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PLANNING GROUP

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Technical Release: Equity Split Dollar and IRS Notice 2001-10

The purpose of this technical release is to provide John Hancock agents, brokers and advisors with an in-depth review of the issues raised by Notice 2001-10 that the IRS released on January 9, 2001. The Notice leaves many important questions unanswered, and it is the intention of the Estate& Business Planning Group to update this technical release as soon as additional information becomes available.

A. General Overview of Notice 2001–10

1. Question #1: What does Notice 2001-10 address?

The Notice is quite comprehensive in scope. The Notice starts with a warning that the IRS and the Treasury Department are "reviewing" the income tax treatment of split dollar arrangements, in particular, "equity" split dollar plans. The Notice not only clarifies and revokes prior Revenue Rulings, but it also provides " interim guidance" on the tax treatment of split dollar plans pending the future release of a Revenue Ruling or Notice by the IRS.

2. In a brief summary, how does the Notice affect split dollar arrangements?

The Notice does many things. First, the IRS will no longer accept the P.S. 58 rates as the proper measure of the value of life insurance protection in a qualified retirement plan or a split dollar plan after December 31, 2001. Second, the IRS allows taxpayers to use what it calls an "interim" table rate pending its consideration of what table rate should be applied to value life insurance protection under a split dollar plan. Third, the IRS allows taxpayers to calculate the value of split dollar life insurance protection by using the carrier's lower published premium rates (available to all standard risks for initial issue one-year term insurance) without condition until December 31, 2003. After December 31, 2003, the IRS will not allow a carrier's alternative term rates to be used unless three specific tests are met. (See Q22 for details on rates). Finally, the IRS allows employers to tax a split dollar plan under three widely divergent tax principles: (i) as a below market, Section 7872 loan, (ii) as a Section 83 transfer of property or (iii) as a Section 162 bonus plan.

3. Is private split dollar affected by the Notice?

Although the Notice primarily addresses corporate split dollar arrangements, it may impact so-called family or private split dollar arrangements. Because the IRS will no longer treat or accept the PS 58 rates as the proper measure of the value of current life insurance protection, the calculation of the US 38 rates for survivorship policies also will be affected. In addition, if the IRS decides in a future ruling or notice to tax the equity inside build-up under corporate split dollar plans, the IRS could conclude that such policy equity under family/private split dollar plans should also be subject to both income and gift taxation.

4. Is the Notice the final pronouncement by the IRS regarding split dollar?

The Notice is the first of what will likely be two pronouncements on equity split dollar plans. The IRS has asked for comments on the issues discussed in the Notice as well as any other issues on which further guidance on the tax treatment of split dollar plans could be needed. Comments must be submitted no later than 90 days after the Notice was published in the Internal Revenue Bulletin. Although it is not clear when the IRS will issue the next ruling/notice, we expect that it may be more than a year before the IRS issues further guidance.

B. Historical Background of "Equity" Split Dollar

5. What is equity split dollar?

Split dollar is a premium financing arrangement whereby one entity, typically an employer in a lower tax bracket, pays the premiums on a permanent life insurance policy on behalf of an individual who typically is in a higher tax bracket. Split dollar plans have long been used to fund a variety of permanent life insurance needs, including buy-sell agreements, employee fringe benefit plans, and estate liquidity needs. “Equity” split dollar refers to a particular kind of split dollar plan in which an employer has the right to receive only its premium advances when the split dollar agreement terminates. Both endorsement arrangements (where the policy is owned by the employer) and collateral assignment arrangements (where the policy is owned by the employee or other third party) can involve equity plans.

The “equity” in equity split dollar refers to that point in time when the policy starts to accumulate cash value in excess of the amount the employer is entitled to recover. This point is commonly referred to as the “crossover.” The questions of who owns this equity and when/how it is taxed are the critical issues to be addressed by the IRS.

6. Until the IRS issued Notice 2001-10, what was its historical position regarding the income tax treatment of equity split dollar plans?

Prior to Notice 2001-10, the IRS had not issued a public ruling addressing the income tax treatment of equity split dollar arrangements. In Revenue Ruling 64-328, the IRS held that the employee was required to take into income each year the value of life insurance protection received by the employee (the so-called "economic benefit"). Revenue Ruling 66-110 allowed the "economic benefit" to be calculated by the insurance carrier's alternative term rates instead of the standard government tables (referred to as the "PS 58 rates).

