributions from his retirement plan.

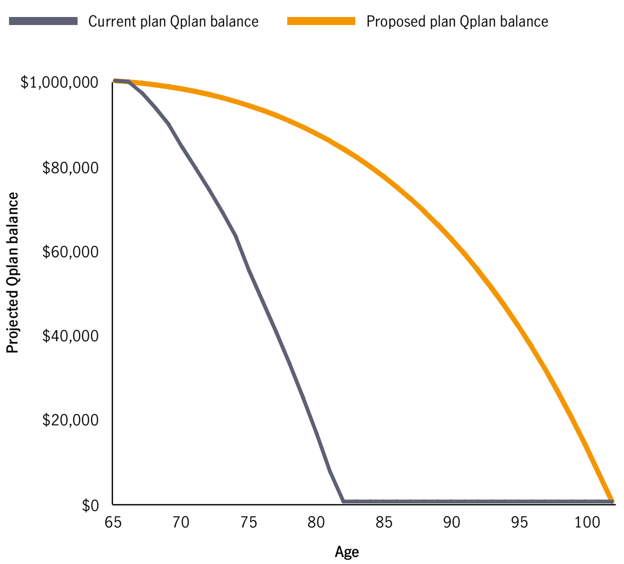
Age	Soc. Sec. income	Additional income need	QPLAN distribution	Total income	Projected taxes next year (28%)	Policy withdrawal for taxes	QPLAN balance BOY	QPLAN withdrawal	EOY QPLAN (5% growth)	Policy death benefit
65	$30,000	—	$50,000	$80,000	$22,400	$22,400	$1,000,000	$50,000	$997,500	$915,956
66	$30,300	—	$50,500	$80,800	$22,624	$22,624	$997,500	$50,500	$994,350	$895,524
69	$31,218	$10,000	$52,030	$83,248	$23,310	$23,310	$985,947	$52,030	$980,613	$822,110
74	$32,811	$20,000	$54,684	$87,495	$24,499	$24,499	$950,672	$54,684	$940,787	$735,873
81	$35,177	—	$58,629	$93,806	$26,266	$26,266	$856,861	$58,629	$838,144	$707,680

This is a supplemental illustration. Not all benefits and values are guaranteed. The assumptions on which the non-guaranteed elements are based are subject to change by the insurer. Actual results may be more or less favorable

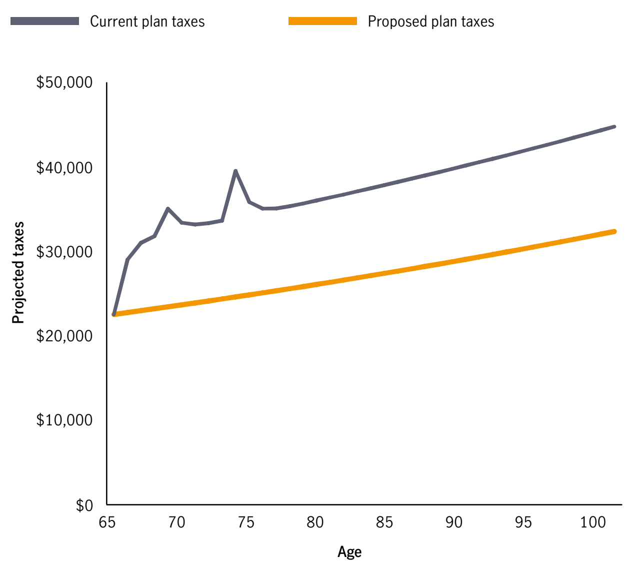
By utilizing the policy's cash value to cover the income tax payment of $22,400, the year two distribution from the qualified plan is reduced to $50,500 from $72,900, the client's taxable income in year two is reduced from $103,200 to $80,800, and the income taxes due in year three is reduced from $28,896 to $22,624. This reduction in taxable distributions from the qualified plan preserves the plan balance and at age 81 the plan has over $856K. Additionally, the policy cash value at age 81 is over $508K. Income from the qualified plan can continue at base levels with tax payments continuing to come from the life policy through age 102.

The charts below illustrate the differences in tax payments and well as the difference in longevity of the qualified plan by utilizing this design.

Comparison of QPLAN Balances



Comparison of Taxes



Why it works

A qualified-plan-backstop approach can help illustrate how clients can prepare for many of the risks often overlooked during the accumulation phase of life. The plan shown in this example illustrates how clients can minimize taxes, protect their qualified plans against risks related to long-term care and premature death and, most importantly, preserve and extend the life of their qualified plans.

Call Advanced Markets at *888-266-7498, option 3* to speak with an Advanced Markets Consultant, or email *advancedmarkets@jhancock.com*

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Loans and withdrawals will reduce the death benefit, cash surrender value, and may cause the policy to lapse. Lapse or surrender of a policy with a loan may cause the recognition of taxable income. Policies classified as modified endowment contracts may be subject to tax when a loan or withdrawal is made. A federal tax penalty of 10% may also apply if the loan or withdrawal is taken prior to age 59½.

The Long-Term Care (LTC) rider is an accelerated death benefit rider and may not be considered long-term care insurance in some states. There are additional costs associated with this rider. The Maximum Monthly Benefit Amount is $50,000. When the death benefit is accelerated for long-term care expenses it is reduced dollar for dollar, and the cash value is reduced proportionately. Please go to www.jhsaleshub.com to verify state availability.

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