

Wealth Transfer Planning: *Creating Flexibility in Uncertain Times*

Advanced Markets
John Hancock Insurance
November 2020



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Discussion topics

1. Current estate planning environment and outlook
2. Opportunities for gifting
3. HNW Case Study – 4 Funding Techniques



Current Environment

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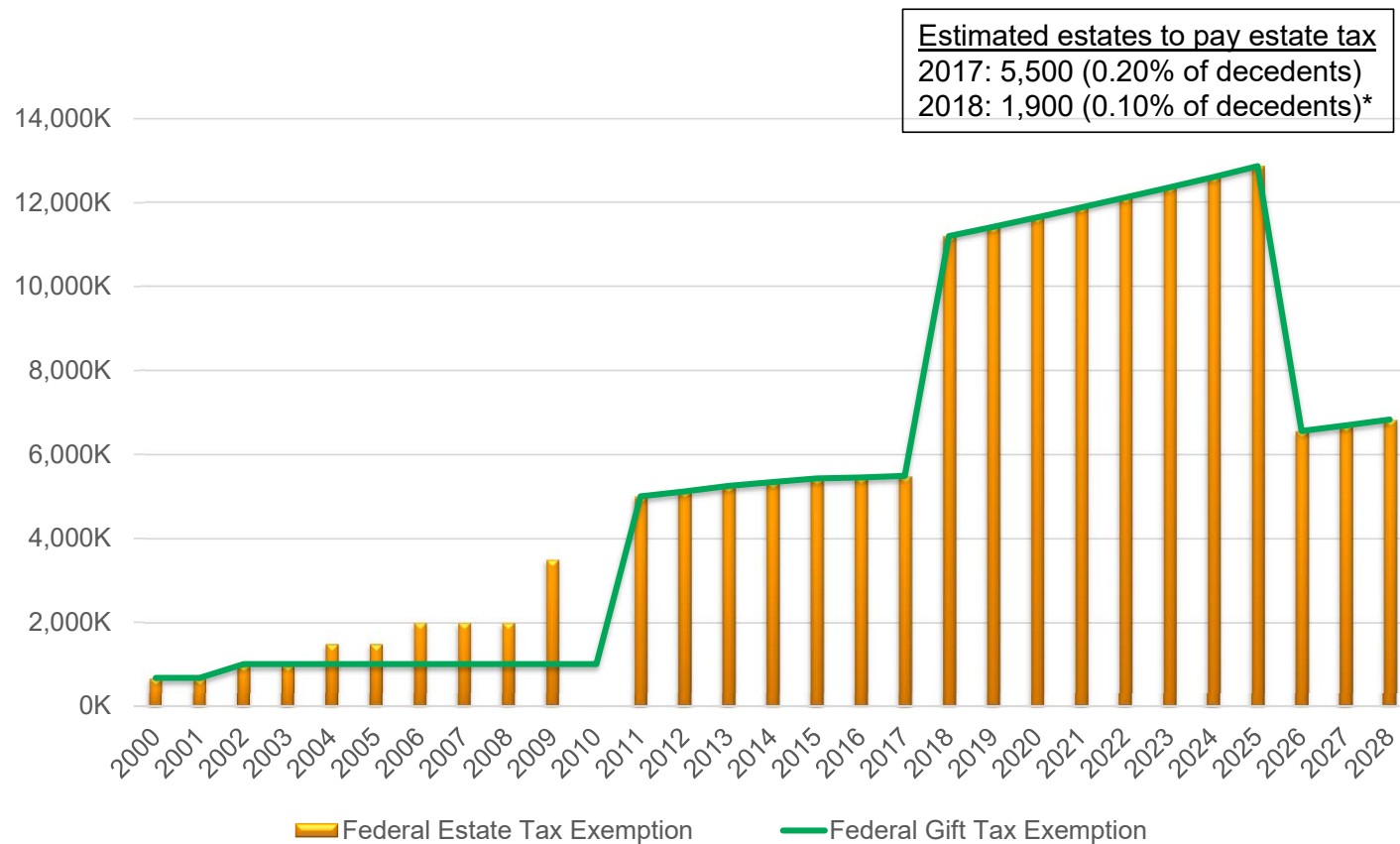
Current planning environment

Current Exclusions/Exemptions

- Annual Exclusion amounts
 - \$15,000/individual
 - \$157,000 for non-citizen spouse
- “Basic Exclusion Amount” (BEA) = \$11,580,000
 - Post tax reform – BEA is \$10M indexed for inflation
 - Scheduled to revert to \$5M indexed for inflation on 1/1/2026
 - For NRAs- limited to \$60,000 exemption (unless provided otherwise in treaty)
- Generation Skipping Transfer Tax (GSTT) exemption = \$11,580,000
 - Scheduled to revert with BEA on 1/1/2026
 - No portability
- Deceased Spouse Unused Exclusion Amount (DSUEA)
 - Additional exemption available if elected on timely filed Form 706



Limited window of opportunity ...maybe



Gleckman, Howard (2017, December 6). Only 1,700 Estates Would Owe Estate Tax in 2018 Under the TCJA.
<https://www.taxpolicycenter.org/taxvox/only-1700-estates-would-owe-estate-tax-2018-under-tcja>



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Why life insurance is used in estate planning

- Pay final expenses such as funeral costs
- Income replacement/debt relief
- Liquidity for taxes
 - Estate taxes
 - IRD taxes
 - Trust assets that don't receive a step-up
- Estate equalization
- Business succession
- Supplemental income
- LTC protection
- Special needs planning
- Legacy protection