The IRS later issued two private rulings (7916029 and 8310027) and one technical advice memorandum (9604001) dealing with equity split dollar arrangements. Both letter rulings involved endorsement split dollar plans, and the IRS held that the employee was taxable in the year the policy was transferred to the employee in an amount equal to the cash surrender value less the employee's contributions.

In TAM 9604001, the IRS held that once the policy reaches the "crossover" point and the cash surrender value exceeds the employer's premium advances, the insured was required to include in income both the economic benefit of the life insurance protection and the annual buildup in the cash surrender value in excess of the amount repayable to the corporation. Because the policy in the TAM was owned by an ILIT, the IRS also concluded that the insured was deemed to have made a gift to the ILIT each year equal to the full amount included in his income.

7. Given this lack of public guidance from the IRS on the issue of equity split dollar, what was the position of advisors regarding the taxation of equity split dollar plans?

Because the TAM and the earlier letters rulings on equity split dollar were not public rulings, many advisors acknowledged the holdings, but did not follow them in practice. Because of the uncertainty the TAM injected into the marketplace, many advisors felt that the IRS would eventually issue a public ruling that settled the open issues raised in its private rulings.

C. Income Taxation of "Equity" Split Dollar Under Notice 2001–10

8. What did the IRS say about its previous rulings regarding "equity" split dollar?

The IRS pointed out that none of the revenue rulings discussed in the Notice directly addressed the forms of equity split dollar arrangements that have been widely used in recent years. However, as discussed above, the IRS has issued two private letter rulings and a technical advice memorandum dealing with equity split dollar arrangements.

9. Will the IRS allow the parties to determine the tax form of a split dollar arrangement?

The IRS will generally accept the parties' characterization of the transaction as long as (a) the characterization is not clearly inconsistent with the substance of the transaction, (b) such characterization has been consistently followed by the parties since its inception and (c) the parties fully account for all economic benefits conferred on the employee in a manner consistent with the characterization.

10. If the parties do not categorize the arrangement as a loan, how will the IRS tax the transaction?

If the parties adopt a non-loan characterization, the IRS will treat it as follows: (a) the employer will be treated as having acquired a beneficial ownership of the life insurance contract by virtue of its share of the premium payments, (b) the employee will have compensation income equal to the value of the life insurance protection (the economic benefit), reduced by any payments made by the employee, (c) the employee will have compensation income equal to any dividends or similar distributions, and (d) the employee will have compensation income to the extent the employee acquires a substantially vested interest in the cash surrender value of the life insurance contract, reduced by any consideration paid by the employee for such interest in the cash value.

11. What is a "substantially vested interest" in the cash value?

This is a confusing point. The Notice does not seem to provide a definition for the phrase "substantially vested interest". It may be generally interpreted as an unfettered right or access by the employee to all or a portion of the cash surrender value.

12. Will the IRS annually tax the "equity" accumulation of the cash surrender value credited for the executive?

Surprisingly, and contrary to the holding under TAM 960401, the IRS stated that it will not incrementally tax the employee on the amount of the cash surrender value within the policy that exceeds the amount to be repaid to the employer. However, the Notice states that further guidance from the IRS may be forthcoming on this issue. If the IRS decides at a later date to annually tax the cash surrender value attributable to the employee, the tax will apply prospectively.

13. Will the IRS tax such equity accumulation when the split dollar arrangement is terminated? Under what tax authority?

Perhaps. As noted in Question 10 above, the employee will be taxed under Code Section 83(a) when the employee acquires a substantially vested interest in the cash surrender value. If the employee owns such cash value upon termination, one could assume that the employee has a "substantially vested interest" at such time and would be taxed accordingly.

