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Advanced Markets

Legacy Protect

permanent life insurance

Using permanent life insurance and the "Legacy Protect" strategy to make sure your family receives a legacy. And you have assets for retirement and unexpected financial set-backs.

Protect Your Legacy, No Matter What

As parents and grandparents, there isn't much we wouldn't do for our children or grandchildren – including making sure they are financially secure when we're no longer around to care for them. While providing a legacy may be top-of-mind for us, it isn't always the simplest thing to do, especially when we're saving for retirement and other unforeseen financial challenges.

One way to make sure that you can accomplish all of your goals is to use the "Legacy Protect" strategy with permanent life insurance. This will help ensure your family will receive a legacy, and you'll have money for retirement and other financial contingencies.

The first step in the "Legacy Protect" strategy is to segregate your assets into three distinct "buckets":

- **Bucket A —** The Retirement Fund
- **Bucket B —** The Contingency Fund
- **Bucket C —** The Legacy Fund

the need for long-term care:
At least 50% of people will need long-term care at some point in their lives.[1]

The Retirement Fund

Bucket A includes those assets that are ear-marked for retirement. Though you may want to leave as much as possible for your family, it's important to make sure you have enough assets for your retirement too.

The Contingency Fund

Bucket B includes assets you don't plan to use during your lifetime – but set aside in the event that you live longer than expected, your Bucket A assets don't enjoy the returns you anticipate, or you experience an unexpected financial or medical set-back while you're retired. For many people, permanent cash value life insurance, with a long-term care rider, will serve nicely as a Bucket B asset.*

The Legacy Fund

Bucket C includes assets to be left to your heirs. While we often want to maximize the amount we leave to our family, many people invest this bucket of assets too conservatively, so as not to lose principal. That's where life insurance comes in. By reallocating a portion of the cash flow from the Bucket C assets, you can diversify the risk of this important segment of your investment.

*** That's because permanent life insurance with a long-term care rider can provide:**

- Cash value to potentially help supplement your retirement, if necessary.
- Benefits that can be used to pay for long-term care costs.
- A death benefit that will pass to your heirs, free of income tax — if you don't need the cash value or long-term care benefits during your lifetime.

Here's How Legacy Protect Works

With the Legacy Protect strategy, you purchase a permanent life insurance policy with a portion of the cash flow from your Bucket C assets. In many instances, it takes as little as 1%, or 100 basis points, from the return on Bucket C assets to purchase a permanent life insurance policy.

what is Legacy Protect?

It's a simple strategy that can help you make sure your family will receive a legacy, regardless of what happens to your other assets and investments.

life insurance

Use 1% of the Bucket C portfolio to purchase a permanent life insurance policy.

Benefits of having a life insurance policy:

- Protects your legacy bucket against unexpected fluctuations in value.
- Ensures that you can leave an inheritance.
- Diversifies your assets, which can also help protect your legacy bucket assets.
- Allows you to implement a broader investment strategy with the remaining assets in the legacy bucket by diversifying the portfolio with life insurance.
- Can potentially provide additional assets for retirement or contingencies through policy cash values.

Note: With this strategy, you may want a life insurance policy that is focused on protection, not accumulation.

Want to Learn More?

Talk to your financial professional to see if a Legacy Protect strategy, with an AXA Equitable or MONY Life Insurance Company of America permanent life insurance policy, may be a good choice for you and your family.

1 Source: www.longtermcare.gov

The Long-Term Care Services℠ Rider is available for an additional fee and does have restrictions and limitations. A client may qualify for the life insurance but not the rider.

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GE-120098 (11/16) (Exp. 11/18)

Cat. #156628 (11/16)

Advanced Markets

Legacy Protect

case study

Help your clients protect their legacy and more

Using permanent life insurance and the "Legacy Protect" strategy to ensure your clients' families receive a legacy and have assets for retirement and other contingencies.

Do you have clients who are parents or grandparents, wanting to leave a legacy for their children or grandchildren, but not sure how, with retirement and unexpected financial setbacks on the horizon?

See how one client manages these issues…

Meet Marjorie.

This is her situation:

- 55 years old and has recently become a grandmother
- Hopes to work another 10 to 15 years before retiring
- Has $4 million in investment assets
- Also has a 401(k) plan, which she's funded for the past 20 years, and a "cash balance" pension plan through her employer

As Marjorie looks forward to her retirement and the chance to spend more time with her grandson, she has taken the opportunity to sit with her investment advisor and discuss her financial position. She would like to utilize the Legacy Protect strategy to make sure that she has money for her retirement, unexpected financial challenges and for a legacy she'd like to leave her children and new grandson.

Bucket A: Retirement funds

Marjorie believes that $1 million of her investment assets, her employer-sponsored retirement plans and Social Security will provide her with a comfortable retirement. These assets make up what Marjorie and her advisor consider her **"Bucket A"** retirement assets.

Bucket B: Contingency funds

To help protect against unforeseen retirement expenses, including potential long-term care expenses, Marjorie has purchased a $500,000 BrightLife® Grow permanent life insurance policy with a Long-Term Care Services℠ rider. That, and $1 million of her investment assets, makes up what she and her advisor consider her "**Bucket B**," or the contingency portion of her assets.

Bucket C: Legacy funds

This leaves Marjorie with $2 million of other portfolio assets that she doesn't expect to need for retirement. While not formally segregated, these are Marjorie's **"Bucket C"** legacy assets. If Marjorie lives until age 87 (her anticipated life expectancy) and earns an average return of 3% (net of taxes) on these assets – her Bucket C assets will have grown to over $5.1 million by the time of her death (column 1 in chart below). While feeling that she is protected in her retirement makes her comfortable, her belief that she can leave a significant legacy for her family and her new grandson is exciting to her.

But, how certain is the $5 million legacy that she has earmarked for her family? Although Marjorie is a healthy and active 55-year-old, good health can be fleeting. A number of her friends are already fighting serious health issues. And, although she and her investment advisor are assuming a modest net 3% growth on her investment portfolio, that is not something she can count on either. An ill-timed equity market correction could have a devastating impact on her anticipated legacy.

Repositioning assets to protect her legacy

By taking less than one half of the current return ($28,225 each year, initially 1.41% or 141 basis points), and using it to purchase a BrightLife® Protect policy with a face amount of $3.1 million, Marjorie could leave considerably more money to her family.

What impact will life insurance have on Marjorie's legacy?

- **Immediately add $3.1 million.** By purchasing a life insurance policy today, Marjorie has grown her Bucket C legacy assets from $2 million to $5.1 million, which is the amount she hopes to accumulate for her heirs by age 87.
- **Potentially grow her investment by $1.6 million.** If Marjorie lives until life expectancy, after taking $28,225 (initially 141 bps) of her investment gains each year to pay her life insurance premiums, her $2 million Bucket C portfolio of investments will still grow to over $3.6 million by the time she is age 87.

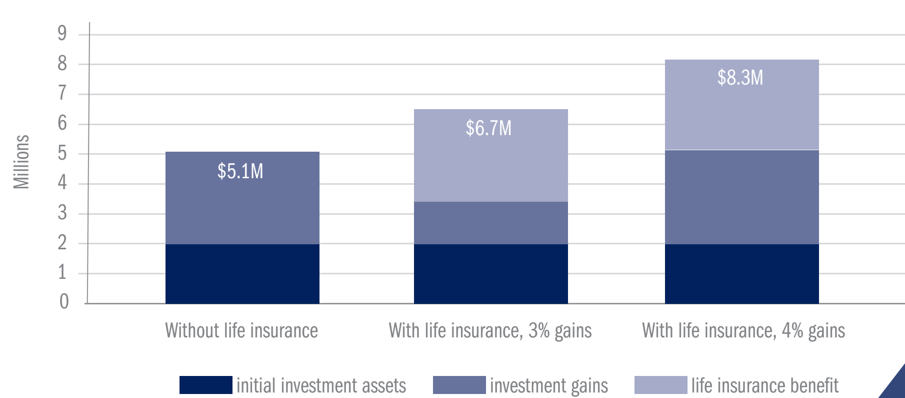
For a total of $6.7 million (3% gains)

By combining her investment portfolio with the life insurance policy, Marjorie creates an anticipated legacy (Bucket C) at life expectancy of more than $6.7 million (column 2 in chart below). She started with $2 million, adds $3.1 million (the amount of the life insurance) and potentially $1.6 million more through investment gains. That's $1.6 more than she'd have without the life insurance.

Or a total of $8.3 million (4% gains)

If Marjorie's investment advisor thinks that her life insurance adds diversification and protection to her portfolio, her advisor may change her investment strategy slightly, by investing a bit more aggressively. If this results in her earning 4% on her Bucket C assets instead of the current 3%, her total assets at age 87 would be $8.3 million (column 3 in chart below) – or $3.2 more than they would be without life insurance.

Marjorie's Legacy



All columns in this chart show the positions described in the piece from age 55–87.

Life insurance to protect your clients' legacy

Life insurance can be an important component of retirement and estate planning. Your clients may be aware that life insurance can be used to create a source of potential supplemental retirement benefits and, with a long-term care rider, can help protect them from the high cost of long-term care. But, they may not realize that life insurance can also be a key component of a well-balanced legacy portfolio.

A permanent life insurance policy is the one product that is designed to protect against what is probably the biggest threat to achieving your clients' legacy goals – an early death. That's why they may want to consider the Legacy Protect strategy – because it can complete their legacy goal immediately, simply by redirecting a portion of their investment returns to pay for a life insurance policy. And by diversifying the risk profile of their portfolio, Legacy Protect may also give them more confidence when investing their portfolio's principal.

An easy way to explain this concept to your clients

Ask for our "Legacy Protect Concept" brochure – a client-approved piece that illustrates this concept in straightforward language. It may be just what you need to show your clients what they need to do to protect their legacy and ensure that they'll have the money they need for retirement and unexpected financial setbacks too.

Backed by the strength of AXA Equitable

You want to have confidence that the insurance company you choose has the financial strength to fulfill its obligation to you now and in the future. AXA Equitable Life Insurance Company (AXA Equitable, New York, NY), which enjoys an illustrious 150-year history, and MONY Life Insurance Company of America (MLOA) have a shared tradition of helping their customers reach their most important goals.

- Providing stability and reliability to our clients since 1859.
- AXA Group has been ranked the #1 insurance brand in the world for eight consecutive years.[1]
- AXA Group is present in 64 countries.

Want to learn more? Call Advanced Markets to get the Legacy Protect Concept brochure or find it for yourself at www.axaforlife.com.

1 Interbrand, 2009–2016, AXA press release, October 6, 2016.

The Long-Term Care Services℠ Rider is available for an additional cost and does have restrictions and limitations. Be sure to review the product specifications for further details.

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IU-120097 (11/16) (Exp. 11/18) Cat. #156720 (11/16)

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Advanced Markets

Pension Maximization

Think About It

INTRODUCTION

Most of our working clients dream of the freedom of retirement—freedom to travel, freedom to spend time pursuing personal interests and the freedom to live a life of financial security independent from a job.

For many, the transition into retirement is a time of unexpected stress. The change in lifestyle and the disappearance of the work social network can cause anxiety and depression. The pressures can make our clients susceptible to making bad financial choices at a critical time.

For those who are participants in *defined benefit* or *money purchase pension plans*, making the right choice between the various pension payout options can mean the difference between a comfortable retirement and one that is financially tight. Financial professionals are often needed to help make sensible decisions.

Married couples, where one spouse is retiring as a participant in a money purchase or defined benefit plan, must choose between getting payments for the lifetime of the participant, or receiving smaller payments for the lifetimes of both spouses. The retiree must grapple with many questions:

1. What is the likelihood that the retiring spouse will die first?
2. Is the difference between the single life benefit and the joint life benefit enough to justify the risk of choosing the higher benefit?
3. What strategies are available to mitigate the risk of choosing a single life benefit?

Those struggling to answer those questions should consider the possibility of choosing the *pension maximization* (pension max) strategy. The financial professional needs to be prepared to help decide whether pension max works.

