



Guiding you through life.

CLIENT PROFILE

NEEDS ANALYSIS

Advanced Markets

Same-Sex Couples

Planning For Your Loved Ones

CLIENT PROFILE

Status:	In a same-sex relationship and has a family.
Concern:	Would like to maintain their economic position after death.

Situation

- Client faces additional challenges by being in a same-sex relationship — they may not be entitled to retirement benefits, tax benefits (as it pertains to gifting and leaving assets to each other). If there are children, there may be adoption and guardian issues.
- Client wishes to make sure their family is provided for when they are gone.

Gather the Facts

- What income does the client want to replace? How long do they want to replace that income? Do they want to adjust for inflation?
- Are both clients recognized as parent of their children? Does the non-biological parent(s) need to adopt the children?
- A stay-at-home parent may not have actual income they need to replace, but they provide child care that would need to be paid for should something happen to them. What would the cost of care equal? How long would they need to provide the care?
- Many times people buy life insurance to take care of debt. Do the clients want to cover their debts? What are their debts? Are they joint debts? And is their partner responsible for such debts?
- Does the client want to provide for college expenses for their children? What is the total cost they want to cover?
- Funerals can be expensive. How much will it cost? Have they set up letters of intent?

- Does the client have a pension? Do they want to cover this pension for their partner? Do they want to cover social security benefits?
- Does your client have a large qualified plan? Do they plan on leaving the plan to their partner? Do they understand the qualified plan may be prematurely taxed, thus depleting the account value faster?
- Does either client have an estate tax problem? Currently an estate tax is assessed based on a \$5.12M lifetime exemption for 2012. In 2013, the exemption amount is set to revert back to \$1M. Do they want to cover the potential estate tax liability?
- Does the client have a gift tax problem? Currently a gift tax is assessed for annual gifts of more than \$13k, if lifetime exemption has been used (again \$5.12M is the exemption for 2012, set to revert back to \$1M in 2013).

Solution

- If there is a gap between what the clients need and what they have, this gap can be filled with life insurance.
- If there is an estate tax problem, retirement erosion due to income taxes and/or not being entitled to retirement benefits, life insurance can fill this need.
- Clients should create an estate plan with an attorney familiar with such matters. They should discuss: ownership issues, estate tax issues, gifting issues, adoption and custodian issues, health care proxies, letters of intent, trust planning, and titling issues.

Benefits of Life Insurance

- Replace income for surviving partner and family.
- Pay off debt, such as a mortgage.
- Pay for education.
- Complete the funding of retirement for the surviving partner.
- Restore the financial loss resulting from the required early distribution and taxation of a retirement account.

- If policy is owned by an Irrevocable Life Insurance Trust (ILIT), the proceeds generally will not be included in the taxable estate.
- Life insurance benefits generally will be received income tax free. There are few exceptions such as when a life insurance policy has been transferred for valuable consideration.
- Life insurance can avoid probate, can provide privacy and may not be subject to the claims of creditors, depending on the state.
- The cash value of life insurance policy grows tax-deferred and tax-free loans and withdrawals are permitted when structured properly.

Considerations

- Life insurance amount is calculated based on projection. The amount of life insurance protection they qualify for will be subject to medical and financial underwriting.
- The existence of insurable interest, which can be defined broadly as an interest based on reasonable expectation of

pecuniary advantaged through the continued life, health or body safety of another person, is determined by state law and must be established before an insurance policy can be issued.

- Trusts should be drafted by an attorney familiar with such matters in order to take into account income and estate tax laws (including the generation-skipping tax). Failure to do so could result in adverse tax treatment of trust proceeds.
- 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. Withdrawals are available in the 2nd policy year.

SUMMARY

- 1 Identify and meet with clients.
- 2 Ask the right questions and gather the facts.
- 3 Fact Finding tool: Use the Same-Sex Fact Finder to determine the needs.
- 4 Using JH Solutions: A Same-Sex Needs Analysis can be completed. This analysis will uncover the shortfall needed. The shortfall could then be covered by purchasing a life insurance policy.

For more information, please contact your local John Hancock representative or call the Advanced Markets group at 888-266-7498 option 3.

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