D. Split Dollar and Below Market Interest Loans Under Notice 2001-10

14. Do the parties have a choice to tax the split dollar transaction as a loan from the employer to the employee?

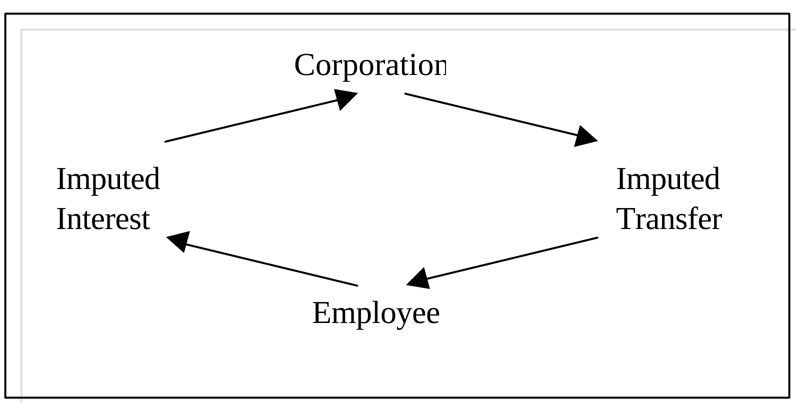
Yes, provided that the requirements of Question 9 are satisfied.

15. What is a below market loan?

The precise definition of a "below-market loan" in Section 7872(e) is as follows. In the case of a demand loan, any loan where the interest is payable at a rate less than the Applicable Federal Rate. In the case of a term loan, a "below-market loan" means any loan where the amount loaned exceeds the present value of all payments due under the loan.

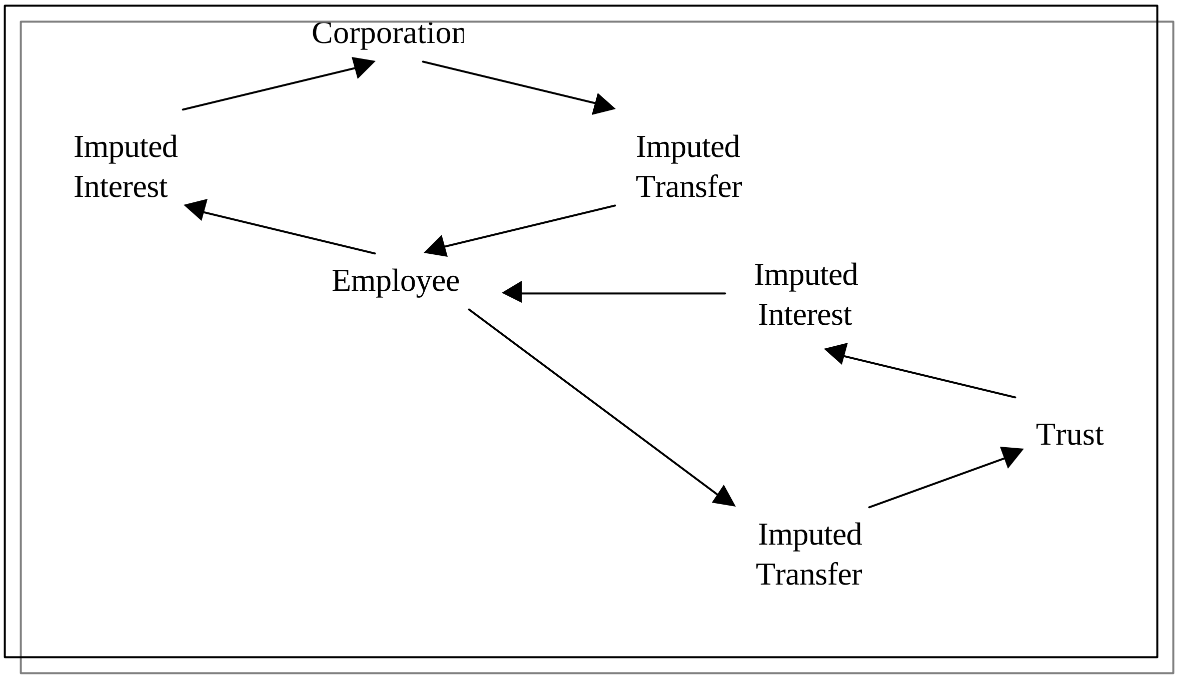
16. What are the tax ramifications if the parties treat the arrangement as a loan?

The premium advances by the employer are treated as loans to the employee. If the employee does not pay the employer interest payments on the loan, Code Section 7872 provides that there is an imputed transfer from the employer to the employee in the amount of the interest payment due. This imputed transfer to the employee is then deemed to be retransferred by the employee to the employer to satisfy the interest obligation. The imputed payments to the employee are treated as compensation income each year (or dividend income for non-employee shareholders). Unlike split dollar, the employee will not have additional compensation income for the value of the economic benefit from life insurance protection if the transaction is characterized as a loan. Additionally, the cash surrender value of the policy will not represent property transferred to the employee. The following diagram illustrates the deemed transfers under Section 7872.



