John Hancock
LIFE INSURANCE

Success Strategy
The Dynasty Trust

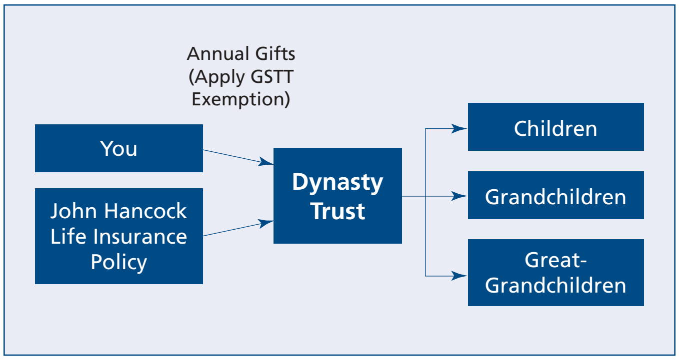
You have worked very hard to make sure that your family's needs are provided for. When your children were small, you made sacrifices to make sure that they would also succeed financially. Now that your children are grown and have kids of their own, you would like to protect your grandchildren as well. However, due to the generation-skipping transfer tax (GSTT), you may be limited in the amount of money that you can provide to your grandchildren without paying GST taxes. How can you continue to protect your family through many generations without having to pay GST taxes? A Dynasty Trust may be able to help.

WHAT IS A DYNASTY TRUST?

A Dynasty Trust is a popular name for a special type of Irrevocable Life Insurance Trust (ILIT).[1] Unlike a traditional ILIT, a Dynasty Trust is designed to provide distributions for health, education, maintenance and support for several generations while keeping the remaining trust assets outside of the beneficiaries' taxable estates. When a Dynasty Trust is funded with life insurance, the amounts available to the heirs may be greatly increased.

HOW DOES IT WORK?

Each individual has a "GSTT exemption", an amount that may be passed to grandchildren and others in a skip generation free of the GST tax. In the year 2006, the GST exemption is $2,000,000 per person. You can create an ILIT and then allocate your GSTT exemption towards gifts made to that ILIT, turning it into a Dynasty Trust. The trustee can then purchase life insurance on you or you and your spouse, if desired. On your death(s), the death proceeds will pass to your children, grandchildren, and potentially even great-grandchildren, creating a lasting legacy for your family.



BENEFITS

- You can potentially leverage your GSTT exemption by purchasing life insurance and potentially leave more to your heirs.
- Life insurance proceeds are generally received by the trust free of estate and income taxes.
- You can include many generations as beneficiaries of the trust, and create a lasting legacy for your family.

CONSIDERATIONS

- The total premiums on the life insurance policy cannot exceed your available GSTT exemptions.
- Since trust assets can be held for multiple generations, it may take many years for all the trust proceeds to be distributed.

CASE STUDY: JOHN AND ALISON SMITH

John Smith (age 67) and his wife Alison (age 62) have a combined estate of $10,000,000. They are aware that they have an estate tax problem, and also would like to financially protect not only their two children but also their three grandchildren. They each have $60,000 available annual exclusions from gift tax, so together they could give up to $120,000 annually to their trust free of gift taxes. Also, neither of them has used their $2,000,000 GSTT exemptions yet.

John and Alison decide to create a Dynasty Trust. The trustee purchases John Hancock's new Protection Survivorship UL-G (Protection SUL-G) product insuring John and Alison, with a face amount of $5,000,000. At their ages, the annual premium will be $99,383 for 15 years.[2] John and Alison will allocate their GSTT exemptions to their gifts to the trust, so the entire death benefit will be fully exempt from GSTT, and the trust assets should not be subject to estate tax for several generations.[3] The chart below demonstrates that by making gifts to a Dynasty Trust and properly allocating their GSTT exemptions, John and Alison can significantly increase the net amount to their heirs for several generations to come.

Property Available to Heirs (Net of Estate Tax)	Scenario 1 No Planning	Scenario 2 Lifetime Gifts to a Dynasty Trust/No Insurance	Scenario 3 Lifetime Gifts to a Dynasty Trust with Insurance
Year 25 For Children	$13,015,213	$14,700,156	**$16,636,624**
Year 41 For Grandchildren	$10,969,763	$15,545,769	**$19,172,736**
Year 65 For Great-Grandchildren	$12,653,477	$26,021,285	**$35,318,306**

Assumes assets remain in trust until the last generation. Estate and trust assets are assumed to grow at a rate of 4% after-tax per year. The data shown is taken from an illustration. It assumes a hypothetical interest crediting rate and may not be used to project or predict investment results.

1. 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.
2. This example assumes that John and Alison are both superpreferred, nonsmokers and are Florida residents. Products and features may not be available in all states. Guaranteed product features are dependent upon minimum premium requirements and the claims-paying ability of the issuer.
3. Clients making annual exclusion gifts to a Dynasty Trust should generally allocate GSTT exemption to these gifts unless the gifts qualify under IRC Section 2642(c). When annual exclusion gifts are made to a Dynasty Trust, some estate planners suggest limiting these gifts to the greater of $5,000 or 5% of the trust estate per beneficiary. See IRC Section 2514(e).

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

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