John Hancock
LIFE INSURANCE



*Client Profile*

# The Power of Life Insurance in Land Preservation

| CLIENT PROFILE | | | |
|---|---|---|---|
| **Client:** | • Charitable Land Trust<br>• Other conservation group<br>• Preservation-oriented landowner | **Landowner Status:** | • Significant wealth in landholding(s)<br>• Negotiating with land trust or conservation group<br>• Approached by land developers |
| **Landowner Age:** | • Age 50 and over | **Landowner Concerns:** | • Land preservation, and estate liquidity<br>• Funding potential long term care expenses<br>• Reduced value of land resulting from restriction |

## SITUATION

- The landowner owns property with significant conservation values.
- The landowner is interested in preserving the property but is concerned about maximizing wealth and equalizing inheritance.
- The landowner has been approached by land developers.
- The landowner is interested in placing a conservation restriction on the land but is concerned about the restriction's negative impact on the land's value.
- The landowner is concerned about the potential need to plan for long term care expenses.

## SOLUTION

- The landowner donates a conservation restriction to a qualified conservation organization and the children replace the economic value lost with a life insurance policy that can be accelerated during lifetime to cover long term care expenses. The children own the policy on the landowner-parent.

| BENEFITS | CONSIDERATIONS |
|---|---|
| • Land is preserved.<br>• Economic value is insured.<br>• Potential income tax savings may fund life insurance premiums.<br>• Estate taxes may be reduced.<br>• Death benefit may be accelerated during lifetime to cover qualifying long term care expenses when LifeCare Benefit rider is included. | • Cost of land appraisal.<br>• Value of tax savings depends on adjusted gross income and or state tax incentives.<br>• Life insurance policy has costs and risks, including market, portfolio, inflation and international risk. The policy's cash values may be worth more or less than the premiums paid and additional premiums may be required to sustain the policy. Please refer to the Product guide as well as the prospectus.<br>• LifeCare Benefit rider has exclusions and limitations, reductions of benefits and terms under which the rider may be discontinued. Products and features may not be available in all states and may vary by state.<br>• Although the policy may be owned by the children, there is the possibility that the value of the life insurance proceeds may be includible in the taxable estate if the decedent had the "right" to exercise the LifeCare Benefit rider. The client should consult his or her tax advisors. |

## CASE STUDY

Taylor Henderson, age 55, of California, has a parcel of land appraised at $3,000,000 by a qualified appraiser. If he donates a conservation restriction on the land to his local land trust, the value of the land with the restriction is calculated to be $2,733,600. However, a developer has offered a total of $3,700,000.

Taylor's AGI is $148,000 and he is in a 33% federal tax bracket and pays an effective state tax rate of 7.9%. California has a tax incentive program in which he can claim 55% of the value of the restriction as a credit against state taxes limited to annual state taxes due. Any unused credit amount can be carried over the next 7 years provided his annual income level remains the same. Moreover, Taylor can also lower his estate tax exposure by 40% of the restricted land value if he donates the easement to the land trust.[2]

The following chart summarizes the hypothetical tax savings and how the restricted land may be insured:

**FEDERAL CHARITABLE INCOME TAX DEDUCTION PERMITTED ANNUALLY FOR A DONATION OF A CONSERVATION RESTRICTION**

| Yr | Federal Income Tax Charitable Deduction | AGI Limitation (30% of $148,000) | Carry Forward | Federal Income Tax Savings (33% Tax Bracket) | State Income Tax Savings[3] (7.9% Tax Rate) | Total Tax Savings | Premium | Death Benefit* |
|---|---|---|---|---|---|---|---|---|
| 1 | $266,400 | $44,400 | $222,000 | $14,652 | $11,733 | $26,385 | $25,189 | $1,000,000 |
| 2 | $222,000 | $44,400 | $177,600 | $14,652 | $11,733 | $26,385 | $25,189 | $1,000,000 |
| 3 | $177,600 | $44,400 | $133,200 | $14,652 | $11,733 | $26,385 | $25,189 | $1,000,000 |
| 4 | $133,200 | $44,400 | $88,800 | $14,652 | $11,733 | $26,385 | $25,189 | $1,000,000 |
| 5 | $88,800 | $44,400 | $44,400 | $14,652 | $11,733 | $26,385 | $25,189 | $1,000,000 |
| 6 | $44,400 | $44,400 | $0 | $14,652 | $11,733 | $26,385 | $25,189 | $1,000,000 |

* The data shown is taken from an Accumulation VUL illustration on a super-preferred non-smoker male age 55 for $1,000,000 death benefit and six annual premiums of $25,189. The premium assumes a hypothetical net rate of return of 8.5% and is not a representation of future results. Unless indicated otherwise, these values are not guaranteed.

**For additional information, please contact your local John Hancock Representative or call Advanced Markets Group at 888-266-7498, option 3.**

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1 When the policy death benefit is accelerated for long term care expenses, the death benefit is reduced dollar for dollar and the cash value is reduced proportionately. The policy account value is also reduced proportionately. There is also a cost associated with this rider.

2 See IRC §2031(c). Taylor's net estate is assumed to be $6,000,000.

3 In California, a dollar for dollar state credit is available against state income taxes due annually, up to 55% of the fair market value of the restricted property. The amount of the credit that is not used in any given year can be carried over for the succeeded 7 years up to the value of the restricted property and provided income has been generated.

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