THE PENSION MAX CONCEPT

Defined Benefit Plan

A defined benefit plan is a type of pension plan in which the employer promises each eligible employee a specified monthly benefit at retirement. The retirement benefit is *defined* in that it is based on a formula that is set forth in the plan document.

The formula used might be based on the employee's average earnings, or highest earnings. Generally, the defined benefit retirement benefit begins at a specific age, and is paid until the employee's death.

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Defined benefit plans are typically funded only with employer contributions.

At retirement, the defined benefit is typically calculated based on the participant being single. However, federal law requires, in the case of a married participant, that the pension be paid in the form of joint and survivor annuity.

Money Purchase Plan

Most money purchase plans use a benefit formula requiring an employer contribution that is a flat percentage of each employee's allowable compensation. Percentages up to 25% may be used.

When an employee reaches retirement age, the retirement benefit is payable. Money purchase plans usually provide that the participant's account balance is converted to an annuity at retirement, based on the plan's annuity rates.

A money purchase plan, like a defined benefit plan, must provide a joint and survivor annuity as the automatic form of benefit. The participant, with the consent of the spouse, may elect a different benefit option.

The Joint and Survivor Options

The joint and survivor annuity must provide the survivor a benefit of between 50% and 100% of the initial benefit. It is possible for the participant's spouse agrees to waive the survivor benefit, and the parties can choose the single life benefit instead.

Some plans offer several options for married participants. For example, the pension might give a choice between:

1. single life,
2. 100% joint and survivor,
3. 66 2/3% joint and survivor, and
4. 50% joint and survivor.

Electing a joint and survivor option protects the participant's spouse and assures an income as long as either spouse survives. The protection does come at a cost—the reduction in income compared to a single life option for as long as both spouses are alive.

The size of the reduction depends upon three factors:

1. the age of the parties,
2. the percentage of initial benefit preserved for the surviving spouse, and
3. whether or not the company sponsoring the plan subsidizes the survivor benefit.

How much might a reduction be? For a prospective retiree, the monthly benefit might be $2,000 for life only, as contrasted with $1700 per month for a joint and 50% survivor annuity, or $1500/month for a 100% joint and survivor benefit.

Underwritten or Guaranteed Issue Life Insurance?

It makes intuitive sense that if a plan participant is choosing between a life only benefit and an income stream that will last for two lives, the life only benefit should pay more. What retirees sometimes fail to grasp is that if they choose a joint and survivor benefit, they are essentially buying life insurance coverage on the retiree with the difference between the benefits. Since no medical underwriting is involved, the insurance coverage is *guaranteed issue* coverage.

What if a healthy retiree could choose fully underwritten life insurance coverage? Could the pension benefits be increased? Those are the key questions in the pension max concept. Pension max is a strategy in which the plan participant elects a life only annuity and uses some part of the additional benefit to purchase a fully underwritten life policy.

Suppose in our joint and 50% survivor example above, adequate protection could be provided to the participant's spouse through purchase of a life policy costing, say, $100 per month. This would give an additional income of $200 per month while still fully protecting the needs of the surviving spouse. That's how a good pension max implementation should work.

What if a joint and survivor benefit is chosen and participant's spouse dies shortly after retirement? Under those circumstances a participant would be "paying" for protection that is no longer needed. A few plans will allow the participant to go back and re-elect life only under these circumstances, but in most cases, the participant is stuck with the smaller monthly benefit for life.

A pension max plan is more flexible than the survivor annuity choice. If the participant's spouse predeceases the participant, the participant could then cancel the insurance and keep the entire extra benefit, or alternatively, keep the insurance and provide a death benefit to the children.

SPECIAL CONCERNS

Pension max seems like a pretty simple concept—and it is. The key question is this:

Can the client buy a life policy that will adequately support the surviving spouse using the difference in benefit between the single life retirement income election and the joint and survivor alternative?

There are a few nuances that a client must consider in evaluating the choices.

Role of Interest Rates, Death Benefit, and Survivor's Assumed Life Expectancy

If the pension plan participant dies before the spouse, the pension max strategy relies on the insured's death benefit to replace the spouse's retirement income. There are three ways to make that happen:

1. Exchange the death benefit for an immediate annuity based on the surviving spouse's life (*annuitization solution*).
2. Manually create an income stream by investing the death benefit, and using as much income and principal as may be needed for the surviving spouse's benefit (*income and principal solution*).

3. Plan to keep the death benefit principle invested, and use the income earned only to support the surviving spouse's needs (*income only solution*).

All three of the alternatives rely heavily on the assumed interest rate to determine the amount of initial death benefit needed to make pension max work.

Here's an example. Say that a client is trying to decide between a $2000/month single life benefit and a $1500/month 100% joint and survivor benefit. If the client wants to evaluate the pension max alternative, she needs to figure out how much death benefit is needed to produce $1500/month, or $18,000 in a year.

If the client is comfortable assuming a 5% rate of return on the death benefit invested, the amount of death benefit needed is $360,000. If the client wants to assume a 3% rate of return on investment, the initial death benefit needs to be $600,000.

Of the three alternatives, the income only solution will generate a need for a higher death benefit than the other two. That's because the clients intend for the death benefit principal to be preserved for family at the death of the surviving spouse.

Finally, if one of the first two solutions is chosen, the survivor's assumed life expectancy plays a key role in determining the death benefit need for the pension max solution. If the survivor's life expectancy is ten years, less initial death benefit is needed to support retirement income than if the expectancy is, say, thirty years.

Extra Pension Benefits

Some pension plans add extra benefits that make the pension max calculation a little harder.

For example, some plans include an automatic cost of living adjustment (COLA) for both single life and joint and survivor benefits. Often the COLA amount is adjustable, based on an outside published index. If a client is trying to evaluate pension max, it means that she and her advisor will have to guess at the COLA increases to make a comparison.

Some pension plans require that a joint and survivor option be chosen in order for retiree health benefits to cover a surviving spouse after the participant's death. If that is the case, the cost for continuing such benefits must be accounted for in the pension max calculation.

With all the unknowns, comparing pension max to the joint and survivor annuity is not an exact science. Those working with clients should work with their customers to determine the conservative assumptions that will be used for the pension max discussion.

Start Early

Pension max cases don't always work. The key question is whether the right amount of insurance can be purchased with the difference in monthly benefit between the life only plan and the joint and survivor plan.

Whether pension max makes economic sense for a particular client depends upon many factors:

- the tax ramifications of taking a higher or lower pension payout,

- whether the plan subsidizes the survivor benefit,
- the interest rate that the client is comfortable using for projections,
- whether the plan has a cost of living adjustment, and
- timing of the pension max decision.

For life professionals, the biggest issue often is timing. Unfortunately, most prospective clients aren't approached with a pension max proposal until shortly before retirement.

If the agent waits until shortly before retirement to propose pension max, he or she is faced with writing a new life policy on, say, a 65 year-old male. At that point, the prospect may be uninsurable or insurable only on a rated basis. Even if insurable at standard rates, the premium on a cash value policy adequate to provide the desired protection may kill the deal. Term rates may initially be acceptable but will rise rapidly as the prospect ages.

Contrast this with pension max started five or ten years prior to normal retirement age. The life insurance rates will usually be much lower and the chances of getting a standard or preferred rating much better. The life professional might propose a cash value policy ten years prior to retirement to be funded over the remaining working years. This plan would provide the spouse with death protection not only after retirement, but prior to retirement also.

At retirement, the cash value of the policy could be sufficient to carry the policy without further premium payments, thus ensuring that the participant can elect a life only pension, receive the higher benefit, and still be assured of death protection for the spouse. The entire increase in pension benefit is available for living expenses without any reduction for life insurance premiums.

If the cash value is high enough, the couple may be able to increase their retirement income even further via policy loans or partial surrenders. If the participant's spouse dies first, the participant has the option of surrendering the policy for its cash value or continuing the policy to provide a death benefit to children or other beneficiaries.

EXAMPLES

Here are two brief examples—one which describes a good implementation of pension max, and another that shows where it isn't a fit.

How It Works

Joe and Pearl are a married couple who are five years away from retirement. They have three adult children.

Joe and Pearl are each 60. Joe is a participant in a defined benefit plan at his current employer. Joe has asked his employer for the projected retirement benefits that will be paid by the plan. The employer said that if Joe picks the life only option, he will be entitled to $3000/month. If he chooses the 100% joint and survivor benefit, he and Pearl will get $2000/month.

Joe has asked his financial professional to evaluate whether pension max might work for his situation. They discussed the situation and decided that a 3% interest rate is a comfortable assumption. Joe has also asked about the possibility that some benefit from the plan be preserved for his kids, if possible.

Joe's advisor recommends that Joe consider a permanent life plan with guaranteed death benefit with a face amount of $800,000. Assuming Joe's early post-retirement death, the policy will make $800,000 available to Pearl. If the money is invested and it earns 3% interest, it will generate $2000/month for Pearl—exactly equal to the joint and survivor benefit.

Pearl would also have access to the policy's death benefit to supplement her needs during lifetime. If Joe's pension has automatic COLAs, the death benefit principal would be available for Pearl to help offset that. Any amount left at her death would be available for their children.

If Pearl dies before Joe, Joe can surrender the policy and get the life only pension amount. Or he can choose to continue the policy and increase his kids' inheritance.

Because Joe is in good health, he can buy the insurance coverage for $750/month. Even though the premiums begin pre-retirement, the flexibility that the plan offers—as well as the enhanced benefit for himself and Pearl beginning at retirement—may make it attractive.

How It Works NOT

Take the example above, but assume it's five years later. Joe is at his retirement date. The pension numbers are identical to those projected at Joe's age 60.

Say that in addition to being older, Joe has had a medical episode that will substantially increase the cost of guaranteed permanent insurance coverage. Even if he uses all of the $1000/month difference between the life only and joint and survivor benefit, he can only buy $300,000 of death benefit.

Does it make sense for Joe and Pearl to choose pension max?

Say that Joe uses all the $1000/month difference for life insurance. If he does that, he has no cushion for COLA that he might otherwise have been entitled to.

If Joe dies, say, five years after getting started, the policy would pay its $300,000 death benefit to Pearl. Assuming Pearl continues to enjoy good health, her life expectancy might be 20 years after that. If Pearl annuitizes the $300,000 death benefit based on her life expectancy and a 3% assumed interest rate, the monthly payment would be $1658. That's less than the pension's joint and survivor option.

Under these circumstances based on the assumptions given, Joe and Pearl should probably decide NOT to do pension max.

CONCLUSION

At its core, pension max is a simple idea. The client chooses a life only pension benefit, and uses the extra monthly benefit to buy a life policy designed to protect the surviving spouse.

Pension max is not a fit for every situation. It works best where

- the percentage difference between the life only benefit and joint and survivor benefit is high,

- the non-participant spouse has a short life expectancy compared to the participant spouse,
- there are no valuable benefits that an employer provides that hinge on choosing the joint and survivor benefit, and
- the participant spouse is healthy and insurable at a reasonable price.

Even if pension max is not a fit, financial professionals may be able to help supplement their clients' retirements with other tools. If you start talking with clients early in their retirement planning process, you can help maximize their retirement income potential—and help yourself along the way.

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enhancing your benefits with pension maximization

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Married couples, where one spouse is retiring as a participant in a pension or defined benefit plan, must choose between getting payments for the lifetime of the participant, or receiving smaller payments over the lifetimes of both spouses.

The retiree must grapple with many questions:

1. What is the likelihood that the retiring spouse will die first?
2. Is the difference between the single-life benefit and the joint-life benefit enough to justify the risk of choosing the higher benefit?
3. What strategies are available to mitigate the risk of choosing a single-life benefit?

Those struggling to answer these questions should consider the possibility of choosing the pension maximization (Pension Max) strategy.

