John Hancock
LIFE INSURANCE

Dynasty Trusts

A Lasting Legacy For Future Generations

ONE POWERFUL ESTATE PLANNING TOOL *to help your clients create a lasting legacy for their children, grandchildren, and future generations is a Dynasty Trust. A Dynasty Trust is basically an irrevocable trust designed to benefit multiple generations and last a long time. In many states, trusts can last forever.[1] For example, a trust created in Florida can last 360 years and a trust established in Delaware can last indefinitely. It is no coincidence that many wealthy individuals have trusts in Alaska, Delaware or Arizona.*

How is a Dynasty Trust beneficial to your client?

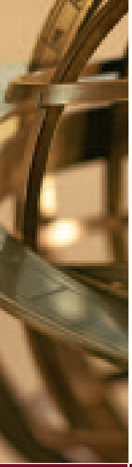
First and foremost, it helps your clients by having the assets within the trust kept outside of their taxable estate and allows them to maintain control over the assets in the trust. In addition, the trust assets remain outside of the beneficiaries' taxable estate for as long as the state law allows. Even though these assets are out of the beneficiaries' estate, each generation can have access to the Dynasty Trust's assets, subject to the terms of the trust. Aside from providing future heirs with greater assets while providing accessibility, Dynasty Trusts can also provide protection from creditors of the trust's beneficiaries (including a divorcing spouse).

How does a Dynasty Trust work?

1. The first step is to establish a multi-generational Irrevocable Life Insurance Trust (ILIT), known as a Dynasty Trust. As always, trusts should be drafted by an attorney familiar with such matters in order to take into account income and estate tax laws.
2. The second step is funding the trust. The grantor of the trust can utilize annual exclusion gifts (currently at $12,000 per person), their lifetime gift exemption (currently at $1,000,000 per person) or if they gift in excess of their gifting capability, they simply would be subject to gift taxes. It is very important to note though that you should allocate your Generation-Skipping Transfer Tax (GSTT) exemption (in 2007 it is $2,000,000 per person), so that these gifts/assets in the trust can be passed to grandchildren and others in a skip generation free of GST.
3. The final step is for the trustee to purchase life insurance on your client's lives. As always the use of life insurance potentially leverages your gifts and thus potentially leaves more assets to your heirs for generations to come. The proceeds from life insurance are generally not taxable for estate tax purposes or income tax purposes. It is important to consider that your total premiums paid on the life insurance should not exceed your available GSTT exemption.

What is GSTT and why is it important?

Without the GSTT, a wealthy individual could potentially circumvent the estate and gift tax system by making gifts directly to grandchildren or future generations, avoiding the estate tax which would otherwise occur. Simply put, the IRS would prefer a linear transfer, thus taxing it at every generation and would like to prevent skipping a generation. Similar to estate taxes and gift taxes, each individual has an exemption from the GSTT, which may be used during lifetime or at death. In 2007 and 2008, this exemption will be



$2,000,000 per person. For example, if a trust has one or more grandchildren as beneficiaries, and may be otherwise subject to GSTT, a couple can avoid the GSTT if the grandparents allocate up to $4,000,000 of their GSTT exemption in 2007 to the trust. One point to consider is that the couple only has $2,000,000 combined of annual exclusion, so if they gift the $4,000,000 outright, $2,000,000 will be subject to gift taxes, but the entire $4,000,0000 will be exempt from GSTT. Currently the GSTT is a flat tax (at the highest current estate rate) and thus any combined gifts made to a trust that exceed $2,000,000 for an individual ($4,000,000 per couple) will be assessed a GSTT.

CASE STUDY

Typically a Dynasty Trust is created by older couples, with a high net-worth, who want to provide for their grandchildren or great-grandchildren. You may want to consider the following strategies assuming you have an older couple with two children and five grandchildren with an estate tax problem, and who want to leave their summer home for the benefit of future generations:

- Create an ILIT for their two children and have the trustee buy a Protection SUL-G policy utilizing their annual exclusions for the two children (or $24,000 premium). The reason why you may want to consider separating the children from the grandchildren, is that anytime you have a trust that co-mingles generations, you have to apply the GSTT regardless of the fact that the GSTT does not apply to the children.
- Create a Dynasty Trust for their five grandchildren and have the trustee buy a Protection SUL-G. You may consider utilizing their lifetime gifts of $2,000,000 and then funding it with their annual exclusions of $120,000. Keep in mind that you will apply the GSTT exemption, currently at $4,000,000, and therefore the total premiums/gifts cannot exceed your available GSTT exemptions.
  - Upon the death of both grandparents, the proceeds of the life insurance in the Dynasty Trust could purchase assets from the estate. One possibility is that the trustee could purchase the summer home and keep it in the Dynasty Trust for as long as the state law allows for — but in some states the trust could be in existence indefinitely. Should one of the beneficiaries, grandchildren, and great-grandchildren get a divorce or run into financial problems, this vacation home would be protected from creditors. The home would be out of the beneficiaries' estate, and at the same time available for use.

A Dynasty Trust is designed to continue for several generations. Life insurance is used for the leverage it provides in addition to the potential tax benefits. For more information, please contact the Advanced Markets Group at 888-266-7498, option 3.

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1. At least twenty-two states have abolished the Rule against Perpetuities, and in those states trusts can either have unlimited duration or last for a longer term of years. These states currently include Alaska, Arizona, Colorado, Delaware, Idaho, Illinois, Maine, Maryland, Missouri, Nebraska, New Hampshire, New Jersey, Ohio, Rhode Island, South Dakota, Virginia, District of Columbia, Wisconsin, Wyoming (trusts can last 1,000 years, Utah (1,000 years), Florida (360 years) and Washington (150 years).

Insurance policies and/or associated riders 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.

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.

Comments on taxation are based on John Hancock's understanding of current tax law, which is subject to change. Please consult your tax advisor for guidelines specific to your situation.

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