



Because you asked Economic Benefit (Split Dollar) – using alternate term rates

For Split Dollar cases, can John Hancock’s annual term rate be used?

Under the Final Split Dollar Regulations, taxpayers may measure the economic benefit using Table 2001 or the carrier’s alternative rates. Use of a carrier’s alternative rates must meet the specifications outlined in IRS Notice 2002-08 (Notice).

Per that Notice, it appears that the insurer’s annual term rate may still be used, if lower than the economic benefit value produced by Table 2001, subject to certain limitations. The Notice revised the test for the use of annual renewable term rates, based on when the arrangement was entered into and subject to future guidance. For arrangements entered into before the effective date of future guidance (i.e., arrangements entered into before December 31, 2003), taxpayers may continue to determine the value of current life insurance protection by using the insurer’s lower published rates that are available to all standard risks for initial issue one-year term insurance, to the extent those rates meet the requirements of Rev. Rul. 66-110 and Rev. Rul. 67-154. However, for arrangements entered into after January 28, 2002 (and before the effective date of future guidance), for periods after December 31, 2003, the IRS will only consider an insurer’s published premium rates to be available to all standard risks who apply for term insurance if both “(i) the insurer generally makes the availability of such rates known to persons who apply

for term insurance coverage from the insurer, and (ii) the insurer regularly sells term insurance at such rates to individuals who apply for term insurance coverage through the insurer’s normal distribution channels.” The IRS has not yet issued the “future guidance” referred to in this Notice.

In response to the first requirement, John Hancock added a notice to every term quote produced by our retail illustration system (JH Illustrator), which alerts potential insureds to the availability of other John Hancock term products that may be less expensive but may require annual proof of insurability for renewal of coverage and/or may not offer the ability to convert such product to one of John Hancock’s permanent products (i.e., the annual term product). In response to the second requirement, John Hancock does not know what rises to the level of “regularly sold.” Nevertheless, as with all products, John Hancock has always illustrated and continues to illustrate the annual term product on JH Illustrator. Although **John Hancock sells the annual term product**, due to the nature of the product, it is not a popular solution. A large majority of John Hancock’s term sales are level term. John Hancock does make the product available and sells it when requested, subject to normal underwriting. For survivorship life insurance cases, Table 2001 can be used while both insureds are alive.

We hope this information is helpful to you; ultimately, it is up to the client’s attorney to determine whether John Hancock’s annual term product may be used as an alternative term measure for Split Dollar arrangements.

This material does not constitute tax, legal, investment or accounting advice and is not intended for use by a taxpayer for the purposes of avoiding any IRS penalty. Comments on taxation are based on tax law current as of the time we produced the material.

All information and materials provided by John Hancock are to support the marketing and sale of our products and services, and are not intended to be impartial advice or recommendations. John Hancock and its representatives will receive compensation from such sales or services. Anyone interested in these transactions or topics may want to seek advice based on his or her particular circumstances from independent professionals.

Insurance policies and/or associated riders and features 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.

© 2024 John Hancock. All rights reserved.

MLINY101923377-1

INSURANCE PRODUCTS	
MAY LOSE VALUE	NOT A DEPOSIT
NOT BANK GUARANTEED	NOT FDIC INSURED
NOT INSURED BY ANY GOVERNMENT AGENCY	