Giftg opportunities

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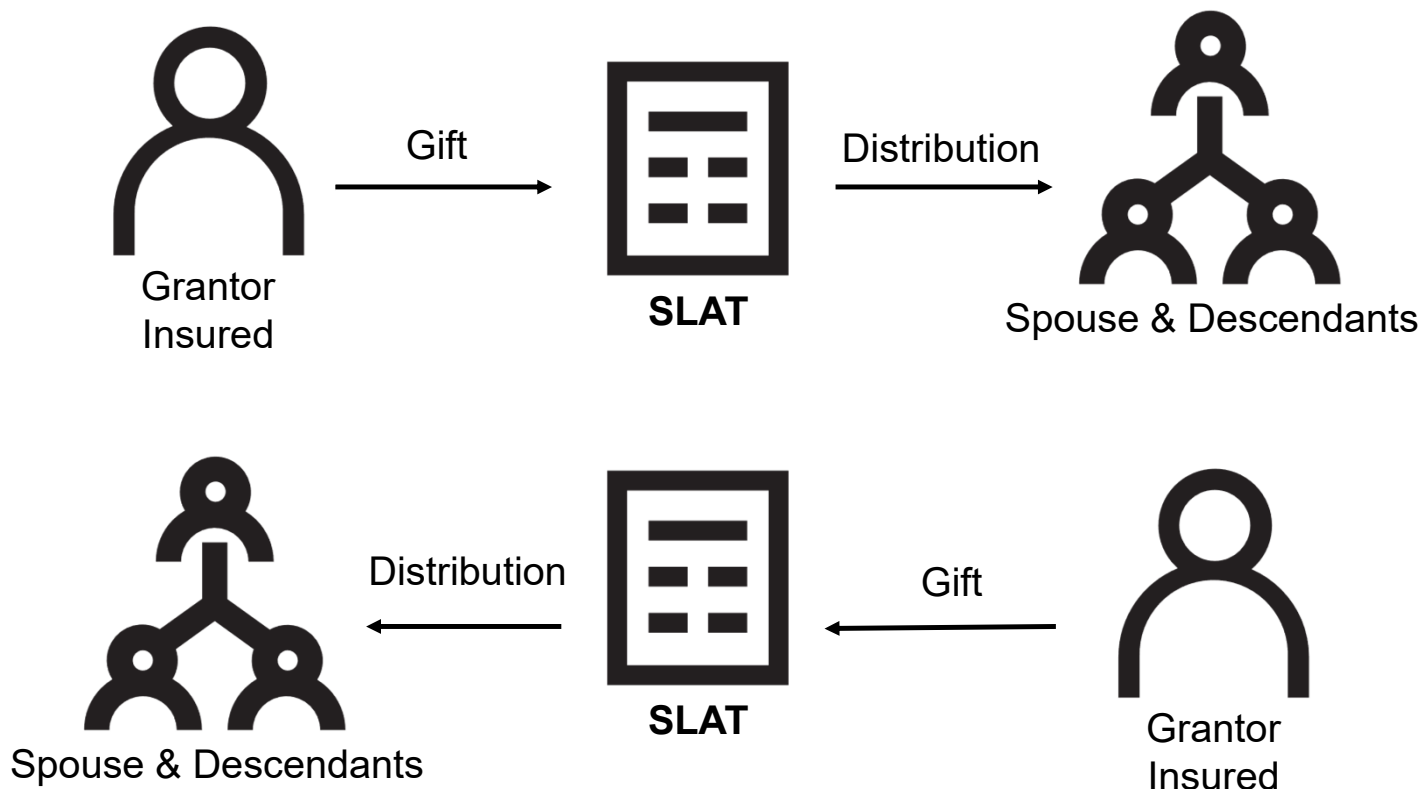
Outright gifting opportunities with life insurance

- Gift cash to trust to pay premiums
- Gift assets to trust and use income to pay premiums
- Gift existing insurance policies to remove from the estate (or from business when no longer needed)
- Seed gifts for sale to defective trust – use income from assets to fund life insurance need
- Forgive a split dollar receivable or previous sale receivable
- Exit a premium financing deal
- Allocation of GST exemption for previously unreported gifts



Spousal Lifetime Access Trusts

Spousal access provisions*

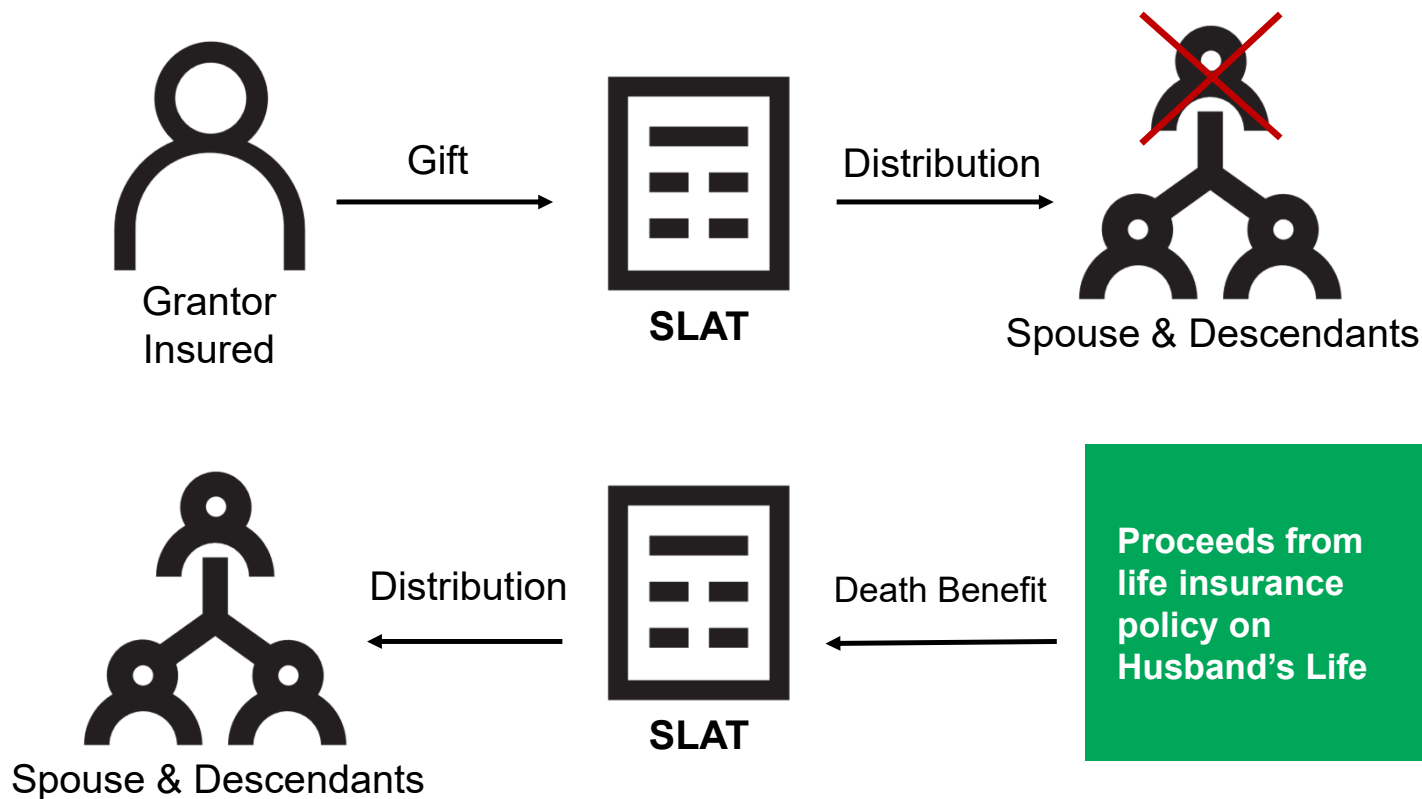


* Care should be taken to avoid the reciprocal trust doctrine when each spouse creates a trust for the other's benefit

