CLIENT GUIDE

Advanced Markets

Private Financing

John Hancock Life Insurance Company (U.S.A.) (John Hancock)
John Hancock Life Insurance Company of New York (John Hancock)
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Private Financing

is a useful option when premiums of a large life insurance policy could result in the payment of gift taxes or use of lifetime exemption for gifts.

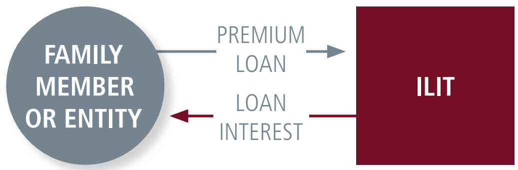
This concept, also known as self-financing, is an arrangement where you lend money to an Irrevocable Life Insurance Trust (ILIT) at the Applicable Federal Rate (AFR) so that the ILIT can purchase a life insurance policy on your life (or on the lives of you and your spouse).

What is Private Financing?

Private Financing refers to a loan arrangement between you and an Irrevocable Life Insurance Trust (ILIT)[1] in which you make loans to the trust. Alternatively, the loan arrangement can be established between an existing entity of yours, such as a business or family limited partnership (FLP), and the ILIT.

How It Works

You enter into an agreement to make a loan to your ILIT, of which your beneficiaries are the designated heirs. Your ILIT uses the loan to purchase a life insurance policy on your life, or the lives of you and your spouse. The ILIT pays you as its lender – the interest is based on the AFR.[2] The loan is usually repaid with the death proceeds, although serious consideration should be given to repaying the loan principal during lifetime. Repayment of the loan balance during lifetime can come from a trust side fund or from assets that are intended to fund the trust in the future.



Benefits of Private Financing

Minimizes Gift Taxes

Gift taxes can be significantly lowered or avoided by making loans to the ILIT.

Takes Advantage of Low Interest Rates

In a low-interest-rate environment, it may make sense to lock into a low interest rate by making a lump-sum loan to the ILIT. The ILIT can then use the loan to fund annual premiums.

The chart below shows a comparison of the Applicable Federal Rates (AFR) published by the government from December 2007 through December 2017 (rates are subject to change on a monthly basis).

DATE	SHORT-TERM	MID-TERM	LONG-TERM
12/2007	3.88%	4.13%	4.72%
12/2008	1.36%	2.85%	4.45%
12/2009	0.69%	2.64%	4.17%
12/2010	0.32%	1.53%	3.53%
12/2011	0.20%	1.27%	2.8%
12/2012	0.24%	0.95%	2.4%
12/2013	0.29%	1.69%	3.32%
12/2014	0.34%	1.72%	2.74%
12/2015	0.56%	1.68%	2.61%
12/2016	0.74%	1.47%	2.26%
12/2017	1.52%	2.11%	2.64%

Keeps Loan Principal in the Family

The principal will be repaid to you as the intra-family lender (and it may be subject to estate taxes to the extent that it forms part of your estate).[3] Loan collateral requirements and other loan risks typical of commercial lending may not apply when the loan is privately financed.

Provides Flexibility

Loans may be made by an existing business, family limited partnership (FLP) or possibly a trust, and may be made annually or in a single lump sum.

Considerations

- Cash flow must be available to make the loan.
- The loan repayment may be subject to estate tax if you are the lender.
- Loan interest payments will be subject to income taxes if the lender is a trust or partnership.
- Gifts may be needed to provide the borrower the funds to pay the interest.
- If annual loans are made to the trust to pay premiums, each loan is subject to different interest rate.

