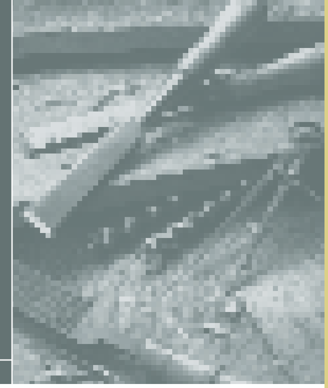
John Hancock
LIFE INSURANCE



Success Strategy
Switch Dollar

A PLANNING APPROACH WITH BUILT-IN FLEXIBILITY

You are financially successful and may be thinking about preserving your wealth for your family. Life insurance, as an estate liquidity tool, can play an important role in maintaining your wealth. Although life insurance can be owned by an Irrevocable Life Insurance Trust (ILIT)[1] so that the proceeds are not subject to estate tax, the gifts of the premiums you make to the trust may be subject to gift taxes. Fortunately, a Split Dollar arrangement can help you to minimize or even eliminate the gift taxes since the measure of the annual gift is the "term cost" or economic value of the death benefit, and not the full premium. However, this economic value increases with age and over time may result in gift taxes.

WHAT IS SWITCH DOLLAR?

When the gift tax value of the Split Dollar arrangement becomes costly, or when the policy is in a gain position, the Split Dollar arrangement can be "switched" to a loan arrangement in which loan interest is the measure of the annual gift and not the economic benefit cost.

HOW IT WORKS

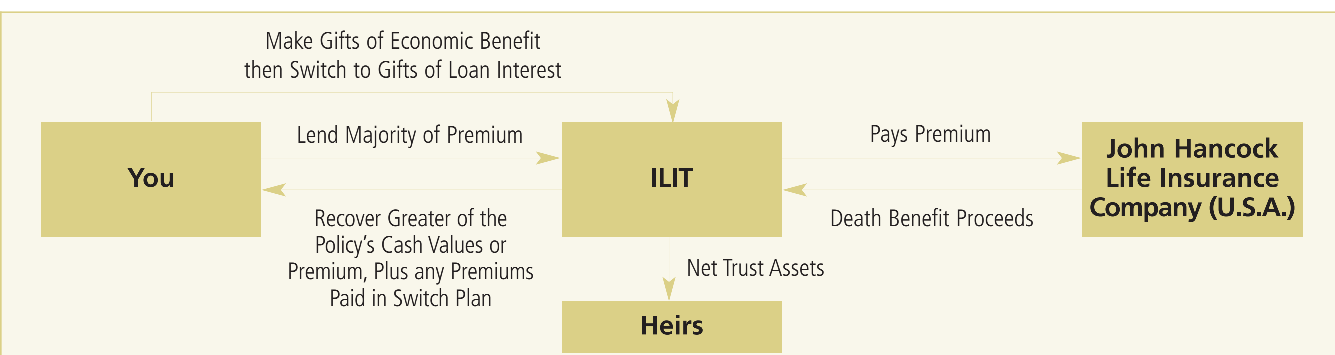
You, or you and your spouse, enter into a Split Dollar arrangement with your ILIT. The trustee of the ILIT will then purchase a life insurance policy on your life, or on the joint lives of you and your spouse. As security for the repayment of premiums, you will be collaterally assigned the greater of the policy's cash value or premiums paid.

The value of the gift you make to the ILIT is based on the economic value of the death benefit, which initially represents only a fraction of the annual premium. This economic benefit increases annually with your age and is derived from either a government or insurance company rate table.[2] Moreover, the economic benefit may be very low in the earlier years of the arrangement, especially when a survivorship policy is used.[3]

However, over time the economic benefit amount may become higher resulting in a higher gift tax value, or the policy may be in a gain position, requiring your repayment to be more than premiums paid.[4] In either scenario, the arrangement can be "switched" to a loan arrangement in which the trustee terminates the collateral assignment and executes a promissory note at a fair market or below-market rate of interest.

At death, your estate will receive the repayment from the death proceeds. Alternatively, if the agreement is terminated during your lifetime, the ILIT may fund the repayment from other available sources.

(See chart below.)



BENEFITS

- *Estate liquidity.* You can secure the protection you need for estate liquidity purposes.
- *Reduction in gift tax value.* The economic benefit rates or loan interest can be quite low during the initial years of the arrangement, reducing the gift tax value of the plan.
- *Flexibility*. The plan is flexible enough to be converted to a loan arrangement only if and when it becomes economical to do so.
- *Leveraged gifts.* Annual gift tax exclusion gifts can be leveraged significantly.
- *Cost-effective alternative to financing premiums.* The overall gift tax cost of the arrangement can be considerably lower than the gift tax cost of funding premium through a financing arrangement at the outset.

CONSIDERATIONS

- *Cash flow.* You must have cash flow to fund the premiums.
- *Increasing economic benefit/loan interest.* The economic benefit and loan interest will increase over time, thereby increasing the annual gift tax value of the arrangement.
- *Estate taxation of repayment.* The repayment of the collateral assignment or loan principal is included in your taxable estate.
- *Lifetime termination of arrangement.* It is important to consider the funding sources available for lifetime termination of the plan.
- *Final Split Dollar Regulations.* The 2003 Final Split Dollar Regulations dictate how a Split Dollar plan can be structured and describe the tax consequences of such plans. Please see the Comprehensive Split Dollar Client Guide for additional information.

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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. These tables are referred to as the Government 2001 rate table or the insurer's alternative term rates. Please see IRS Notice 2002-8 as well as the 2003 Final Split Dollar Regulations. For a summary of the rules, please see the Comprehensive Split Dollar Client Guide.
3. The gift of the economic benefit may be covered by your available annual gift tax exclusions, allowing you to avoid or reduce gift taxes significantly. An annual gift tax exclusion is the amount of annual gifts that each individual can make to each of an unlimited number of people without federal gift tax. In 2006, this amount is $12,000. See IRC §2503(b). The annual exclusion is indexed annually for inflation and subject to specific rules.
4. When a policy is in a gain position, the cash value or "equity" in the policy exceeds the premiums paid.

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Insurance products are issued by John Hancock Life Insurance Company (U.S.A.), 197 Clarendon Street, Boston, MA 02116.

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