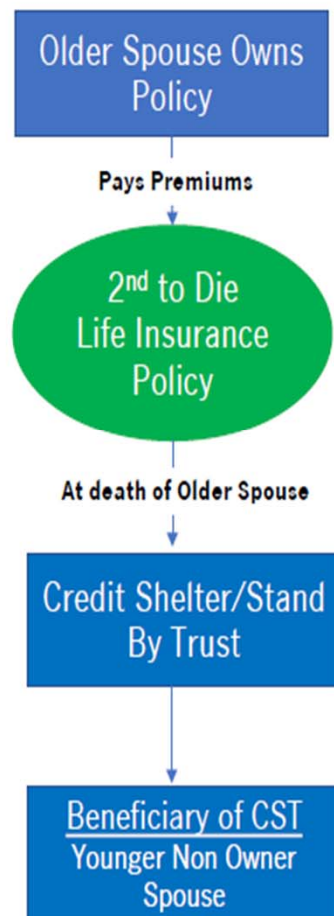
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SLATs

Spousal access provisions – Death of first spouse



Standby Trusts



Stand By Trust – Mechanics and Benefits

During Older Spouse Lifetime

- Older spouse pays premiums from personal funds – no gifts
- Retains right to Policy Cash Value
- Retains right to change beneficiary at any time and for any reason (e.g., upon an out of order death)
- Option to transfer policy at anytime at FMV to CST as “Wait and See Planning” or if out of order death occurs
- Trust is named as contingent owner and beneficiary

Upon Death of Older Spouse (assumes 1st to die)

- FMV included in Older spouse’s estate
- Policy Ownership transferred automatically to CST at FMV and outside of younger spouse’s estate
- Trustee controls policy for benefit of CST beneficiaries (younger spouse/children/grandchildren)
- Depending on policy design, trustee may access policy cash value and make distributions to trust beneficiaries per trust terms
- At second death, death benefit paid to CST free of estate and income taxes

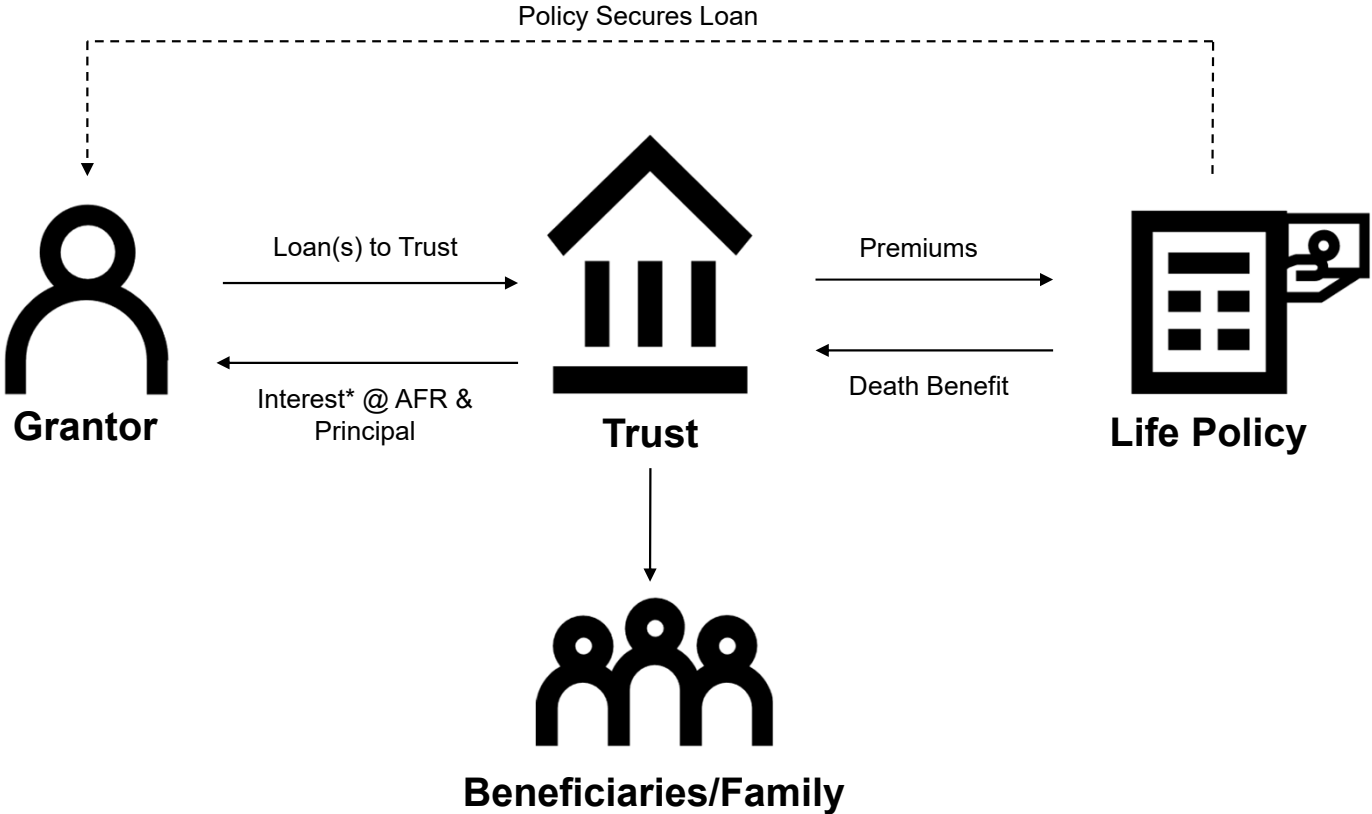
Seed gifts & “wait and see” loans

Intrafamily Loans and Note Sales to Dynasty Trust

- Using a 9-to-1 debt to equity ratio for economic substance
 - \$11.58M Gift → \$115.8M intrafamily loan/installment sale
 - \$23.16M Gift → \$231.6M intrafamily loan/installment sale
- Intrafamily loan/installment sale as a wait and see strategy
 - On the fence with making a full \$11.58M gift?
 - Gift \$1.158M and loan/sell \$10.42M (\$11.58M total and 9-to-1 ratio)
 - Forgive loan/note to complete gift, repay yourself if you change your mind, renew for new term if still unsure