The Situation

Let's take a look at Bill and Karen to see how Pension Max may be the right strategy for them. Bill and Karen are age 60 and are five years away from retiring. They have three adult children. Bill is a participant in a defined benefit plan at his current employer. He has asked the employer for the projected retirement benefits that will be paid by the plan. If Bill picks the life-only option, he will be entitled to $3000/month. However, upon Bill's death, that $3000/month ceases. If Bill chooses the 100% joint and survivor benefit, he and Karen will receive $2000/month while at least one of them is still living. For example, if Bill dies, Karen will continue to receive the $2000/month and vice-versa.

	Life Only Benefit with No Suvivorship	100% Joint and Survivor Benefit
Bill's monthly income at retirement at age 65	$3,000/month	$2,000/month

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A Strategy

Bill's advisor recommends that he consider taking the larger payout, $3,000 per month, and using a portion of the extra amount to purchase a permanent life plan on Bill's life. His advisor has projected that if Bill were to die at age 65, a death benefit of $338,000 would be able to provide Karen with $2,000[1] per month until her age 90, 25 years. Each year Bill lives beyond age 65 reduces the years between Karen's current age and age 90. As a result, if Bill were to die in a later year, the initial life insurance amount would support a potentially greater annual withdrawal for Karen, ensuring funds available beyond her age 90 or provide an additional legacy for Bill's and Karen's heirs.[2] Bill is in good health and can buy the insurance coverage for $431/month. Assuming Bill's early post-retirement death at age 65, the policy would provide the following options:

- A $338,000 lump sum death benefit that would be available to Karen should she need it, or
- Generate $2,000[1]/month for Karen — exactly equal to the joint and survivor benefit identified above (assuming a 3% interest rate on the invested death benefit) for 25 years,
- Provide Karen with cash for supplemental income during her lifetime if she would rather take a lump sum instead of monthly income at a future date,
- Any amount left at Karen's death would be available for their children, something that wouldn't be available with the pension benefit.

If Karen dies before Bill, he can surrender the policy and continue to get his "life-only" pension amount, supplement his pension with the policy's cash values, or he can choose to continue the policy and increase his childrens' inheritance.

Years	Life Only Annual Pension Increase over J & S Benefit	Premium Per Year	Death Benefit[2]	Potential Monthly Withdrawal Amount[1]
1	$12,000	$6,137	$338,000	0
5	$12,000	$6,137	$338,000	$2,000/month
10	$12,000	$6,137	$338,000	$2,000/month
15	$12,000	$6,137	$338,000	$2,000/month
20	$12,000	$6,137	$338,000	$2,000/month
25	$12,000	$6,137	$338,000	$2,000/month

Even though the premiums begin pre-retirement, the flexibility that the plan offers — as well as the enhanced benefit for Bill and Karen at retirement make Pension Max a good strategy for them.

1 Before Tax Equivalent assuming a 28% Tax Bracket.
2 This is a supplemental illustration and must be read in conjunction with the basic illustration. The basic illustration contains values using the same underwriting assumptions as this supplement at both guaranteed charges and guaranteed interest rates and contains other important information. The values represented here are for a $338,000 BrightLife Protect® Policy with level death benefit on a 60-year-old man preferred non-smoker and assumes current charges. If they were to receive a 0% gross rate of return and maximum charges were assessed on the policy, the policy would fail in year 30, by which point $184,110 of cumulative premium would have been paid. The values here are intended to offer a hypothetical representation based on illustrated rates when this marketing item went to print in May 2017. Actual results will vary based on the underwriting classification and crediting rate offered when an illustration is on a different date. Please review a basic illustration containing values based on your own individual age and underwriting class containing both guaranteed charges and guaranteed interest rates as well as other important information. Your financial professional can provide you a copy of the basic illustration.

Pension Max is not a fit for every situation. It works best where:

- Clients are in the 55–60-year-old (pre-retirement) age group where there is a defined benefit pension benefit.
- There is a significant difference between the single-life and joint-life benefit amounts.
- The participant spouse is healthy and can buy insurance at a reasonable price.
- Only a portion of the single-life benefit amount will be needed for life insurance.
- The life insurance on the plan participant can be purchased at a reasonable price.
- There are no valuable benefits that an employer provides that hinge on choosing the joint and survivor benefit.

Is Pension Maximization Right for You?

It depends on a number of factors, such as your financial situation, health, objectives, and the options and benefits you have under your employer's retirement plan. Your financial, legal and tax advisors can assist you with your decisions and in developing the strategy that is most appropriate for you.

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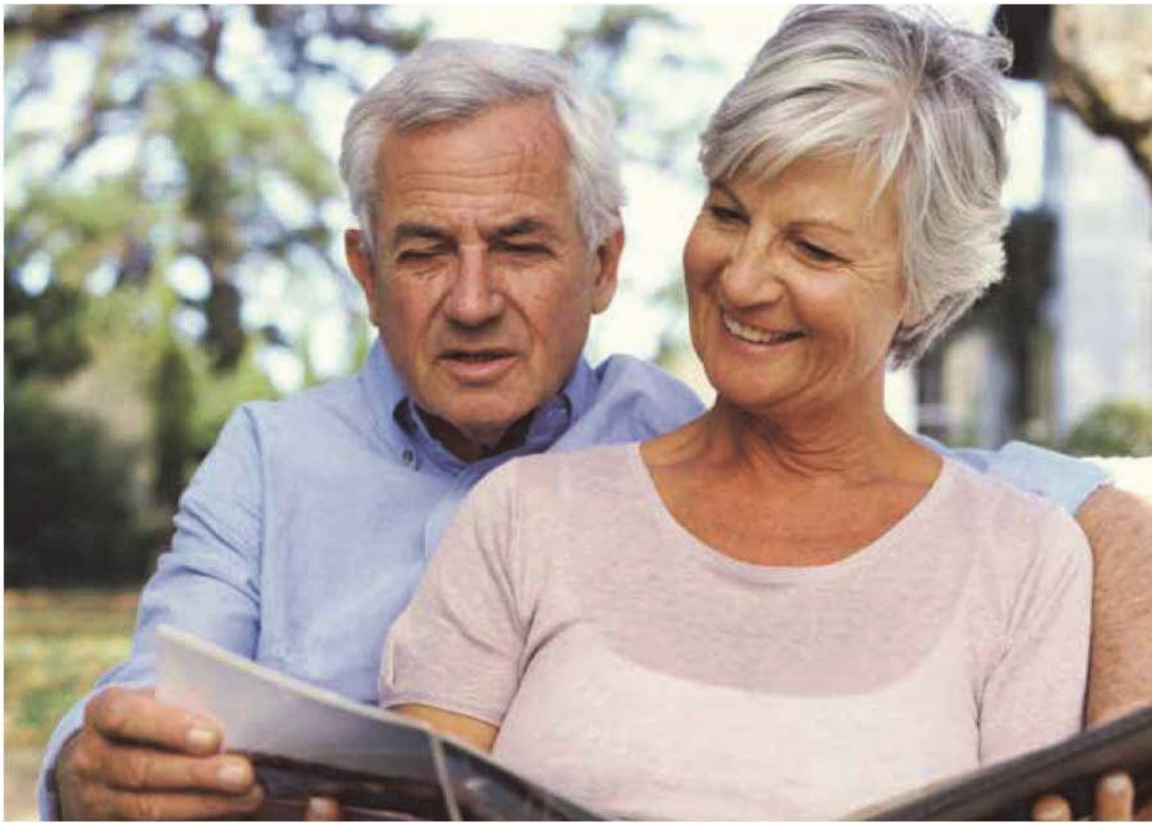
Charitable Gifts of Life Insurance

Accomplishing Charitable Goals Using Life Insurance



PACIFIC LIFE

AD-OC-769C

Charitable Gifts of Life Insurance[1]

THE SITUATION

Many wealthy individuals have a history of giving to their favorite charities. They may want to make sure that these gifts continue should they die prematurely.

Life insurance might be a way for these donors to complete their expected lifetime gifts should they die before life expectancy.

The two main ways of making a charitable gift with life insurance are:

- Naming the donor as owner and the charity as beneficiary; or
- The donor transfers an existing policy to charity.

Any tax benefits to the donor will vary depending on how the gift to the charity is structured.

1 *As with all uses of life insurance, the amount of life insurance coverage asked for in conjunction with this concept may be limited by Pacific Life's financial underwriting guidelines. Financial underwriting is an assessment of whether the proposed death benefit is a reasonable replacement for the financial loss caused by the death of the insured.*

In order for a life insurance policy to be considered valid, it must meet insurable interest rules in the state in which it is issued. Most states have enacted laws giving a charitable organization an insurable interest in a donor. Before creating a charitable plan using life insurance, consult your attorney regarding your state's insurable interest laws. Priv. Let. Rul. 9147040 (Aug. 20, 1991).

1. Donor as Owner and Charity as Beneficiary of the Life Insurance Policy

Donor/Insured

1

2

Life Insurance Policy

3

Charity

If the donor wishes to retain control over the life insurance policy, the donor may own the policy and name a charity as a beneficiary of the life insurance policy on his or her life. This strategy does not provide the donor with a charitable income tax deduction.

Upon the donor's death, the life insurance policy will be includible in the donor's estate for estate tax purposes.[2] However, any portion of the death benefits paid to the charity at the donor's death should qualify for a dollar for dollar estate tax deduction. Any portion of the death benefit going to a non-charity (such as heirs) may be subject to estate taxes.[2] This technique may be an appropriate option for a donor who wishes to own the life insurance policy in order to access the policy's cash surrender value for personal needs, but does not necessarily need the death benefit. The donor will also preserve the flexibility to change the charitable beneficiary at any time.

1 **Owner/Payor:** Donor owns, and pays premiums on, a life insurance policy on his or her life. Donor names the charity as a beneficiary. Donor does not receive an income tax deduction for premium payments.

2 **Access:** Donor is able to take withdrawals and loans from the life insurance policy. These withdrawals and loans may be income tax-free if up to basis.[3]

3 **Death Benefit Proceeds:** Upon the death of the donor, the life insurance death benefit proceeds are distributed to the beneficiaries of the policy. The death benefit proceeds are includible in the donor's estate for estate tax purposes.[2] The estate receives a corresponding estate tax deduction for any portion of the death benefit passing to charity.

2 *According to the American Taxpayer Relief Act of 2012, the federal estate, gift and generation skipping transfer (GST) tax exemption amounts are all $5,000,000 (indexed for inflation effective for tax years after 2011); the maximum estate, gift and GST tax rates are 40%.*

3 *Tax-free income assumes, among other things: (1) withdrawals do not exceed tax basis (generally, premiums paid less prior withdrawals); (2) policy remains in force until death; (3) withdrawals taken during the first 15 policy years do not occur at the time of, or during the two years prior to, any reduction in benefits; and (4) the policy does not become a modified endowment contract. See IRC Secs. 72, 7702(f)(7)(B) and 7702A. Any policy withdrawals, loans and loan interest will reduce policy values and may reduce benefits.*

2. Donor Transfers Existing Life Insurance Policy to Charity

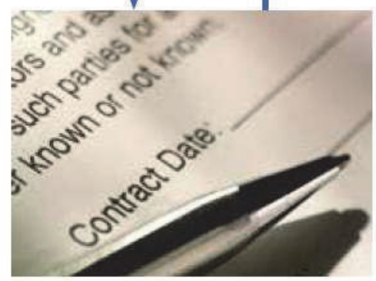
Donor/Insured

1

Charity

2

3



Life Insurance Policy

If the donor has an existing life insurance policy, and would like to donate it to a charity and receive an income tax deduction, he or she may transfer ownership of the life insurance policy to a charity. The charitable deduction will be limited to the lesser of the donor's cost basis in the policy or the fair market value (FMV) of the policy.[4]

The donor's cost basis in the policy is generally premiums paid less withdrawals. The FMV of the policy depends on the nature of the policy. If the policy is a single premium or paid up policy, then the value of the life insurance policy is the amount the company would charge for a single premium contract of the same amount on the life of the insured as of the date of the gift.

If the life insurance policy requires additional premiums, the FMV is typically the interpolated terminal reserve plus the proportional value of the last unearned premium.[5] If the life insurance policy is newly issued, the value of the life insurance is the premium paid to bring the life insurance policy into force. Donors should consult with their tax and legal advisors for help in determining the FMV of the policy as various valuation methods have changed over time.

