JOHN HANCOCK
LIFE INSURANCE

SALES STRATEGY

Basic Needs

Helping Your Client Plan for Their Loved Ones

As part of a comprehensive financial plan, clients should develop a proper estate plan, which may include life insurance. One of the reasons why life insurance is often included in estate plans is because it provides asset and income protection for surviving family members. If your clients have families they want to protect, how can you help them determine how much life insurance they will require?

The Concern

Many clients are worried because they have not taken the steps toward basic estate planning (they may not have wills and/or trusts or the means available to cover basic needs at death). Other clients may have done planning in the past, but have not recently reviewed their plans. In either case, lack of proper estate planning or a lack of continuous plan reviews can have a devastating effect on surviving family members.

The Solution

Clients should work with their financial advisor and legal counsel to create, plan, and fund a comprehensive estate plan. Clients should also work with their attorney to create the documents needed to fulfill their ultimate wishes. These documents include:

- **Will and/or Trust:** These documents should outline your clients intent for distribution of assets.
- **Powers of Attorney:** Gives your clients the ability to make financial decisions for each other.
- **Health Care Proxy:** Gives your clients the ability to make health care decisions for each other.

These documents should express your clients' wishes as they pertain to distribution of property, guardianship issues of minor children, etc. In addition, these plans should be reviewed especially when there are major life changes (such as the birth of a new child, job changes, or purchasing a new home, for instance). Beneficiary designations should continuously reviewed on qualified plans, insurance policies, and annuities, and updated when changes are necessary. Your client should work closely with their attorney with regards to these matters.

It is also important to make sure the clients' family can maintain its economic position into the future should something happen to the primary income earner. For younger clients with less assets, but have a good income, mortgages and student loans, life insurance can be an especially desirable method to ensure their family's shortfall is covered.

A comprehensive Needs Analysis can help determine how much life insurance is appropriate for your client.

What is a Needs Analysis?

A Needs Analysis is an efficient tool for determining and addressing clients' life insurance needs. The amount of life insurance required is derived from the client's assets, liabilities, income needs, support need and future goals. The ultimate aim is for the client to make decisions as to what they would like to take care of in the event of death.

Benefits of Life Insurance

- The death benefit can help protect your client's income, assets, and other needs in the event of a premature death. A life insurance death benefit provides cash at the exact time that the clients may need it, regardless of market or economic conditions.
- The client's beneficiary will generally receive life insurance proceeds income tax-free.[1]
- The cash values of life insurance policy grows tax-deferred, and tax-free loans and withdrawals are permitted when structured properly.
- The policy's death benefit/and or cash values are potentially protected from the claims of creditors, depending on the state.
- If the policy is owned by an Irrevocable Life Insurance Trust (ILIT), the proceeds will not be included in the client's taxable estate with proper planning. An ILIT can be structured so that amounts not needed by the surviving spouse will be protected from estate taxes at the surviving spouse's death. An ILIT also allows clients to control when, and by how much, beneficiaries access the policy's death benefit. Moreover, the ILIT can provide the policy's death benefit and/or cash values protections from the claims of creditors, depending on the client's state of residence. A properly drafted ILIT can take advantage of client's gift tax exemption amounts so that they may be able to fund their ILIT without paying gift taxes.

Considerations

- There are many different types of life insurance. At the basic level, there is Term insurance, which would be available to cover short-term needs, and there is permanent insurance, which provides for more long-term needs. When trying to figure out the appropriate insurance vehicle, items for thought include: Who should own the life insurance? Are there permanent needs that should be addressed by life insurance? What are the short-term and long-term costs associated with these policies? Can the client afford the premium? Is cash value important? (Cash values of a life insurance policy grow income tax-deferred. Life insurance permits income tax-free loans and withdrawals from the policy, when such transactions are properly structured.)[2]
- 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. Failure to do so could result in adverse tax treatment of trust proceeds. The life insurance protection your client qualifies for will be subject to medical and financial underwriting requirements.

How Does It Work?

The following is a list of questions that clients should consider when figuring out their needs:

- What income do your clients want to replace? How long do they want to replace that income? Do they want to adjust for inflation? (A younger client will likely have less assets and more income to replace than a mature client who has accumulated wealth and plans on retiring soon.)
- A stay-at-home spouse may not have actual income they need to replace, but they provide child care that would need to be paid for should something happen to them. What would the cost of care equal? How long would they need to provide that care? (Typically, a family with young children would have a higher need than a family who has teenagers.)
- Many times people buy life insurance to take care of debt. Do clients want to cover their debts? What are the debts? Mortgage? Student loans?
- Do they have other expenses, including but not limited to, charitable contributions and emergency funds?
- Does the client have future goals, for instance, wanting to provide for college expenses? How much do they expect to contribute? What is the total cost they want to cover?
- Funerals can be expensive. How much will it cost? In addition, there may be administration costs, such as probate, that include legal and court fees. Make sure the client is aware of these costs.
- What do they have to cover these needs? They may have group Term insurance through their employer, or they may have assets that they would need to liquidate in order to provide for these needs.

Once you and your client determine the money they need, there may be a gap between what they need and what the client has. If there is a shortfall, the gap can be filled with life insurance.

CASE STUDY: BRAD AND JANET MAJORS

Brad and Janet Majors are ages 45 and 42 respectively. They have one young child. They meet with both their financial advisor and estate planning attorney to discuss their estate planning needs. Their attorney will help them with their wills and other documents.

They share with their financial advisor that they want to cover income replacement, child care needs, their mortgage, and estate administration costs. In addition, they also have $500,000 of existing Term insurance. Their financial advisor is then able to plug this information into the Basic Needs JH Solutions Module and comes up with the following needs:

Insured(s): **Brad Majors** Initial Death Benefit: $1,264,893
Male Age 45. Preferred NonSmoker

ANALYSIS OF NEEDS	
	Present Value
Expenses to Replace	$1,225,904
Income Replacement Needs	
Salary of $80,000 replaced for 20 years.	
indexed for inflation at 0.00%	
Child Support Needs	
Child Care Needs	$65,073
College Fund Needs	$148,916
Debt Clearance Needs	$300,000
Estate Administration Costs	$25,000
Other Expenses	$0
(Emergency funds, charitable gifts, etc.)	
Total Death Benefit Needed	**$1,764,893**
Less Existing Insurance and Assets Set Aside for Death Needs	**$500,000**
New Life Insurance Need	**$1,264,893**

Insured(s): **Janet Majors** Initial Death Benefit: $1,432,816
Female Age 42. Preferred NonSmoker

ANALYSIS OF NEEDS	
	Present Value
Expenses to Replace	$1,388,827
Income Replacement Needs	
Salary of $82,000 replaced for 23 years.	
indexed for inflation at 0.00%	
Child Support Needs	
Child Care Needs	$65,073
College Fund Needs	$148,916
Debt Clearance Needs	$300,000
Estate Administration Costs	$25,000
Other Expenses	$0
(Emergency funds, charitable gifts, etc.)	
Total Death Benefit Needed	**$1,932,816**
Less Existing Insurance and Assets Set Aside for Death Needs	**$500,000**
New Life Insurance Need	**$1,432,816**

This is a hypothetical example provided for illustrative purposes only.

Based on this information, the shortfall of $1.2M for Brad and $1.4 M for Janet can be filled with purchasing a John Hancock Life Insurance policy.

For more information please call the Advanced Markets Group at 888-266-7498 option 3

1. Exceptions may occur when a life insurance policy has been transferred for valuable consideration.
2. 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 59 1/2. Cash value available for loans and withdrawals may be more or less than originally invested.

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