Private Financing

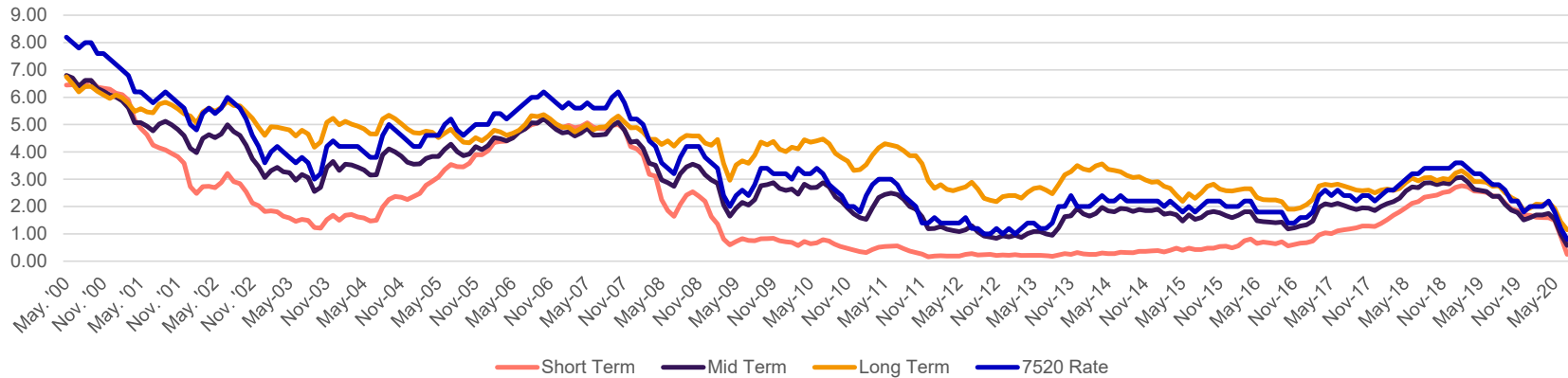


*No recognition of income on interest payments when Trust is a "grantor defective" trust

Applicable Federal Rates (AFR)

	May 2020	April 2020	March 2020	Feb 2020	Jan 2020	20 YEAR AVERAGE*
Short term (0-3 years)	0.25%	0.91%	1.50%	1.59%	1.60%	1.97%
Mid term (4-9 years)	0.58%	0.99%	1.53%	1.75%	1.69%	2.89%
Long term (10 years +)	1.15%	1.44%	1.93%	2.15%	2.07%	3.85%
7520 rate (GRATs/CLATs)	0.80%	1.20%	1.80%	2.20%	2.00%	3.48%

Rate History May 2000 - May 2020

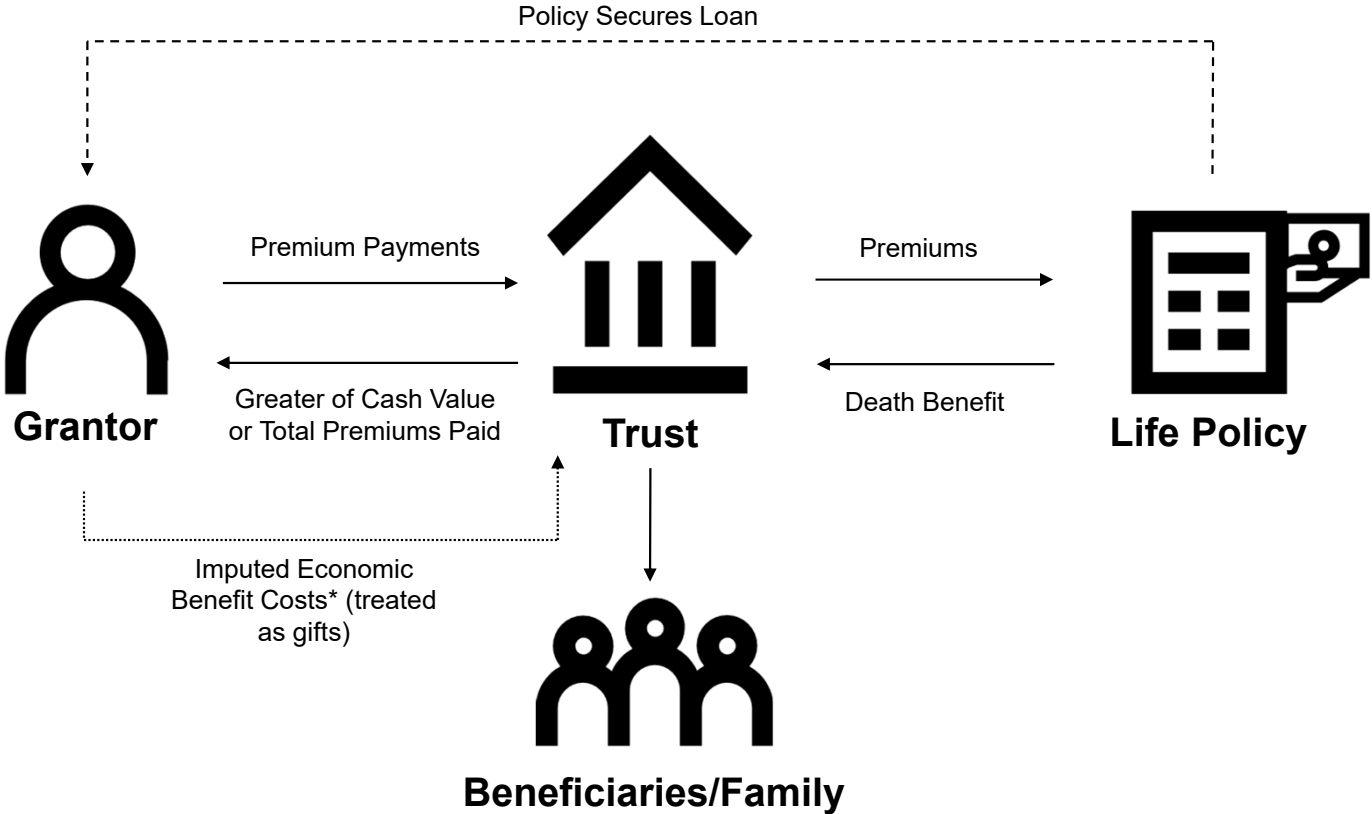


* Source IRS.Gov – Average determined based on rates from May 2000 – May 2020



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Private Split Dollar



**Determined based on net amount of DB payable to the trust each year, economic benefit rates (Table 2001 or carrier alternative term rates), and insured's age
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Economic Benefit Rates on Survivorship*