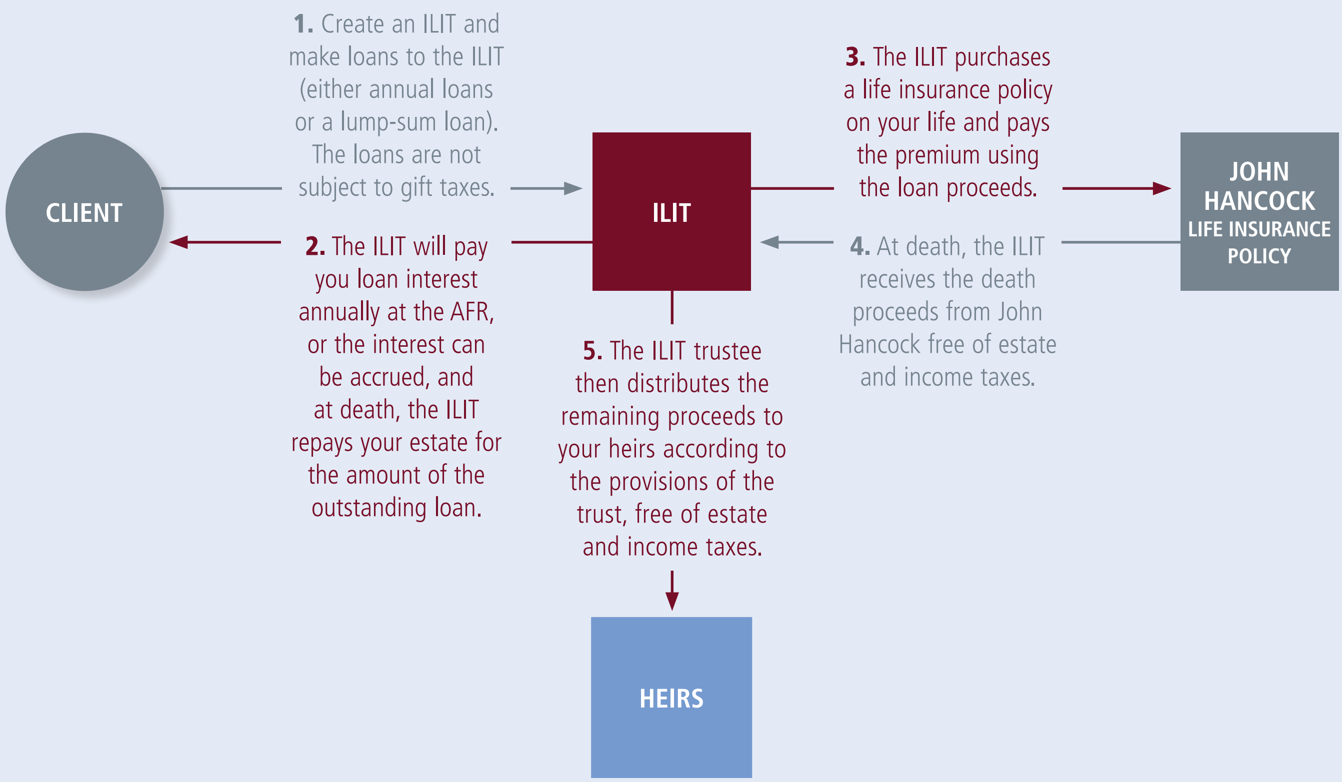
Tax Consequences

INCOME TAXES

- If you are the lender, the ILIT should be set up as a "Defective Grantor Trust" so that there is no income taxation on the loan interest paid to you.
- If the lender is a trust, it will pay income tax at the trust tax rate on payments of loan interest unless it distributes that interest to its beneficiaries. In the case of such distributions, the trust beneficiaries will be taxed at their individual rates.
- Where the lender is a partnership, the limited partners will share responsibility for income tax on the loan interest as they would for any other partnership income.

ESTATE TAX

- If you are the lender, the loan principal is part of your taxable estate at death.
- Where the lender is a trust, loan principal will not be subject to estate tax as long as the lending trust is not includible in your estate.
- If the loan is made by a partnership, loan principal becomes a part of each partner's estate in proportion to their interest in the partnership.



Summary

When liquidity is not an issue, Private Financing provides an effective means to maximize the amount ultimately available to heirs. For more information about Private Financing or to see if this is the right type of arrangement for your situation, please consult your financial advisor.

Speak with your John Hancock representative to learn more.

1. Trusts should be drafted by an attorney familiar with such matters to take into account income, gift, and estate taxes, including generation-skipping transfer taxes. Failure to do so may result in adverse tax consequences.
2. The AFR is published monthly by the IRS. Its use helps to establish the arrangement as a fair market loan. If an interest rate less than fair market is used, income and/or gift tax may be due on the difference between interest paid at fair market rate and the actual rate used.
3. In a Private Financing situation, where the grantor is providing a loan to an irrevocable trust, it may be advisable for the trust to provide collateral for the loan. In order to establish that the Private Financing loan is a legitimate transaction, the following factors are often considered by the IRS: 1) if there is a promissory note or other evidence of indebtedness; 2) if interest was charged; 3) if there is any security or collateral for the loan; 4) if there is a fixed maturity date for the loan; 5) if a demand for repayment was made; 6) if actual repayment was made; 7) if the transferee had the ability to repay the loan; 8) if records reflected the transaction as a loan; and 9) if the transaction was reported for federal tax purposes as a loan.

INSURANCE PRODUCTS:		
Not FDIC Insured	**Not Bank Guaranteed**	**May Lose Value**
Not a Deposit	**Not Insured by Any Federal Government Agency**	

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