1 **Gifts of Policy and/or Cash:** Donor gifts existing life insurance policy to charity. Donor receives income tax deduction. If further premiums are owed, donor may continue to make annual gifts to charity for the additional premium payments. These additional gifts may be income tax-deductible.

2 **Premiums:** Charity continues to pay any additional premiums on the life insurance policy by using either the additional gifts from the donor or other funds.

3 **Death Benefit Proceeds:** Upon the death of donor, the charity receives the life insurance death benefit proceeds.

4 *The maximum charitable income tax deduction for gifts of life insurance allowed in one year is either 30% of adjusted gross income (AGI) to public charities or 20% of AGI to private charities. IRC Sec. 170(b)(1)(A); IRC Sec. 170(b)(1)(B).*

5 *Treas. Reg. Sec. 25.2512-6(a), Example 4.*

Charitable Gifts of Life Insurance

This fact finder is provided to help you and your life insurance producer better understand your goals and objectives. Please return the information to your life insurance producer and not to Pacific Life as we cannot and do not provide financial, legal or tax advice.

VITAL INFORMATION

Insured:______________________________ Date of Birth: ______________

Spouse: ______________________________ Date of Birth: ______________

Client Risk Status: ☐ Select ☐ NS ☐ S Spouse Risk Status: ☐ Select ☐ NS ☐ S

Address: ______________________________ State: ______________

Name of Charity: ______________________________

Average Annual Gift to Charity Over Last 5 Years: ______________

Death Benefit:

Base: ______________ Term: ______________

Death Benefit Option: Increasing: ______________ Level: ______________

Change Year/Age: ______________________________

Premium Mode: Annual __________ Semi-Annual __________ Quarterly __________ Monthly __________

Lump Sum Pour In Amount: ______________________________

Riders/Amounts:

Guaranteed No Lapse Premium: ______________________________

Waiver of Charges/Duration (yrs):______________________________

Accidental Death Benefit: ______________________________

Guaranteed Insurability: ______________________________

Disability Benefit/Duration (yrs):______________________________

Spouse Rider/Age: ______________________________

Smoking Status: Smoker ______________ NonSmoker ______________

Life Insurance Producer's Name:______________________________ Date: ______________

PACIFIC LIFE

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Please Note: This brochure is designed to provide introductory information in regard to the subject matter covered. Neither Pacific Life nor its representatives offer legal or tax advice. Consult your attorney or tax advisor for complete up-to-date information concerning federal and state tax laws in this area.

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Advancing your practice

Social Security: How Life Insurance Can Assist Clients In Meeting Their Future Needs

Social Security Planning with Life Insurance Sales Guide

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IN THIS GUIDE

Introductory Comments

A few words about Social Security and where Social Security planning fits into a client's overall planning.

For most Americans, income during their retirement years will be addressed by three assets groups:

- Retirement Plan assets (to include Company provided pensions, IRAs and 401(k) plans)
- Social Security benefits
- Personal assets.

While important, the first two may not be able to replace personal savings. Company provided pension assets have diminished in importance for many retirees.

85% of American workers in the private sector (i.e., non-government jobs) were covered by a defined benefit pension plan in 1975, compared to only 16% in 2013.[1]

Concerns also exist regarding the viability of the Social Security Program

- According to many studies, the Social Security trust fund will be able to cover its retirement and disability obligations for the next 30 years or so, after which there will be a shortfall of about 22 percent[2]
- The Senate Special Committee on Aging figures funds will fall short in 2037.

Sections of this guide will talk about how clients might be able to use life insurance, and the protection it offers families, as a way to help supplement these two items as part of a personal asset accumulation approach.

1 National Institute on Retirement Security
2 http://www.bankrate.com/finance/retirement/5-little-known-facts-about-social-security-5.aspx

Social Security *may* and *can* be an integral part of your client's planning. While it may not be central, it remains a cornerstone of many retirement plans. In some cases it can be used by a client as part of a wealth transfer strategy. An assessment of your clients' needs, and a comparison with available resources can help identify any shortfalls that may exist. The earlier the process begins, the more viable the opportunity to arrange their personal estate and reallocate assets to help address future needs.

This guide will show three ways to look at a client's overall planning and offer three strategies that can help enhance, supplement or use Social Security to achieve their retirement or wealth transfer goals:

1. **For many clients, Social Security will represent a major portion of their retirement resources and they may benefit from strategies to maximize what they are entitled to receive, perhaps by delaying the receipt of their benefits. See *"The Social Security Bridge;"***
2. **Some clients will need to plan for personal assets to fill the retirement income gap that will exist between their needs and what Social Security and retirement plan assets will provide See *"Supplementing Retirement Income;"***
3. **Other clients will not need Social Security for their retirement needs, but it may be helpful in addressing their legacy plans. See *"Maximizing Social Security for Legacy Planning."***

Sadly, however, recent surveys indicate that less than 30% of all Americans have any idea of what they may be entitled to receive from Social Security. They will have no idea of the significance that Social Security may still play in their retirement and estate plans. If they wait too long, it may be too late to maximize the role Social Security might play in their retirement.

The Social Security Administration website offers substantial general benefit information, as well as, personal planning tools to access an individual's own benefit profile and benefit projections. *See:* http://www.ssa.gov/myaccount/materials.html#&a0=0

Consider the following three situations where life insurance may provide assistance to your clients in conjunction with your review of their Social Security benefits and retirement and estate planning goals.

Strategy One – The Social Security Bridge

Do you have clients who would like to get the maximum benefit amount their Social Security profile can provide? This approach will show how life insurance can be integrated into an overall protection plan, and allow a client to maximize their overall Social Security benefits.

This approach may be right for clients who:

- Want to maximize their Social Security benefit
- Can delay Social Security benefits until age 70 to get increased monthly benefits
- Want to retire earlier than Social Security full retirement age
- Clients who have a need for life insurance
- Wish to leave a legacy to their children

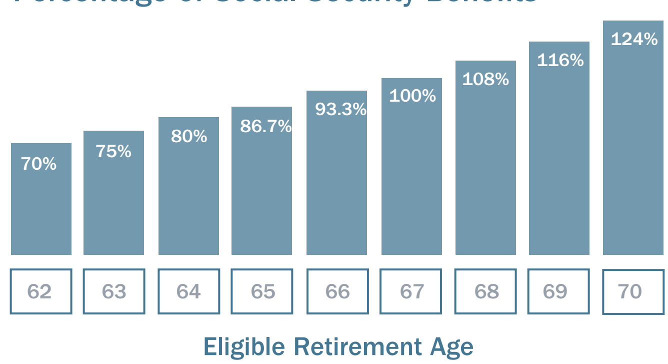
An important part of any financial plan is planning for retirement. Setting aside money in various retirement accounts will help achieve retirement goals. When assessing retirement need, one income source that you'll need to consider is the amount of Social Security benefits that will be available, based on an individual's personal profile and projected retirement age or date.

For most future recipients, "normal" Social Security full retirement age will be between 66 and 67. However, clients can access these funds as soon as they reach age 62. Conversely, they can defer receipt of Social Security benefits until age 70. Accelerating benefits, taking them prior to their full retirement age will result in reduced benefits. Delaying receipt will result in enhanced benefits. Although timing and amounts will vary from client to client based on their birth year, on average it is about an 8% per year reduction or growth.

This can be a critical element in a client's planning. At its heart, Social Security is a fixed annuity. For clients that can defer receipt of their Social Security benefits, during the deferral period they will see year over year compounded growth at about 8% per year. Few if any financial instruments in 2016 are offering 8% growth.

Retiring early can mean a 30% reduction in Social Security benefits. Retiring later, however, can increase your benefits 8% a year.

Percentage of Social Security Benefits



Case situation

Chris and Linda's Challenge

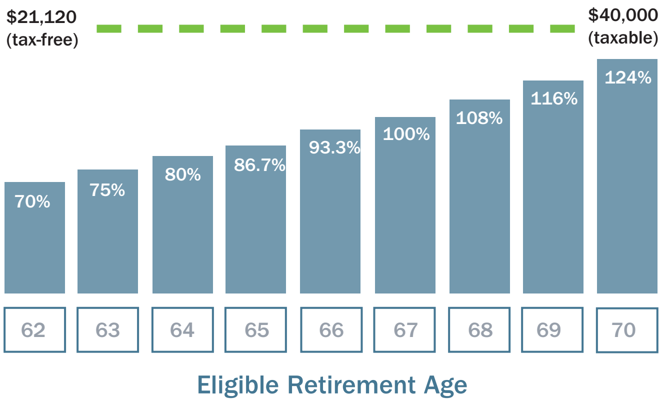
THE SITUATION

Chris and Linda recently met with their financial advisor. They are married, both 45-years-old, with two children and want to retire early. Based on today's Social Security benefits schedule, Chris would qualify for the maximum Social Security benefit if he retired at the full retirement age of 67. However, he wants to retire at age 62, a point where Social Security benefits would be substantially reduced. Chris is looking for a strategy that would allow him to have access to an amount that is equal to what he would receive from Social Security at full retirement age 67, yet allow him to retire at 62 and delay triggering his actual Social Security benefit until age 70.

A cash value life insurance policy may be an excellent way to help provide for additional funds to help "bridge" the Social Security Gap. By tapping into the policy cash values in strategic years, between age 62 to age 70 (just 8 years), clients can obtain the equivalent value of their Social Security benefit. They can let their Social Security benefit grow and take their maximum benefit at age 70. All along their family has death benefit protection and later, a possible legacy.

Using life insurance, Chris and Linda are able to retire when they want, and still delay Social Security benefits in order to get the maximum amount available to them.

Cash Value Life Insurance Can Fill the Social Security Gap[4]



4 Calculation: Benefit of $32,000 per year; 85% taxed at 40% income tax rate ($27,200 x 40% = $10,880 tax); $32,000 - $10,880 = $21,120 after tax amount of projected benefit at FRA.

THE STRATEGY

- It is projected that Chris will be eligible for a Social Security benefit of $32,000 per year at his full retirement age of 67 and eligible for a $40,000 annual benefit if he delays until age 70.
- Chris and Linda need to purchase a $500,000 life insurance policy to protect their family if something happened to Chris. A cash value life insurance policy, on Chris' life, meets both personal protection needs and helps to fund a "supplemental income stream" at Chris' age of 62.
- They will pay policy premiums for 16 years, from Chris' age 45 through his age 62. (Annual premium of $8,750 for 16 years)
- At age 62 and until he reaches 69, Chris will plan to take $21,120 in funds from the life insurance values, an amount equal to the "after tax" amount he could receive from Social Security at age 67, "normal retirement age" in a 40% Tax Bracket.
- At age 70 Chris can trigger his delayed Social Security benefit of $40,000.
- Chris and Linda can leave a legacy to their two children with the remaining policy death benefit.
- Along the way, Chris can always change his mind and work longer, and they will still have cash value in their policy to enhance their retirement beyond age 70.

WHY IT WORKS

- Life insurance is not always just about estate planning and taxes. It can be an effective tool to help provide supplemental retirement income in addition to leaving a legacy to beneficiaries.
- Chris will be able to defer taking his Social Security benefit to become eligible to receive a higher benefit amount at age 70. By taking his full retirement age Social Security benefit equivalent from the life insurance policy at his early retirement age of 62, life insurance helps "bridge the gap" between an early retirement and an increased Social Security benefit.
- All along, Chris retains the choice to change his retirement date and still have cash value life insurance protection.