Per \$1,000 of Insurance using Table 2001-10 Rates converted for two lives:

Insured #1 Age	Insured #2 Age	EB Factor Per \$1,000/insurance	Cost Per \$1M of DB
40	35	.001116	\$1.15
45	40	.001402	\$1.40
50	45	.003607	\$3.61
55	50	.009784	\$9.78
60	55	.027692	\$27.69
65	60	.079406	\$79.41
70	65	.251512	\$251.51
75	70	.698528	\$698.53
80	75	1.848288	\$1,848.29

Survivorship Economic Benefit Rates are calculated by applying the Greenberg to Greenberg calculation to the government Table 2001 rates. Upon the death of one insured, rates would be determined using the single life rates articulated in Table 2001 or using the carrier's alternative term rates (if available and are determined to meet all the requirements for use as articulated in Notice 2002-8).



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Case Study- The “4-Play”

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Client Profile

Mr. & Mrs. Smith (Age 58, PNS; Age 55, PNS) have a \$73M estate consisting mostly of:

ASSET TYPE	FMV
Commercial RE (100%)	\$25M (7.5% cash flow; 2% growth)
Other Business interests	\$15M (6% cash flow; 2% growth)
Liquid assets/Securities	\$20M (2% cash; 4% growth)
Qualified Plan Assets	\$3M (4% growth)
Other personal assets	\$10M



Additional Information

- 3 children – Ages 18, 22, 25
- Limited prior gifting – **almost all exemptions** available
- Currently only own term insurance
- Concerned about liquidity issues upon their death
- Advisor proposing \$30M of second to die insurance coverage owned outside the estate
- Illustrating JH Protection SIUL '19 – 9 pay premium of \$384,895 (illustrated at 5.92%)
 - **Purchases \$30M of death benefit**
 - **IRR @ LE (Ages 95/92) = 6.71% (10.33% pre-tax equivalent)***

Despite large exemption, client's looking for efficiency in transferring assets outside of the estate to pay for insurance

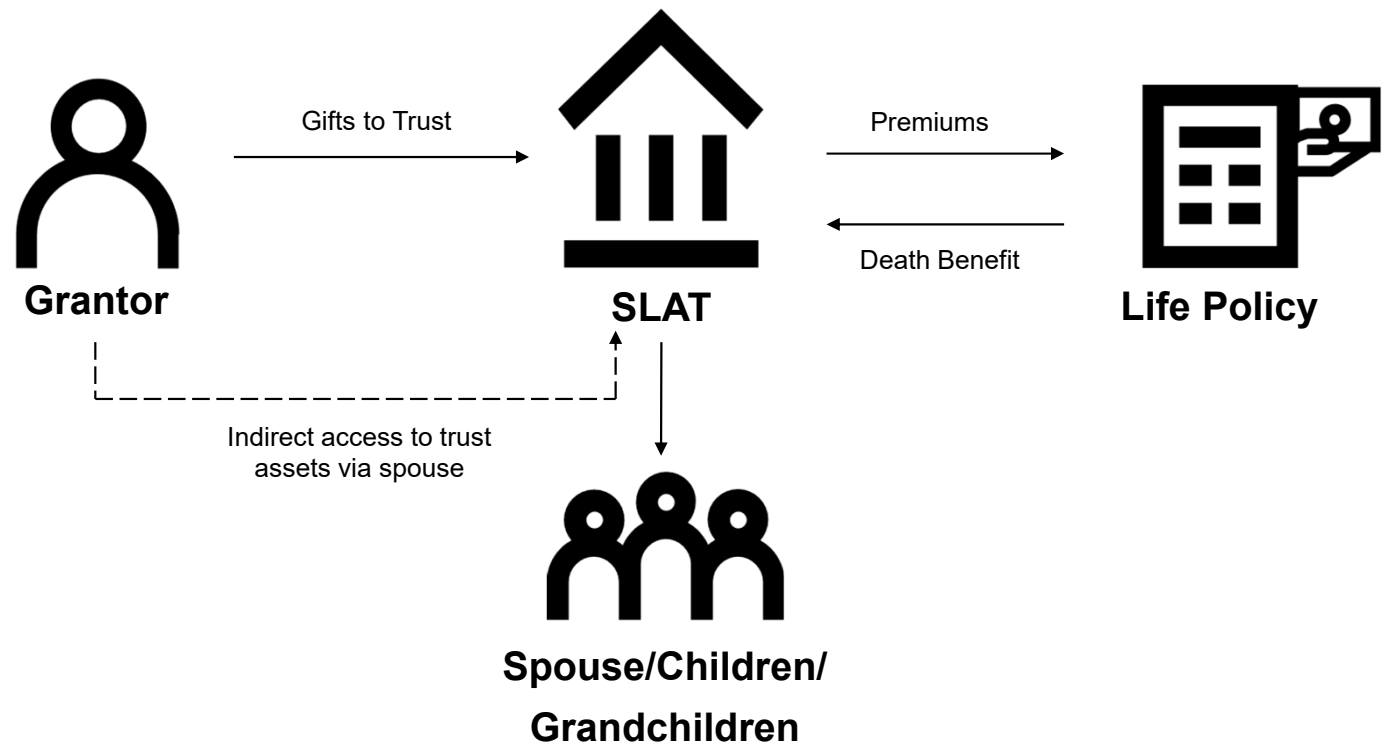
Let's look at 4 options

*The IRR on death benefit is equivalent to an interest rate at which an amount equal to the illustrated premiums could have been invested outside the policy to arrive at the net death benefit of the policy.