17. What if the policy is owned by a third party?

If the policy is owned by a third party other than the employee-insured (such as an ILIT), the imputed interest component is also deemed to be a transfer by the employee to the trust's beneficiaries. This transfer is considered a gift for gift tax and generation skipping transfer tax purposes. The following diagram illustrates a below market loan with an ILIT owning the life insurance policy.



18. Does it make a difference how the loan is structured?

Yes. If the loan is to be repaid on or before a certain date ("term loan"), the interest rate is determined when the loan commences, and the rate is fixed for the duration of the loan term. Depending upon the term of the loan, the rate will be characterized for tax purposes as a short term (less than 3 years), mid-term (between 3 and 9 years) or long term (longer than 9 years) loan.

A loan that does not have a certain "term" or repayment date is called a "demand" loan. The employer has the ability to demand repayment of the loan at any time. The interest rate applicable to a demand loan is a short term floating rate that is re-determined annually. Because the rate is re-determined annually, sudden changes in the rate could have a dramatic impact on the income and/or gift issues consequences to the employee.

19. Would the parties ever want the split dollar arrangement to be taxed as a loan?

Perhaps. One of the benefits of split dollar being treated as a below market loan under Section 7872 is that the employee will not have additional compensation income for the value of the economic benefit from life insurance protection. Additionally, the cash surrender value of the policy will not represent property transferred to the employee.

In some situations, the imputed loan amount may be less than the economic benefit related to the life insurance protection. Hancock's E&BPG can run comparisons of the loan versus economic benefit taxation to determine which option is best for the client. (See Appendix A attached).

E. Valuation Of Economic Benefit Under Notice 2001-10

20. What did the IRS say regarding "P.S. 58" rates?

The IRS stated that P.S. 58 rates no longer bear an appropriate relationship to the fair market value of current life insurance protection, and may only be used in 2001.

21. How will the IRS value the economic benefit under a split dollar plan going forward?

Within the Notice, the IRS has provided a new Table 2001 to determine the value of current life insurance protection on a single life that may be used from the date of the Notice. Table 2001 is the Table I rates (used for group term insurance valuation) with an extension for younger and older ages. However, taxpayers may continue to use the P.S. 58 rates until December 31, 2001.

22. Can the parties use an insurer's lower alternative term rates for valuing the economic benefit to the employee?

Taxpayers may continue to use an insurer's published rates that are available to all standard risks for initial issue one-year term insurance. However, for periods after December 31, 2003, taxpayers may not use an insurer's published term rates unless (a) the insurer generally makes the availability of such rates known to persons who apply for term insurance coverage from the insurer, (b) the insurer regularly sells term insurance at such rates to individuals who apply for term insurance coverage through the insurer's normal distribution channels, and (c) the insurer does not more commonly sell term insurance at higher premium rates to individuals that the insurer classifies as standard risks under the definition of standard risk most commonly used by that insurer for the issuance of term insurance.

F. Miscellaneous Impact

23. Does the Notice affect reverse split dollar?

The Notice states that the use of P.S. 58 rates in a reverse split dollar arrangement overstates the value of the policy benefits allocated to the employer, which allows the employee's share of the premiums to be significantly lower than the employee's actual share of the policy benefits. The Notice also states that there is no published authorization for the employee to rely on the P.S. 58 rates in such reverse split dollar arrangements. This should have a dramatic impact on any future reverse split dollar plans.

24. Is private split dollar affected?

The Notice primarily addresses split dollar arrangements between employers and employees. However, the Notice does provide that transfers of beneficial interests in the cash surrender value of life insurance policies may also be treated as transfers of property interests for gift tax purposes.

G. Beyond Notice 2001-10: Further Guidance By The IRS

25. How long is the public comment period?

The IRS has prescribed a 90 day comment period. The comment period closes 90 days after the date that Notice 2001-10 was published in the Internal Revenue Bulletin. Our understanding that the comment period closes 90 days after January 29, 2001.

26. Who will be making comments to the IRS?

The following groups will likely submit comments: 1) the American Council of Life Insurers; 2) insurance carriers; 3) industry trade groups and 4) individuals and advisors. John Hancock will submit its own comments to the Notice.

27. What does John Hancock think the IRS's position on equity taxation will be when, as expected, it issues the next public ruling on equity split dollar?