Joint Age	After-Tax Social Security Equivalent from Policy	Cash Value[3]	Life Insurance Benefit	Delayed Social Security Benefit at Age 70
62/62	$21,120	$186,027	$478,200	$0
65/65	$21,120	$152,034	$415,520	$0
69/69	$21,120	$92,235	$330,301	$0
70/70	$0	$96,584	$329,707	$40,000

3 This is a supplemental illustration authorized for distribution only when preceded or accompanied by a basic illustration from the issuer. The basic illustration contains values using the same underwriting assumptions as this supplemental at both guaranteed charges and guaranteed interest rates and contains other important information. The values represented here are for a $500,000 BrightLife® Grow policy on a 45-year-old male preferred non-smoker. The values represent the cost of 16 years of premiums. The values represented here are non-guaranteed and assume current charges and a current interest rate of 6.03%. If guaranteed rates and charges are used, the policy would fail in year 21. Your values will be different based on your gender, age and health. Work with your financial professional to create an illustration that is tailored to your specific situation.

Strategy Two – Supplementing Retirement Income

Do you have clients whose projected Social Security benefits and "traditional retirement assets" may fail to meet their retirement income needs? This approach will show how life insurance can be integrated into an overall retirement planning strategy and allow a client to coordinate their Social Security benefits, traditional retirement benefits, and personal savings with their life insurance protection.

This approach may be right for clients who:

- Are 10 or more years away from retirement
- Have projected Social Security and "traditional retirement assets" that won't meet their retirement needs
- Are looking for retirement planning solutions
- Are healthy and have a life insurance need
- Would like to leave a financial legacy.

Retirement protection is often a central goal for most clients. They have worked for many years and want to feel confident that they have accumulated enough wealth to maintain their standard of living in their non-working years. How much is enough? People are living longer than in previous generations. It used to be that 70% of your salary at retirement was a good rule of thumb to gauge how much people should save. But for many this number is no longer a valid indicator. In the early years of retirement, your clients might lead a much more active life with travel, visiting grandchildren, hobbies and other activities. Whereas in the later years, they might be less active, but the cost of living could have increased. Also consider that in the working years there may be a need for a source of emergency funds.

Given current health trends and an increasing dependence on personal savings, clients need to properly prepare for retirement. Consider the economic downturn. Millions of Americans either lost their jobs, their nest eggs, or both! Assets that were set aside for retirement, such as real estate or securities, were quickly reduced to a fraction of their previous value and in some cases had to be liquidated all together. Yet the need for future retirement income remains. In addition, inflation rates have been steadily rising. Would a 3% average annual inflation rate jeopardize the value of your client's current retirement portfolio?

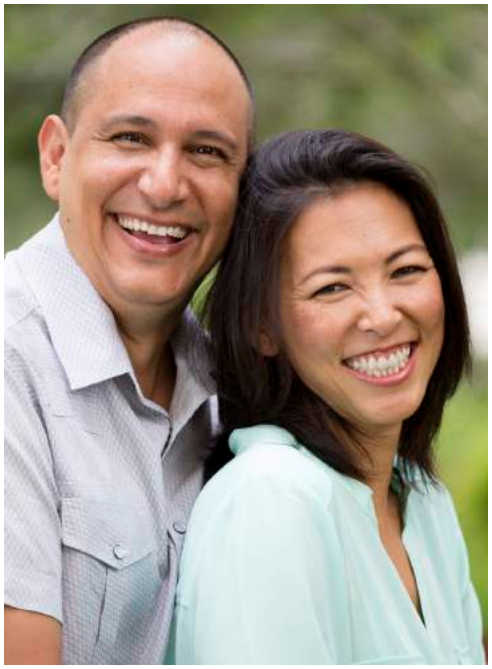
WHY LIFE INSURANCE

Life insurance cash values may help with many of these planning issues. A life insurance policy that builds cash value can accomplish two goals. First, it can provide essential life insurance coverage for the family. Second, it can be another source of supplemental income for the client and their spouse in retirement. Like a 401(k), life insurance can build value, tax-deferred. What's more, when you're ready to access this cash, you can do it potentially tax-free.

Under current federal tax rules, clients generally may take federal income tax-free withdrawals up to their basis (total premiums paid) in the policy or loans from a life insurance policy that is not a Modified Endowment Contract (MEC). Certain exceptions may apply for partial withdrawals during the policy's first 15 years. If the policy is a MEC, all distributions (withdrawals or loans) are taxed as ordinary income to the extent of gain in the policy, and may also be subject to an additional 10% premature distribution penalty prior to age 59½, unless certain exceptions are applicable. Loans and partial withdrawals will decrease the death benefit and cash value of their life insurance policy and may be subject to policy limitations and income tax. In addition, loans and partial withdrawals may cause certain policy benefits or riders to become unavailable and may increase the chance the policy may lapse. If the policy lapses, is surrendered or becomes a MEC, the loan balance at such time would generally be viewed as distributed and taxable under the general rules for distribution of policy cash values.

Case situation

Gary and Darlene's Challenge

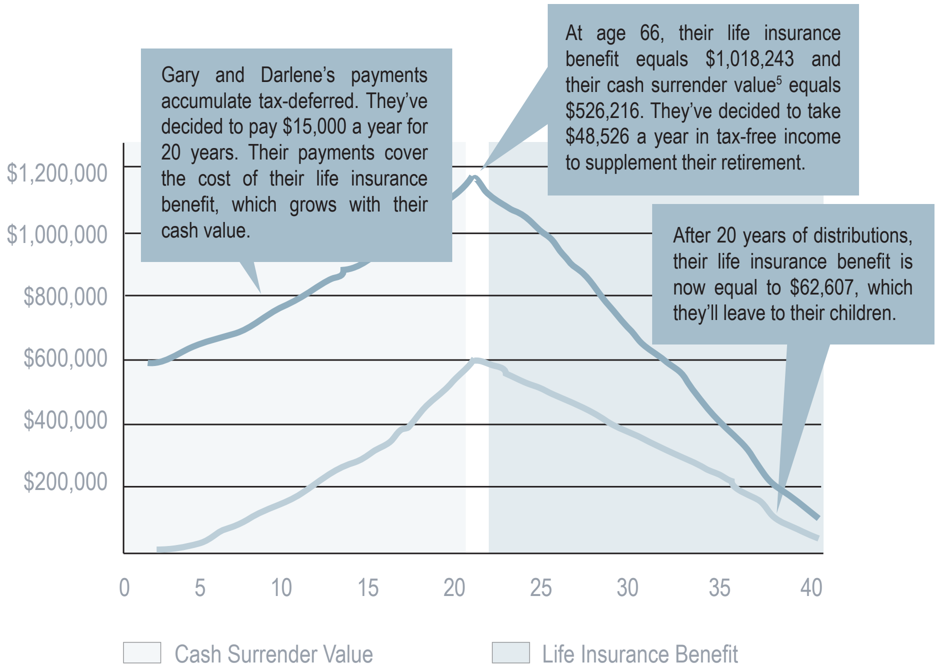


THE SITUATION

Gary and Darlene are married and both age 45. They have two high-school-aged daughters who are looking at colleges. Although they have been contributing to their employers' 401(k) plans, their financial professional has made them aware of the limitations on funding these plans. They also know that Social Security provides only a limited supplemental benefit. So, they are looking for other ways to save in a way that is tax-efficient.

THE STRATEGY

- Their financial professional has suggested that Gary and Darlene consider a Survivorship IUL policy.
- If they were both to die, the policy would provide an immediate source of cash for the girls' current and future financial needs.
- While they're alive, the policy cash value could continue to grow over time to create a source of supplemental income for their retirement years.
- Assuming they pay policy premiums of $15,000 a year for 20 years, at a 6% gross rate of return (which is not a guaranteed rate), their life insurance policy could provide approximately $48,000 for 20 years, beginning when they're age 66. (In a 35% income tax bracket, $48,000 after-tax would equate to approximately $73,000 of before-tax income.)



WHY IT WORKS

- Cash value life insurance, single life or survivorship life insurance policies, can provide a cost-efficient means to accumulate assets.
- During the time prior to their retirement years, there is a life insurance benefit of $1,000,000 to provide financial protection for their daughters.
- When they need retirement income, the policy cash values can be accessed via loans or withdrawals, as a source of supplemental income.

5 This is a supplemental illustration authorized for distribution only when preceded or accompanied by a basic illustration from the issuer. The basic illustration contains values using the same underwriting assumptions as this supplemental at both guaranteed charges and guaranteed interest rates and contains other important information. The values represented here are for a $528,157 BrightLife® Grow SIUL policy on a 45-year-old male preferred non-smoker and 45-year-old female preferred non-smoker. The values represent the cost of 20 years of premiums. The values represented here are non-guaranteed and assume current charges and a current interest rate of 6%. If guaranteed rates and charges are used, the policy would fail in year 21. Your values will be different based on your gender, age and health. Work with your financial professional to create an illustration that is tailored to your specific situation.

Section 3: Wealth Transfer-Legacy Planning with Social Security Max

Do you have clients with substantial wealth who will not need or rely on Social Security for their own financial needs? They may be able to use life insurance to leverage this personal benefit amount and enhance the legacy they leave for their children, grandchildren, or favorite charities.

This approach may be right for clients who are:

- Healthy and have a life insurance need or capacity for life insurance purchases
- Age 62 or older
- Qualified to receive Social Security, but do not need Social Security for retirement income
- Would like to enhance or create a financial legacy

Most clients will use their Social Security benefits to support their retirement income needs. However, some clients may have been fortunate enough to amass a comfortable retirement nest egg. Perhaps they've not even considered their Social Security benefits as a source of income when they are retired. If these benefits are "excess," the after tax funds will merely be added to the client's portfolio. As a result they may be subject to taxes on investment growth and, possibly increase their estate or other wealth transfer taxes. Legacy planning with life insurance can offer a more effective use of these excess benefits.

If your clients have children, grandchildren, or charities that are important to them, some or all of their Social Security benefits could instead be used towards a life insurance policy. This can be a very simple way to create a legacy for their family or charities.

Case situation

Bill and Debbie's Legacy

THE SITUATION

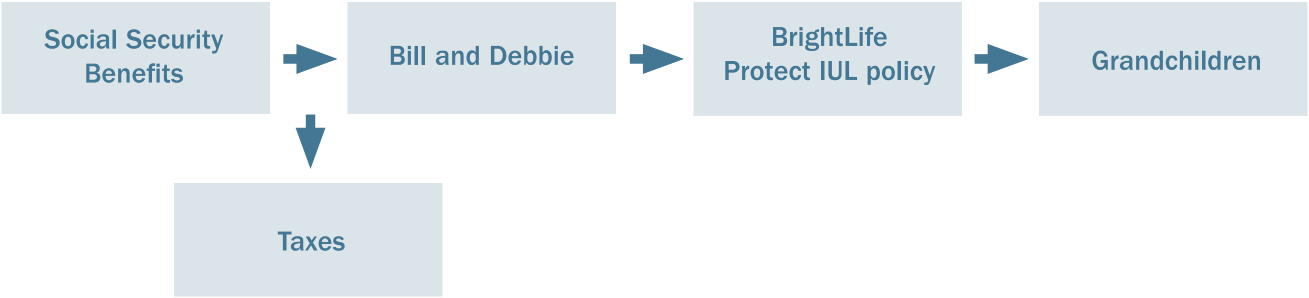
Bill and Debbie are working with their financial professional on their retirement plans. They are both turning 66 at the end of this year. During their working years, they accumulated substantial assets and both have employer provided pensions. They never even considered Social Security as a necessary source of retirement funds. They're not even sure how much they are eligible to receive.

- During their recent planning discussions with their financial professional, they uncovered that they are both eligible to receive the Social Security maximum benefit at their retirement's "normal retirement age" 66. After taxes, their financial professional estimated that together they will have a total of $64,000 in pre-tax benefits. This equates to approximately $40,000 in after-tax dollars available to them.

THE STRATEGY

- Bill and Debbie decide to use half of the after tax amount available to them from Social Security, or $20,000, as premium for a life insurance policy on their lives, to provide a benefit for their 4 grandchildren.
- They can purchase a range of policies. Depending on each client's situation one approach may be better than the others.
  - A survivorship life policy
  - A single life policy on either Bill or Debbie
  - Two single life policies, one on Debbie's life and one on Bill's life

  They elected to purchase an indexed universal life policy on Debbie's life.