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Gifting to Spousal Access Trust



By the Numbers

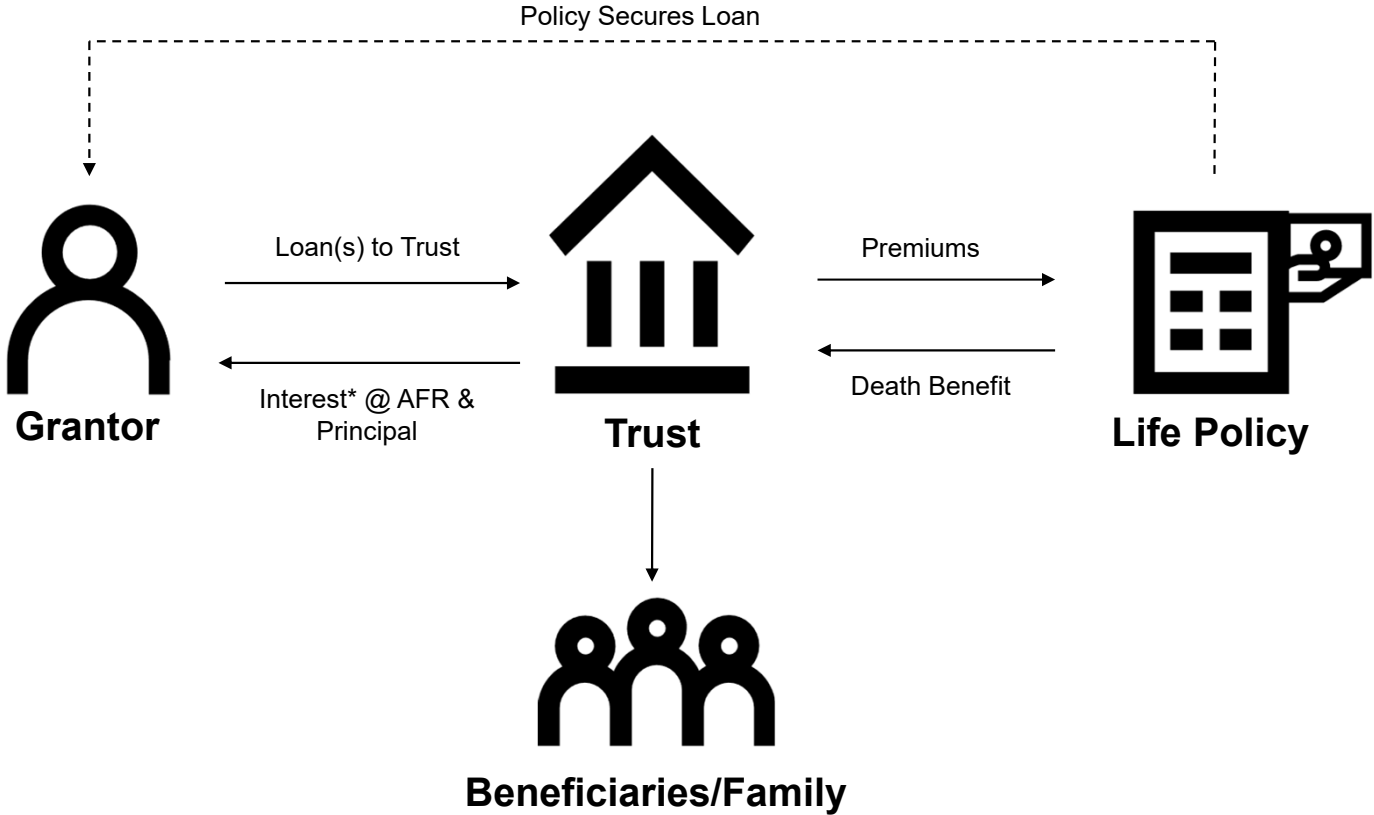
YEAR	GIFT	PREMIUM	DEATH BENEFIT	CASH VALUE	TRUST SIDE FUND @6% (EOY)	NET TO HEIRS FROM ESTATE	TOTAL NET TO HEIRS	BENEFIT OVER "CURRENT STRATEGY"
1	11,580,000	(384,895)	30,000,000	0	11,866,811	42,958,080	84,824,891	30,008,891
5		(384,895)	30,000,000	876,083	13,196,782	49,468,093	92,664,875	30,111,478
10			30,000,000	2,484,181	15,768,390	54,549,962	100,318,352	30,851,652
15			30,000,000	3,620,268	21,101,662	66,368,370	117,470,032	33,956,706
20			30,000,000	5,227,354	28,238,784	80,747,270	138,896,054	38,292,860
25			30,000,000	7,369,862	37,789,863	98,241,401	166,031,264	44,635,633
30			30,000,000	9,967,879	50,571,362	119,525,685	200,097,047	53,456,114
35			30,000,000	12,478,963	67,675,890	145,421,271	243,097,161	65,187,813
37 (LE)			30,000,000	13,412,393	76,040,630	157,287,647	263,328,277	71,090,512
Totals	11,580,000	(3,464,055)	30,000,000					

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.



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Private Financing



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Structuring the Loan & Trust

- Mr. Smith (Grantor) creates ILIT for the benefit of wife and children; independent trustee appointed
- Grantor lends cash to trust using 9 Year AFR term loan
- Amount transferred = \$7,527,478
- May 2020 mid term AFR 0.58%
- Asset generates annual income at 6%
- Asset income pays:
 - Loan interest (\$43,659)
 - Pays premium (\$384,895)
- Interest payments back to Grantor help provide resources towards on-going income tax liability

Benefits

- Leverages lower interest rates compared to bank financing
- Clients in control of the deal
- Places policy in force today
- Provides grantor with flexibility to decide:
 - When to make the gift via forgiveness of loan
 - **NOT** to make the gift and get repaid via loan terms

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By the Numbers

YEAR	LOAN	INTEREST PAID (EOY) 0.58%	GIFT	PREMIUM (BOY)	WITHDRAWAL TO PAY PREMIUM & INTEREST	TRUST SIDE FUND ASSET VALUE @ 6%* (EOY)	DEATH BENEFIT	NET TO HEIRS
1	7,527,467	43,659	0	384,895	428,554	7,527,467	30,000,000	30,000,000
2		43,659	0	384,895	428,554	7,527,467	30,000,000	30,000,000
3		43,659	0	384,895	428,554	7,527,467	30,000,000	30,000,000
4		43,659	0	384,895	428,554	7,527,467	30,000,000	30,000,000
5		43,659	0	384,895	428,554	7,527,467	30,000,000	30,000,000
6		43,659	0	384,895	428,554	7,527,467	30,000,000	30,000,000
7		43,659	0	384,895	428,554	7,527,467	30,000,000	30,000,000
8		43,659	0	384,895	428,554	7,527,467	30,000,000	30,000,000
9		43,659	0	384,895	428,554	7,527,467	30,000,000	30,000,000
10	(7,527,467)	-	0	(3,464,055)		-	30,000,000	30,000,000

