John Hancock
LIFE INSURANCE

SUCCESS STRATEGY

NEEDS ANALYSIS | Advanced Markets

Basic Needs Analysis

Planning For Your Loved Ones

Every day you and your spouse take steps to care for and protect the ones you love. How can you make sure your family will still be protected when you are gone? Life insurance is a way to offer your loved ones a degree of protection that continues beyond your lifetime. A comprehensive Needs Analysis can help determine how much life insurance makes sense for your situation.

Planning Concerns

How do you establish the amount of money your family will need to meet basic financial requirements in the event that you (or your spouse) are no longer able to provide for them? And what if you also want to provide a legacy for your family or give to charity? Once you've established the funds your family needs, how can you ensure that those funds are available for your family and may be protected from creditors?

You invest wisely and put away money to protect your family, but even the best investments need time for ongoing contributions and earnings growth. If something were to happen to you along the way, your original plans may not come to fruition. A life insurance death benefit can help complete your financial plan by providing cash to compensate for the loss of planned contributions and earnings.

The Solution

Performing a Needs Analysis is a simple way of answering the question of how much money your family will require. A comprehensive analysis will consider salary replacement needs, estate settlement costs, outstanding debt, college funding, any unsatisfied charitable bequests, and any existing life insurance. After performing the analysis, you may find that you do not have enough cash on hand to meet your family's needs should something happen to you. Life insurance is one of the best ways to fill the gap between your current assets and your family's future needs.

How Life Insurance Fits

The original purpose served by life insurance is still the most compelling; in the event of the premature death of an income earner, life insurance will provide asset and income protection for surviving family members. Life insurance protection provides cash to the family at exactly the time they may need it, regardless of market or economic conditions. This can help a family maintain its economic position after a death.

Benefits of Life Insurance

The life insurance death benefit provides cash that can serve different purposes; it can fund your family's income needs, your survivor's retirement needs, satisfy debt obligations, or establish an education fund. Liquidity from a death benefit can help meet estate taxes and administrative expenses.

The beneficiary, typically your remaining spouse, will generally receive life insurance proceeds income tax-free.[1] In addition, the cash values of a life insurance policy grow income tax-deferred and life insurance permits income tax-free loans and withdrawals from the policy, when such transactions are properly structured.

If the policy is owned by an Irrevocable Life Insurance Trust (ILIT), the proceeds will not be included in your taxable estate with proper planning. An ILIT can be structured so that amounts not needed by your surviving spouse will be protected from estate taxes at your surviving spouse's death. An ILIT also allows you to control when, and by how much, your beneficiaries access the policy's death benefit. The ILIT can also provide the policy's death benefit and/or cash values protections from the claims of creditors, depending on your state of residence. A properly drafted ILIT can also take advantage of your gift tax exemption amounts so that you may be able to fund your ILIT without paying gift taxes.

Planning For the Future

With proper planning[2], you and your spouse can help ensure your family is taken care of and your wishes for the future are carried out. Consider the following action items in your planning process:

- **Create a Will.** Both spouses should create a Will that specifically designates the surviving spouse as the recipient of certain assets, rather than relying on the state's intestacy statute.
- **Powers of Attorney.** Both spouses should create durable powers of attorney, which give you and your spouse the ability to manage each other's assets.
- **Health Care Proxies.** Both spouses will need health care proxies that name the surviving spouse as the individual in charge of making medical decisions in the event of mental or physical incapacity or fulfilling end of life decisions.
- **Letters of Intent.** Finally, both spouses should create letters of intent that provide the survivor with instructions for managing the burial arrangements to the extent desired by the deceased spouse.
- **Meet with Your Attorney.** Tailor these action items to address the concerns specific to your family's situation.

A Needs Analysis is simply a way of determining how much money your family would need to meet the necessities of life if you or your spouse were not there to provide for them. Life insurance is one of the best ways to provide necessary liquidity for your family in the event of your untimely death.

1. Exceptions may include when a life insurance policy has been transferred for valuable consideration.
2. Please consult your estate planning attorneys familiar with such matters.

The amount of life insurance protection you qualify for will be subject to medical and financial underwriting requirements and may be more (or less) than the amount applied for.

Trusts should be drafted by an attorney familiar with such matters in order to take into account income and estate tax laws, including generation-skipping tax applicable to beneficiaries who are more than one generation removed from you. Failure to do so could result in adverse tax treatment of trust proceeds.

The purchase of life insurance has costs and risks associated with it, including the cost of insurance. Loans and withdrawals will reduce the death benefit, cash surrender value, and may cause the policy to lapse. Lapse or surrender of a policy with a loan may cause the recognition of taxable income. Policies classified as modified endowment contracts may be subject to tax when a loan or withdrawal is made. A federal tax penalty of 10% may also apply if the loan or withdrawal is taken prior to age 59½. Cash value available for loans and withdrawals may be more or less than originally invested.

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