- They can own the policy outright, or it can also be owned by a trust, their children, or a charity. At Debbie's death the policy can complete their family legacy or may be maintained until Bill's death if he is still alive.

A COMPARISON

Here is comparison of their legacy that shows the advantage of placing $20,000 in a life insurance policy insuring Debbie's life.

Approach	Annual Contribution	Over 20 ** years
Gift	$20,000	$400,000
Invest*	$20,000	$554,764
Insure[6]	$20,000	$1,000,000

* Projected return is 5% before tax, 3.02% after tax.
** Assume Social Security amounts contributed to life insurance in all years

WHY IT WORKS

- **Bill and Debbie did not need their Social Security benefit for living expenses**
- **They only used a portion of the funds from Social Security for life insurance**
- **They can still make annual gifts to family members or charities with the remaining benefit**
- **They are able to leverage their legacy with use of a life insurance policy**

OTHER CONSIDERATIONS

Please remember Cash Value life insurance does have many other considerations clients should review carefully before selecting a life insurance policy. Please keep these important point in mind:

- Clients must keep paying the required premiums for the entire premium payment period, missing or skipping premiums will negatively impact the amount of loans and withdrawals available. A life insurance policy like Bright Life Grow and Protect generally takes years to build up a substantial cash value, to be effective the policy should be held until death.
- This idea is based on a hypothetical scenario based on certain rates and charges in the policy. The rates and charges are not guaranteed and thus the actual results your client will receive will be different.
- Clients must qualify both medically and financially for the life insurance.
- How much life insurance your client can purchase and the price they pay will depend on the medical and financial underwriting.
- Generally, there are many additional charges associated with a BrightLife Grow or protect policy including but not limited to a front end load, monthly administrative charge, monthly segment charge, cost of insurance charge, additional benefit rider costs and a 15 year surrender charge.

6 This is a supplemental illustration authorized for distribution only when preceded or accompanied by a basic illustration from the issuer. The basic illustration contains values using the same underwriting assumptions as this supplemental at both guaranteed charges and guaranteed interest rates and contains other important information. The values represented here are for a $1,000,000 BrightLife® Protect Survivorship policy on a 66-year-old male and female preferred non-smoker. The values represented here are non-guaranteed and assume current charges and a current interest rate of 5.53%. If guaranteed rates and charges are used, the policy would fail in year 16. Your values will be different based on your gender, age and health. Work with your financial professional to create an illustration that is tailored to your specific situation.

Closing Comments

Social Security is an important consideration for most of your clients as they plan for their ultimate retirement goals. However, its impact will vary widely for each client. Additionally, not all US citizens are eligible to participate in the Social Security system.

Most eligible participants do not realize the scope of their own Social Security benefits. They are not aware that the maximum Social Security benefit in 2016 available at "full retirement" age is only $2,787 per month or $33,453. The majority of eligible Social Security recipients receive less than half that amount. Although important, Social Security, along with qualified pensions, will only address a portion of retirement needs for many of your clients. Personal assets, to include life insurance, will be needed to address any shortfall.

Opening up a discussion with clients on retirement needs and Social Security long before their retirement years makes good sense. Life insurance, either single life or survivorship life, can be an invaluable planning tool for you to consider. Also, take time to review AXA's 1040 Overlay program. It can provide another method of opening up the planning discussion.

Appendix: Social Security Planning with Life Insurance Sales Guide

As mentioned within this document, recent surveys indicate that many Americans have little idea of what they may be entitled to receive from Social Security. Those clients will have no idea of the significance that Social Security may play in their retirement and estate plans or the gap that might exist. If they wait until it is too late, they will be unable to effectively address their ultimate retirement needs.

What follows is a "primer" of the major points to consider when addressing the impact of Social Security with your clients.

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Qualifying for Social Security Benefits?

Not all workers qualify to receive Social Security benefits. Those who have been employed by the Federal Government or State Governments may be covered by other retirement funding arrangements. This group generally includes teachers in the public school systems. As a general rule, American citizens and resident aliens who have contributed into the US Social security system during their working years can qualify for Social Security benefits. Workers who have "40 quarters" (10 years) of participating years can qualify for some benefit amount on their own. Spouses and divorced spouses may also be eligible for benefits through their spouse or former spouses. Identifying your clients' occupation, work history, employer and marital history can be helpful in assessing their Social Security profile and eligibility for benefits.

Understanding the Basics

During working years, both covered workers and their employers contribute to Social Security on a covered worker's behalf. Currently 6.2% of earned income, up to the annual "Social Security Contribution Base", is withdrawn from each paycheck along with state and Federal income taxes. Employers and covered workers contribute a like dollar amount on behalf of the employee. Self-employed persons contribute to both the employer and employee portions, 12.4%.

If you work for someone else	Social Security Tax
You pay	6.2%
Your employer pays	6.2%
If you are self-employed	
You pay	12.4%

Compensation subject to the Social Security withholding referred to as the "Social Security Contribution Base" is capped each year. For both 2015 and 2016, the compensation maximum was capped at $118,500.

Once a covered worker is credited with 40 quarters of contributions (essentially 10 years), eligibility for benefits is sealed. However, the ultimate benefit amount is based on an assimilation of 35 years of compensation. If a covered worker has contribution credits for 403 quarters or more, but less than 35 total covered years, values for the missing years will be filled in with zeros for the final benefit calculations.

Understanding the Process

In working with Social Security, there are certain basic terms that someone needs to know in accessing and understanding Social Security retirement benefit amounts.

– Full Retirement Age:

Full or normal retirement age (FRA) refers to the age at which the participant will be eligible to receive 100% of their Social Security benefit. The FRA varies based on the date of birth of the participant. As example, for a covered worker born between 1943 and 1954, age 66 is the FRA. If a covered worker was born after 1960, their FRA is age 67. For birth years between 1955 to 1960, the age at which full retirement benefits are payable increases gradually to age 67. The following chart provides full retirement for given ages and demonstrates the phase for those gap years. As you can see, a covered worker becoming age 66 this year is entitled to receive 100% of their "primary insurance amount."

Year of birth	Full retirement age
1943-1954	66
1955	66 and 2 months
1956	66 and 4 months
1957	66 and 6 months
1958	66 and 8 months
1959	66 and 10 months
1960 or later	67

– Primary Insurance Amount (PIA):

The "primary insurance amount" (PIA) is the benefit a covered worker would receive if they elect to begin receiving retirement benefits at their "full retirement age", FRA. If benefits begin at the full retirement age, the benefit amount is neither reduced for early retirement nor increased for delayed retirement. A special calculation formula is applied to the income levels that a covered worker was taxed on during their working years. The formula indexes the income amounts for inflation to arrive at the PIA. In 2015, as well as 2016, the maximum PIA amount is $2,639 per month or $31,668 per year.

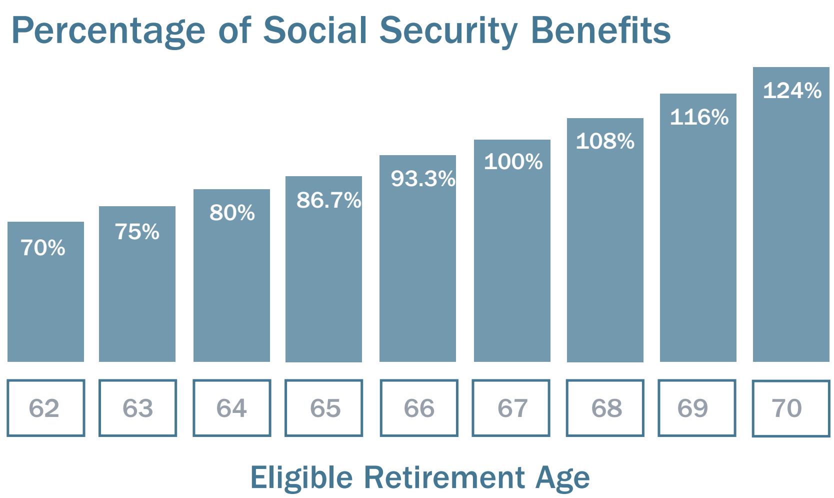
– Early Entry:

If a covered worker applies for Social Security benefits before their Full Retirement Age (FRA), their benefit will be less than 100% of the amount available at their FRA. A covered employee's benefit is reduced by about one-half of one percent for each month they start to receive their Social Security benefit before their FRA. For example, if a covered employee's full retirement age is 66, and they sign up for Social Security when they are 62, they would only get 75 percent of their primary insurance amount.

Additionally, it is important to note that if a covered employee starts receiving benefits prior to their FRA and they continue to work, not only are their benefits reduced for early entry into the system, their benefit may also be reduced $1 for each $2 dollars earned until they reach their FRA, if their earned income exceeds an earnings threshold. In 2015 and 2016 that earnings threshold is $15,720.

– Deferred Entry:

In contrast to early entry, if a covered employee defers receipt of their benefit to a year after FRA, up to age 70, their benefit will be increased by 8% of their PIA at their FRA for each year deferred. How much it will differ depends on the number of gap years. As an example, if normal retirement age is 67, applying for a benefit at age 62 results in a reduction of benefit amount by 30%. In contrast, delaying receipt of a benefit until age 70 will increase the benefit to 124% of the primary insurance amount.



Spousal Benefits

Retirement planning for married couples generally involves assets, incomes and the benefits for both spouses. Special Social Security provisions exist for spouses of a covered worker. If a spouse becomes eligible, they are entitled to apply for Social Security benefits based on their own earnings record or if greater, they can elect a spousal benefit calculated based on their spouse's earning record. The spousal benefit is 50% of the other spouse's retirement benefit while they are alive. At death of a spouse, the survivor will be entitled to receive the deceased's full benefit if greater than their own.

There were two Social Security planning techniques that had been available to married couples until the passage of The Bipartisan Budget Act of 2015 in November 2015. These were referred to as "file and suspend" and "restricted application."

Under "file and suspend", if an eligible participant reached full retirement age, but were not yet age 70, they could file for Social Security retirement benefits but suspend their retirement benefit payments. If their spouse were 62, that spouse could file for the spousal benefit while the primary insured's benefit continued to increase until age 70.

With a "restricted application," a spouse who reached their full retirement age and was eligible for a retirement benefit in their own right, could file for Social Security benefits restricted to their spousal benefit only. This allowed their own benefit to continue to grow until age 70 while they received the spousal benefit.

Although these techniques may have a limited application, you should check and see if your clients meet the grandfathering requirements.

Grandfathering opportunities include:

- Those already implementing either of these strategies, there is no change; they are grandfathered.
- Eligible participants who have or will reach their full retirement age by April 29, 2016 must request benefit suspension by April 29, 2016 if they wish to use file-and-suspend so a spouse who has or will reach age 62 by that date can claim spousal benefits.
- Eligible participants who were at least age 62 in 2015, will remain eligible for restricted application, but not file-and-suspend.
- Eligible participants who were not at least age 62 in 2015, will be unable to use either strategy.

Divorced spouses

Divorced spouses may also have rights to a "spousal benefit" through any of their former spouses, where the divorced spouse:

- Had been married for 10 years
- Is unmarried at the time of filing for benefits,
- Is age 62 or older,
- Has divorced for two years or more from the eligible participant,
- Has an ex-spouse who is entitled to Social Security retirement benefits, and
- The benefit they are entitled to receive based on their own earnings record is less than the benefit they would receive based on their ex-spouse's benefit base referred to as the Primary Insurance Amount (PIA).

Where you are working with divorced clients who fit the profile listed above, these rules can be important to you as part of the overall retirement plan.

Earned income & its effect on early social security benefits

Earned income will not have a direct impact on the SS benefit amount of an eligible recipient that continues to work after their Full Retirement Age (FRA). However, if someone has earned income and elects to begin their Social Security retirement benefit prior to their FRA, their benefits may be subject to an additional reduction until they do reach their FRA.