Flexibility to use exemption along the way, if desired

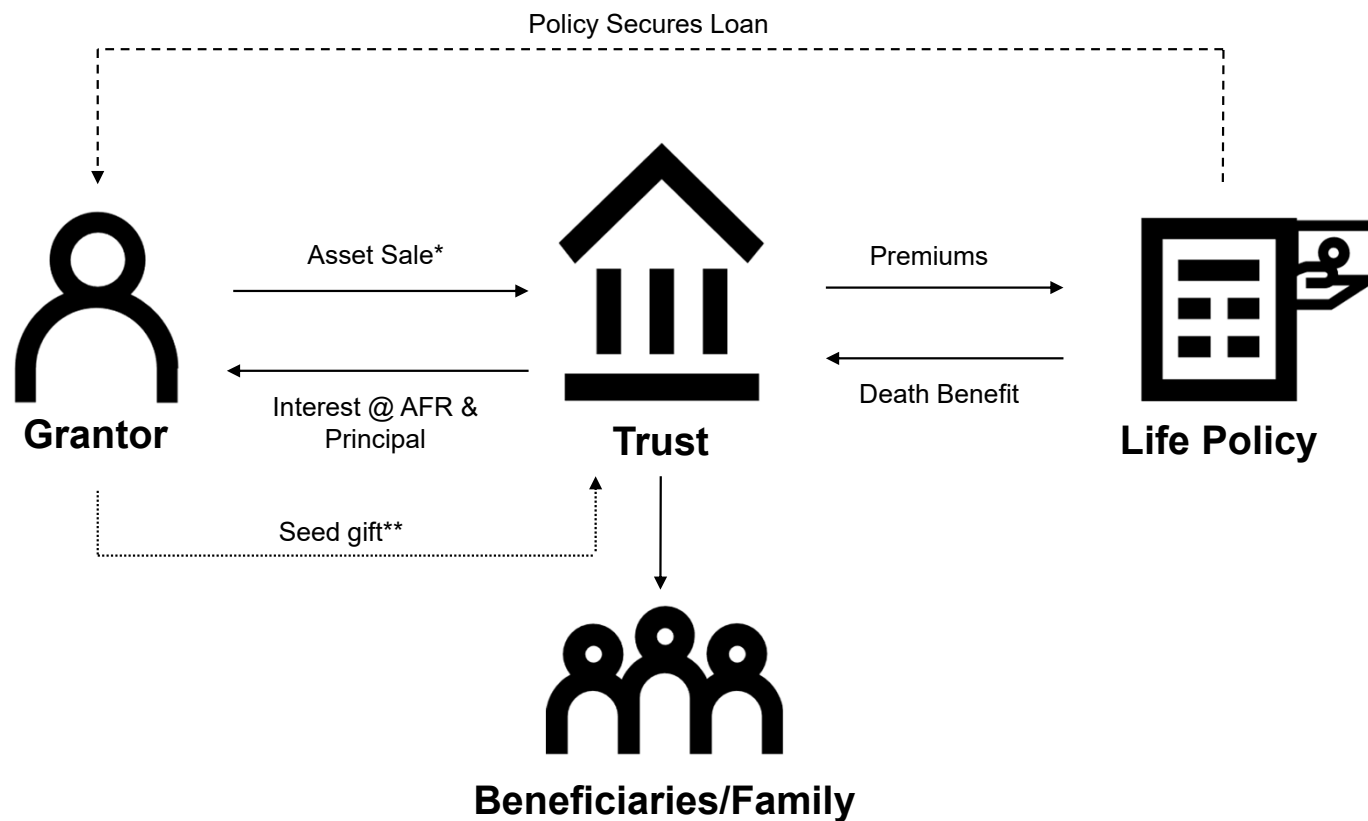
*Trust income includes 2% cash flow and 4% growth on assets.

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Sale to a Grantor Trust



*No recognition of gain on sale or interest payments when Trust is a "grantor defective" trust

** Usually equal to at least 10% of the FMV of assets to be sold

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Structuring the Sale

- Mr. Smith (Grantor) creates ILIT for the benefit of wife and children; independent trustee appointed
- Funds trust with “seed gift” - 10% of discounted sale value [\$560,000]
- Grantor sells 32% of commercial RE business to trust in return for promissory note at long-term AFR (1.15% for May 2020)
- Amount transferred = \$8,000,000 (discounted value \$5.6M)
- Asset generates annual income at 7.5% -use income to life premiums
- Interest payments back to Grantor help provide resources towards on-going income tax liability

Benefits

- Provides option for long-term estate freeze on assets sold – reducing future estate tax exposure
- Discounting of assets (when available) allows more assets to be transferred for reduced cost
- Provides grantor with flexibility to decide to forgive all/portion of the promissory note to make use of expiring exemptions
- Life insurance creates tax-free liquidity, which can help offset lack of step-up in basis on assets in trust

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By the Numbers

YEAR	SALE AMOUNT (DISCOUNTED)	INTEREST PAID* 1.15%	GIFT	PREMIUM	ASSET VALUE @2% (EOY)	CASH in TRUST (EOY)	DEATH BENEFIT	NET TO HEIR FROM TRUST NET of NOTE
1	5,600,000	64,400	560,000	(384,895)	8,160,000	717,709	30,000,000	33,277,709
5		64,400	0	(384,895)	8,832,646	1,541,573	30,000,000	34,774,220
10		64,400	0		9,751,955	3,487,596	30,000,000	37,639,551
15		64,400	0		10,766,947	8,011,125	30,000,000	43,178,072
20		64,400	0		11,887,579	13,943,165	30,000,000	50,230,744
25		64,400	0		13,124,848	21,633,467	30,000,000	59,158,315
30		64,400	0		14,490,893	31,512,203	30,000,000	70,403,096
35		64,400	0		15,999,116	44,107,865	30,000,000	84,506,982
37 (LE)		64,400	0		16,645,481	50,047,555	30,000,000	91,093,036

Estate tax savings = \$36M+



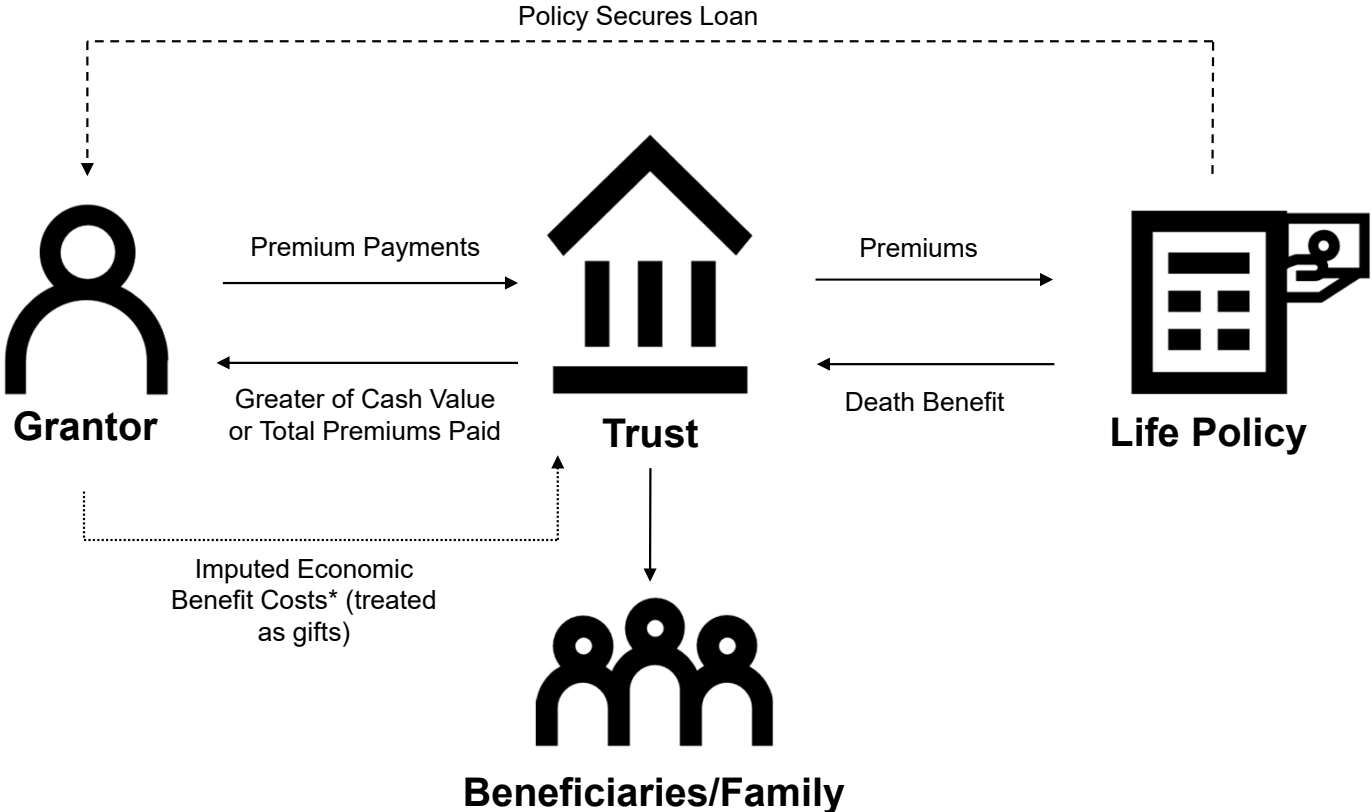
*Cash in trust includes 7.5% cash flow from non-discounted asset, 4% return on side fund (cash), minus expenses (premiums & interest)

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Private Split Dollar



**Determined based on net amount of DB payable to the trust each year, economic benefit rates (Table 2001 or carrier alternative term rates), and insured's age
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Structuring the Private Split Dollar

- Mr. Smith (Grantor) creates ILIT for the benefit of wife and children; independent trustee appointed
- Grantor pays yearly premium in return for right to be repaid “greater of cash value or premiums paid”
- Yearly Premium = \$384,895
- No interest payments – instead “economic benefit” paid via gifts
- Exit strategy = Grantor-funded GRAT
 - \$8,365,732 of securities/liquid investments transferred to 10-year GRAT
 - Annual annuity payment = \$873,824
 - Expected remainder = \$3,464,055

Benefits

- Uses economic benefit rates vs. interest rates
- Makes it easy to get policy in force without having to transfer assets other than premium
- Flexible to use with many exit strategies



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By the numbers

YEAR	PRIVATE SPLIT DOLLAR PREMIUM	CASH SURRENDER VALUE	SPLIT DOLLAR AMOUNT DUE	ANNUAL GIFTS (ECONOMIC BENEFIT)	SIDE FUND (GRAT REMAINDER)	DEATH BENEFIT	NET TO HEIRS
1	384,895	0	384,895	713	-	30,000,000	29,615,105
2	384,895	74,087	769,790	850	-	30,000,000	29,230,210
3	384,895	305,361	1,154,685	1,001	-	30,000,000	28,845,315
4	384,895	553,495	1,539,580	1,174	-	30,000,000	28,460,420
5	384,895	876,083	1,924,475	1,388	-	30,000,000	28,075,525
6	384,895	1,220,633	2,309,370	1,678	-	30,000,000	27,690,630
7	384,895	1,583,600	2,694,265	2,072	-	30,000,000	27,305,735
8	384,895	1,966,768	3,079,160	2,614	-	30,000,000	26,920,840
9	384,895	2,372,024	3,464,055	3,337	-	30,000,000	26,535,945
10	0	2,484,181	(3,464,055)	4,304	3,464,055	30,000,000	30,000,000

Cumulative Gifts = \$19,129

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Comparison of Options

	Gifts	Private Loan	Sale to Trust*	Private S/D
Death Benefit	30,000,000	30,000,000	30,000,000	30,000,000
Premium (9 pay)	3,464,055	3,464,055	3,464,055	3,464,055
Upfront Asset Transfer	11,580,000	7,527,467	5.6M discounted + seed gift	8,365,732 (GRAT)
Asset Type	Cash/Securities	Cash/Securities	Commercial RE	Cash/Securities
Term of Transaction	-	9	9	10
Interest Received	-	392,931	579,600	8,738,241 (annuity)
TOTAL Gifts	11,580,000	-	560,000	19,129
TOTAL AMOUNT RETURNED**	-	7,920,398	6,179,600	12,202,296

*For purposes of comparison, assume promissory note is repaid with cash/assets beginning of Year 10.

**Includes repayment obligation & interest paid

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Questions?



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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 59 1/2. Insurance products are issued by John Hancock Life Insurance Company (U.S.A.), Boston, MA 02216 (not licensed in New York) and John Hancock Life Insurance Company of New York, Valhalla, NY 10595.

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