As an example, for someone born between January 2, 1943, through January 1, 1955, their FRA for Social Security retirement benefits is age 66. Someone who reaches normal retirement age or is older, may collect 100% of their Social Security benefit amount, no matter how much they earn. However, for those triggering a benefit prior to normal retirement age and have not yet reached their FRA, there is a limit to how much they can earn and still currently receive full Social Security benefits. During 2016, those who:

- are receiving Social Security retirement benefits, and
- have not yet reached their FRA, and
- have earned income in excess of $15,720.

Their annual benefit will be reduced $1 for each $2 they earn above the $15,720 threshold (2016). If they reach FRA during 2016, the reduction changes to a $1 reduction for every $3 earned in excess of $41,880 [or $3,490 per month]. The year following their FRA the reduction no longer applies at all.

Income Taxation of Social Security Benefits

Some recipients of Social Security retirement benefits will have to pay Federal income taxes on their Social Security benefits themselves. This will occur if they have other substantial income (such as wages, self-employment, interest, dividends and other taxable income that must be reported on your tax return) in addition to their Social Security benefits. Note: Life insurance accumulations can be accessed through withdrawals and loans and properly structured will not trigger current income taxes.

It should be noted that earned income delays the receipt of some benefit amounts. But once the participant reaches FRA, the Administration will re-calculate their benefit amounts and give them credit for the benefit amounts withheld.

If a Social Security recipient:

Files a Federal tax return as an "individual" and their "combined income" is:

- between $25,000 and $34,000, they may have to pay income tax on up to 50 percent of their benefit amount.
- more than $34,000, up to 85 percent of their benefits may be taxable.

Files a joint return, and they and their spouse have a "combined income" that is:

- between $32,000 and $44,000, they may have to pay income tax on up to 50 percent of your benefits
- more than $44,000, up to 85 percent of their benefits may be income taxable.

No one pays Federal income tax on more than 85 percent of his or her Social Security benefits based on Internal Revenue Service (IRS) rules.

Consider the following sample cases.

Social Security Planning Case Studies

Case Study #1 Benefit Timing – can be affected by a client's age, income from unrelated sources

a. Eligible Participant Profile

- Mark is 60 and reviewing his Social Security options with his financial advisor.
- He is married and currently both he and his spouse are both working.
- His "full retirement" age is 66.
- His "primary insurance amount" at NRA is projected to be $2,500 per month, $30,000 per year.

b. Timing

If he starts benefits at age 62, his benefit will be reduced below the PIA amount by 25%, to $22,500 per year. If he defers until age 70, his benefit will increase by 32% of the PIA, to $39,600 per year.

c. Taxation

Mark's Social Security benefits may be subject to income tax if they exceed the stated income thresholds.

For an eligible participant that is married filing a joint return and the couple has a combined income that is:

- Between $32,000 and $44,000 of income, they will have to pay income tax on up to 50 percent of their benefits
- More than $44,000, up to 85 percent of their benefits may be taxable.

Mark plans to continue to work after his FRA. The couple's "combined income" is expected to be $100,000 which exceeds the higher $44,000 threshold. At this income level $25,500 of Mark's $30,000 annual benefit would be subject to income tax. That is 85% of the $30,000 because of his income level. Assuming a 25% marginal income tax bracket, Mark's after tax benefit is reduced to from $30,000 to $23,625.

d. Earned Income reduction for benefits received prior to FRA

What if Mark triggers his Social Security benefits at age 62, prior to his FRA and continues to work? His PIA amount is $30,000 at age 66.

- At age 62 his benefit would be reduced to $22,500.
- Since 62 is less than his FRA, all earned income in excess of the annual threshold, will be reduced $1 for every $2 earned. The income threshold in 2015 is $15,720. In Mark's case we will assume earned income of $50,000. His Social Security benefit received at age 62 would be reduced by $17,140($50,000 - $15,720 = $34,280; $34,280/2 = $17,140) leaving him with only $5,360 for the year or $ 446 per month before tax ($22,500 - $17,400 = $5,360).

It becomes obvious that taking an early benefit while still working will not increase Mark's cash flow significantly and may not make sense.

Case Study #2 A Spouse's View

It is not uncommon to find spouses who did not work outside of the home or did not have the required 40 quarters of covered earnings.

A spouse of an eligible recipient can receive up to 50% of the primary worker's income benefit. This is in addition to the benefit received by the eligible recipient themselves.

In many cases, a spouse is fully insured under Social Security, but they are entitled to the larger of their own benefit or 50% of a spouse's benefit.

Let's look at Bob and Sally:

a. Eligible Participant Profile

Bob and Sally are the same age and they have reached their normal retirement age

- Bob's PIA is $2,200.
- Sally's benefit based on her own work and earnings history is $700.
- Sally's spousal benefit is $1,100, or 50% of Bob's, so she will be eligible to receive $1,100, the spousal benefit, instead of $700.
- So, under these facts, Bob will receive $2,200 each month and Sally an additional $1,100 in Social Security Benefits. In addition, if Bob were to die, Sally would receive Bob's higher benefit amount of $2,200.

b. Where a Spouse's Own Benefit is larger

- Assume that Sally was actually entitled to $1,400 based on her own work history. Since $1,400 is greater than ½ of Bob's benefit of $1,100 she can be qualified to receive the $1,400 monthly benefit. In addition, if Bob were to die prior to Sally, she would still be eligible to receive Bob's higher benefit amount of $2,200 instead of her own benefit of $1,400.

Case Study #3 Divorcee's View

Divorced spouses may also have rights to a "spousal benefit" through any of their former spouses. Mary is 66 and has reached her "full retirement age." She has been married twice. Her second husband Jim died last year. She was married to her first husband Bill for 12 years.

- Mary's PIA would be $1100.
- Jim's PIA would be $1,200.
- Bill is 66 but has not filed for Social Security. His PIA amount would be $2,663.

Mary meets the criteria for a divorced spouse to benefit from their ex-spouse's Social Security account:

- She was married for more than 10 years to Bill
- Divorced from Bill more than 2 years ago
- She is currently unmarried
- Age 62 or older
- Her ex-spouse, Bill, is entitled to Social Security retirement and
- The benefit she is entitled to receive based on her own work is less than the benefit they would receive based on their ex-spouse's PIA.

Mary's Social Security benefit will either be $1,100, her PIA survivor benefit of $1,200 based on Jim's account or $1,331, the spousal benefit as an ex-spouse on Bill's account. She needs some guidance from her financial advisor on how to proceed in gathering the facts and applying for her Social Security benefit.

How to get started?

Hopefully these brief facts and case examples were helpful to getting your thinking on track for your clients. The Social Security Administration website offers substantial general benefit information, as well as personal planning tools to access an individual's own benefit profile and benefit projections. See: http://www.ssa.gov/myaccount/materials.html#&a0=

To understand the Social Security benefits procedure start with a review of your client's projected Social Security retirement benefits.

Why AXA?

Life insurance is about peace of mind, security and providing for the people you care about. But we at AXA believe it's larger than that — it's about possibilities. Finding the right life insurance can mean finding financial protection as well as financial opportunities to help you reach your goals.

Your goals are as individual as you are. That's why we're committed to understanding your needs and concerns — so we can help you find strategies that are just the right for you. And we're here to help you take the small, manageable steps that lead to financial security for you and your family.

Experience and innovation

AXA has a long history of engineering innovative financial strategies. We have been providing stability and reliability to our clients since 1859 to help them live their lives with confidence, and enable them to realize dreams for their loved ones and their legacy.

AXA Equitable and MLOA are members of the global AXA Group, one of the world's largest insurance and wealth management organizations with assets under management totaled $584.9 billion.

The secret to AXA's heritage of innovative strategies and dedicated client service is our talented community of employees who reflect the diversity of the world we live in. As our greatest asset, these employees are committed to understanding clients' needs, building advanced solutions and supporting those needs with personalized next steps.

Financial strength

You want the confidence that the insurance company you choose has the financial strength to fulfill its obligation to you now and in the future. AXA Equitable Life Insurance Company (AXA Equitable) and MONY Life Insurance Company of America (MLOA), premiere providers of life insurance products, have been helping individuals reach their most important goals.

The guarantees provided in our life insurance and annuity contracts are based on the claims paying ability of the issuing insurance company either AXA Equitable Life Insurance Company or MONY Life Insurance Company of America, an Arizona Stock Corporation with its main administration office in New York, NY. AXA Equitable has consistently earned high marks by independent companies that rate insurance companies for their financial strength.

IU-112489 (3/16) (Exp. 3/18)
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John Hancock
LIFE INSURANCE

Sales Strategy

Municipal Bond Maximization

WEALTH TRANSFER WITH MUNICIPAL BOND MAXIMIZATION

THE CONCERN: LOW RETURNS AND HIGH TAXES

Due to estate tax uncertainty and the volatility of the stock market, many clients are reluctant to continue making cash gifts to family members annually, or to continue with other planning techniques already established. Nonetheless, it is critical that the client not abandon current planning or ignore opportunities for planning now since transfers to the next generation may still be significantly reduced by taxes. In addition, it will be important to consider the different ways to reposition existing assets to increase income and make them more tax-efficient for wealth transfer purposes. For instance, the clients may like the tax-free income provided by their municipal bonds, intending to transfer the bonds at death to heirs. However, tax-free municipal bonds do not generally provide the opportunity for high returns. Moreover, the value of the bonds can be depleted considerably by estate taxes even if the estate tax is reformed. Strategies that include repositioning an inefficient asset to maintain or increase current income, as well as preserve wealth for future generations, should be seriously considered.

THE SOLUTION: MUNICIPAL BOND MAXIMIZATION

Municipal Bond Maximization is a planning technique in which the bonds are converted to, or exchanged for, a Single Premium Immediate Annuity (SPIA).[1] A SPIA provides an income stream for a chosen number of years based on a single deposit made to purchase the annuity, and the client's age and health status. This approach assumes the use of a life-only no-refund SPIA in which an income stream is guaranteed to be paid to the client for life (or for the joint lifetime of client and spouse, if applicable). If an alternative annuity option is chosen when the SPIA is issued, there may be income and/or estate taxes that apply. For clients who need supplemental retirement income, a SPIA may provide a higher net income than the bonds.

The client can then make gifts of a portion of the after-tax income generated from the SPIA to an Irrevocable Life Insurance Trust (ILIT).[2] The ILIT then has the funds to purchase a life insurance policy on the client's life for an amount that replaces or exceeds the value of the municipal bonds. Since the life insurance is owned by an ILIT, the proceeds will not be part of the taxable estate, providing that the trust is properly drafted. Potentially more can be transferred to heirs, estate tax-free, when a SPIA and life insurance policy work together using a Municipal Bond Maximization approach. *See following chart.*

THE PROBLEM	THE SOLUTION	THE RESULT
Low-yielding municipal bonds are subject to estate tax.	• Convert municipal bonds to SPIA. • Leverage SPIA income with life insurance.	Increase the amount transferred to heirs.

WEALTH MAXIMIZATION AND MUNICIPAL BONDS

In three simple steps, the client can maximize his or her municipal bonds and increase the amount transferred to the heirs. Here are the steps:

1) **Liquidate municipal bonds and purchase an immediate annuity with a life-only option.** If the client purchases an immediate annuity with a life-only option, none of the value of the annuity will be included in the taxable estate at death. The SPIA can provide an income stream, a portion of which can be used to make gifts.

2) **Use distributions from the immediate annuity for annual exclusion gifts to the trust.** Clients can use the after-tax income to make annual exclusion gifts to an ILIT for children and other beneficiaries. Currently, annual exclusion gifts of $13,000 per recipient can be made without gift tax consequences.[3] In addition, each person has a $1,000,000 lifetime exemption from gift tax.

3) **Trustee of the ILIT uses the annual exclusion gifts to purchase life insurance.** The ILIT will purchase a single-life or survivorship life insurance policy, and the client's heirs will be the trust beneficiaries. The trust should receive the proceeds of the life insurance policy free of estate and income taxes.

ADVANTAGES OF MUNICIPAL BOND MAXIMIZATION

- Municipal bonds may be sold with minimal income tax cost.
- SPIA income can replace the bond income without estate taxes.
- A SPIA can typically provide a higher return than municipal bonds.
- Life insurance inside an ILIT is generally free of income and estate taxes.[4]
- The ILIT proceeds can be used to maximize inheritances and transfer wealth to the next generation.

DISADVANTAGES OF MUNICIPAL BOND MAXIMIZATION

- Municipal bonds may have a lower investment risk than life insurance.
- Life insurance may have fees associated with it such as the cost of insurance.
- Unlike municipal bonds, SPIA income is subject to income tax.
- The exchange may be taxable and/or result in additional charges and/or risks.

CONCLUSION

For clients who have large municipal bond holdings that they intend to transfer to the next generation, and who do not want to give up the income stream the bonds provide, municipal bond maximization may be an effective planning strategy. By implementing a municipal bond maximization strategy, clients can maintain or increase income, and leverage a portion of the income with life insurance, outside the taxable estate. Clients may "live better while leaving more" to heirs by using this strategy.

CASE STUDY: JAMES AND ELLEN WEINGART

Facts: James (74) and Ellen (71) Weingart are both Preferred Non Smoker risks. They have an estate valued at $5,000,000, including $1,000,000 in municipal bonds. They have two children and want to maximize the inheritance that each child receives. Currently, the Weingarts receive $32,000 a year in municipal bond income.

Problem: James and Ellen want to implement a plan that will maximize their children's inheritance and reduce potential estate taxes. Most of their assets are tied up in real estate and other investments and they are reluctant to liquidate those assets. In addition, they want to retain the $32,000 a year in municipal bond income (after tax).

Solution: Municipal Bond Maximization

HERE'S HOW IT WORKS

James and Ellen convert their municipal bonds to a Single Premium Immediate Annuity (SPIA). This will provide them with an annual after-tax income stream of $63,188 for life. They will make a gift of $26,136 to an ILIT using available annual exclusion gifts. The trustee of the ILIT will use the gifts to purchase a John Hancock Protection SUL policy with a death benefit of $1,500,000 and an annual premium of $26,136.[5]

	RETAIN MUNICIPAL BONDS	MUNICIPAL BOND MAXIMIZATION
NET ANNUAL INCOME	$32,000	$63,188
PREMIUM	$0	$26,136
NET SPENDABLE INCOME	$32,000	$37,052
ESTATE TAX	$450,000	$0
NET TO HEIRS AT YEAR 22	$550,000	$1,500,000

This is a supplemental illustration authorized for distribution only when preceded or accompanied by a basic illustration from the issuer. Benefits and values may not be guaranteed; the assumptions on which they are based are subject to change by the insurer. Actual results may be more or less favorable. Refer to the basic illustration for guaranteed elements and other important information. For non insurance figures, the data shown is taken from a hypothetical calculation. It assumes a hypothetical rate of return and may not be used to project or predict investment results. The estate tax calculation is based on current law.[6]

Conclusion: By implementing a municipal bond maximization strategy, James and Ellen are able to increase their spendable income by $5,052 annually and increase the inheritance for their children.

For more information on Municipal Bond Maximization, please contact your John Hancock Representative or call the Advanced Markets Group at 888-266-7498, option 3.

This material does not constitute tax, legal or accounting advice and neither John Hancock nor any of its agents, employees or registered representatives are in the business of offering such advice. It was not intended or written for use and cannot be used by any taxpayer for the purpose of avoiding any IRS penalty. It was written to support the marketing of the transactions or topics it addresses. Comments on taxation are based on John Hancock's understanding of current tax law, which is subject to change.

1. A SPIA is a Single Premium Immediate Annuity that provides an income stream for a chosen number of years based on a single deposit made to purchase the annuity. The annuity income stream is calculated on a Life-Only No-Refund basis so that the income will last for the client's lifetime, or the joint lifetime of the client and spouse, if applicable, and no balance will be payable to the taxable estate at death. The SPIA guarantee is based on the claims paying ability of the insurer issuing the SPIA and John Hancock does not issue such contracts.
2. Trusts must be drafted by an attorney familiar with such matters in order to take income and estate tax laws, including generation-skipping transfer tax, into consideration. Failure to do so could result in adverse tax treatment of trust assets.
3. The annual exclusion is currently $13,000 and will be adjusted annually for inflation. Creating and funding an ILIT is a sophisticated estate planning technique and your legal and estate planning advisor should be consulted prior to making any estate, tax, or investment decisions.
4. Life insurance death benefit proceeds are generally excludable from the beneficiary's gross income for income tax purposes. There are a few exceptions such as when a life insurance policy has been transferred for valuable consideration.
5. This example assumes that the estate is growing at 5% after tax annually and that the sale of the municipal bonds does not result in income tax.
6. Under the current law, which is based on the "Unemployment Insurance Reauthorization and Job Creation Act of 2010," the maximum estate tax rate is 35% with a $5,000,000 exemption for each individual. For 2012, this $5,000,000 will be indexed for inflation, taking into account inflation that occurred from January 1, 2010, through December 31, 2011. The $5,000,000 exemption amount can be used either during lifetime, as a gift tax exemption amount, or at death as an estate tax exemption. In addition, each individual has a $5,000,000 exemption to the generation-skipping transfer (GST) tax; this $5,000,000 can be used during life or at death. If an individual passes away with an unused amount of exemption remaining, that individual's surviving spouse can use the unused amount to shelter a transfer from either gift or estate taxes. Effective January 1, 2013, the exemption amount for each of the gift, estate and GST taxes will drop to $1M and the top tax rate for each will be 55%.

Guaranteed product features are dependent upon minimum premium requirements and the claims-paying ability of the issuer.

Insurance policies and/or associated riders and features may not be available in all states. Some riders may have additional fees and expenses associated with them.

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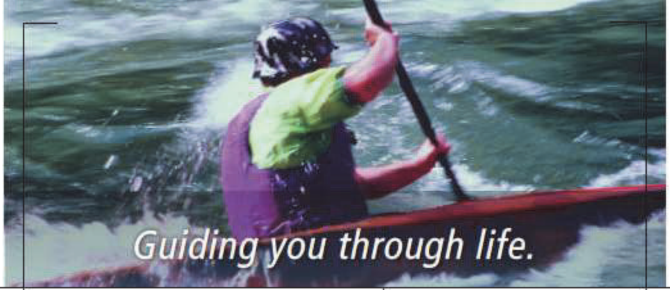
John Hancock INSURANCE



SALES STRATEGY

WEALTH TRANSFER | Advanced Markets

Annuity Maximization

Maximizing the Value of an Annuity By Using Life Insurance

The Concerns

Clients who have purchased a deferred annuity may find that they no longer need the annuity for retirement income purposes. Often, these clients intend to "leave it for the kids." Although a deferred annuity is a great vehicle to accumulate funds for retirement, it is not an efficient vehicle to transfer wealth since it may be taxed twice at death. How can your client protect the value of the annuity for heirs? By reducing or replacing the annuity with more tax-efficient vehicles.

Depending on ownership structure, a deferred annuity may be subject to both ordinary income and estate taxes at death (the gain on an annuity is subject to ordinary income tax and the annuity is part of a client's taxable estate). This could potentially erode the annuity up to 70%. The result is that your client's heirs will receive a fraction of the intended amount. To solve this problem, clients can reposition, or maximize, the deferred annuity.

The Solution

Annuity Maximization is simply an asset repositioning strategy.

The first step is to utilize the annuity to fund the life insurance. The client has two choices. They can:

1. **Convert the annuity to a Single Premium Immediate Annuity (SPIA).** A SPIA provides an income stream for a number of years based on a single deposit as well as the client's age and health status. Choosing this method can provide a consistent, predictable stream of income to fund a life insurance policy. Since the income stream is based on a life-only annuity, your client will not outlive the income. A portion of each payout is excluded from income tax until this equals cost basis in the annuity. Your client may make gifts of the after-tax income generated from the SPIA to an Irrevocable Life Insurance Trust (ILIT) if estate taxes are a concern.[1]
2. **Take withdrawals.** Clients who are unwilling to give up their annuity may instead take withdrawals from it to fund a life insurance policy. This way, the client can still maintain control of the asset and taxes can still be minimized since the value of the annuity in the estate will be reduced by the withdrawals. However, depending on the specific annuity contract, withdrawals may be subject to surrender charges or penalty taxes if taken prior to age 59½.

Determining which method is best depends entirely on your client's preference. The risks, benefits, and cost of conversion or withdrawals from an annuity should be considered before making a decision.

Either way, potentially more can be transferred to heirs estate and income tax-free when an Annuity Maximization approach is used.[2]

THE PROBLEM	THE SOLUTION	THE RESULT
Annuities are taxed at death; up to 70% of the annuity may be taxed.	❙ Convert deferred annuity to SPIA, or take annuity withdrawals. ❙ Leverage distributions of SPIA to fund life insurance.	Increase the amount transferred to heirs, as life insurance is a more tax-efficient vehicle.

Considerations (if estate taxes are a concern)

Your client may make gifts of the after-tax income generated from the annuity to an Irrevocable Life Insurance Trust (ILIT). The ILIT then has the funds to purchase a life insurance policy on your client's life for an amount that replaces (or exceeds) the value of the deferred annuity to benefit heirs.

Annual Exclusion Gifts. An annual exclusion gift is the amount of annual gifts that each individual can make to an unlimited number of people without federal gift tax. In 2017, the amount is $14,000 per individual per year, indexed annually for inflation and subject to specific qualifying rules. Making annual exclusion gifts of the SPIA income, or the distributions from the deferred annuity, can be a tax-efficient way to leverage and transfer wealth.

Lifetime Exemption Gifts. In addition to the annual exclusion gifts, each individual has a lifetime exemption amount (also referred to as applicable gift tax exclusion) to use during lifetime before gift taxes apply ($5.49M in 2017).

CASE STUDY: SAM AND MAGGIE MALONE

CLIENTS: **Sam and Maggie Malone**

STATUS: Ages 65 and 62, Preferred Non Smokers, 30% Tax Bracket. They own a deferred annuity of $750,000 growing at 5% annually (cost basis of $400,000). The Malones take annual withdrawals of $21,600 after taxes.

PRODUCT: They purchase a Current Assumption Survivorship Universal Life policy, which buys approximately $2.2M of death benefit using a $21,600 premium.

COMPARISON OF VALUES IN YEAR 30

		CURRENT STRATEGY	PROPOSED STRATEGY
Annuity Today		$750,000	$750,000
Annuity Cost Basis		$400,000	$400,000
Total Premiums Paid by Year 30			$648,000
Annuity in Year 30		$3,241,457	$1,088,848
Income in Respect of a Decedent Taxes	–	$852,437	$206,654
Death Benefit in Year 30	+		$2,200,000
Net to Heirs in Year 30	=	$2,389,020	$3,082,194
Potential Gain Due from Planning			$693,174

The figures used in this case study are hypothetical, for discussion purposes only, are not guaranteed and may not be used to project or predict results. Actual results may be more or less favorable. Specific product and policy elements would be found in a policy illustration provided by an insurer. With any decision regarding the purchase of life insurance, a client would need to determine which type of life insurance product is most suitable for their specific needs.

SUMMARY

Using JH Solutions, show your client how repositioning a deferred annuity to fund life insurance is a great way to maximize the amount passed on to heirs. Since an annuity may be subject to both income and estate taxes at death, replacing it with a Single Premium Immediate Annuity or reducing it through withdrawals can help your client create a larger legacy for future generations.

For more information on Annuity Maximization with deferred annuities, please contact your local John Hancock Representative or call the Advanced Markets Group at 888-266-7498, option 3

1. 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 transfer tax). Failure to do so could result in adverse tax treatment of trust proceeds.
2. Life insurance death benefit proceeds are generally excludable from the beneficiary's gross income for income tax purposes. There are a few exceptions such as when a life insurance policy has been transferred for valuable consideration. No legal, tax, or accounting advice can be given by John Hancock, its agents, employees, or registered representatives. Prospective purchasers should consult their professional tax advisor for details.

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