While some advisors believe that the IRS has no intention to tax the equity in split dollar plans, the attorneys in the Estate & Business Planning Group believe that the IRS will likely issue a ruling that subjects the employee to income tax on the annual increase in cash value of an equity split dollar plan. Such taxation will apply on a prospective basis. It is not clear whether such prospective application will apply only to policies purchased after a certain grandfather date, or include contributions to existing split dollared policies as well.

H. Impact of Notice 2001-10 on the Life Insurance Industry

28. Is the Notice good or bad for the insurance industry?

The Notice represents good and bad news for the industry. From one perspective, it now looks as if a number of open split dollar questions will be answered by the IRS. Because some advisors have been reluctant to recommend equity split dollar plans on account of the unanswered questions, this certainty will be well-received in the marketplace. Even if the IRS requires taxpayers to include the annual cash value build-up from an equity split dollar plan into income, split dollar will still make good financial sense for many clients.

Split dollar will still be an attractive alternative to group term plans. While group term may offer identical death benefit coverage for a comparatively smaller income tax cost, the participant develops no ownership in the underlying cash value as would be the case with an equity split dollar plan.

The spreadsheets in Appendix A compare the tax impact of categorizing the split dollar arrangement as (a) a below market loan between the employer and employee, (b) the employee being taxed on the "economic benefit" of the life insurance protection (using Hancock's alternative term rates) <u>and</u> the equity owned by the employee at time of rollout after repaying the employer its premiums paid into the policy and (c) the employee being taxed on the "economic benefit" of the life insurance protection (using Hancock's alternative term rates) <u>and</u> the annual increase in the cash surrender value of the policy once the policy reaches the "crossover" point. The comparisons are made in two fact patterns: (1) when the employee owns the policy and (2) when an ILIT established by the employee owns the policy.

Under Spreadsheet 1 (Demand Loan), the employer is lending an annual amount of $25,000 loan to the employee for ten years. The 5.9% interest rate on the note is the AFR rate for January 1, 2001. Under the actual case, this rate will fluctuate annually as the AFR increases or decreases. The spreadsheet assumes that the AFR remains constant.

Since the employer is not paying interest on the loan, the interest component becomes part of his taxable income each year (Column 8). Assuming the employee is in a 40% tax bracket, Column 9 reveals the estimated additional annual income tax to the employee. In year 16, the employee repays the loan. The cumulative tax cost to the employee is $61,950.

Under Spreadsheet 2 (Tax at Rollout), the employer and employee enter into a traditional equity split dollar arrangement. The employee is subject to income tax annually on the economic benefit of the life insurance protection (Column 6). The split dollar arrangement terminates in year 16, and the employee is taxed on the cash surrender value which remains in the policy after repaying the employer its cumulative premium advances. Assuming the employee is in a 40% tax bracket, Column 9 reveals that the employee will pay $117,256 in income taxes under the split dollar arrangement.

Under Spreadsheet 3 (TAM Taxation), the employer and employee also enter into a traditional split dollar arrangement. The employee is subject to income tax on (a) the economic benefit of the life insurance protection (Column 6) and (b) the annual increase in the policy's cash surrender value once it exceeds the amount to be repaid to the employer (Column 11). Assuming the employee is in a 40% tax bracket, Column 11 reveals the estimated cumulative taxes paid by the employee. In year 16, the loan is repaid. The cumulative tax cost to the employee is $80,513.

In this example, the demand loan results in less overall tax to the employee compared to tax at rollout and TAM taxation. It is important to note that these spreadsheets assume that: 1) the interest rate on the loan will not increase for 15 years and 2) the tax cost from the traditional split dollar plans would have been higher had the Table I rates been used.

Spreadsheets 4, 5 and 6 compare (a) Demand Loan, (b) Tax at rollout, (c) TAM taxation, when a third party ILIT owns the policy. The spreadsheets assume that the employee has used his/her unified credit and must pay gift tax on contributions made to the trust. While the demand loan in this fact pattern results in less tax to the employee with a constant AFR rate over 15 years, it is important not to over-generalize and assume that this result will apply in all cases.

29. What are some other ways to structure split dollar taxation?

Insurance producers are a creative lot. In response to the Notice, producers will provide to their clients more alternative ways to structure split dollar taxation. For instance, the employer and employee may enter into an endorsement split dollar where the employer owns the policy. The premium outlay to the employer should be less than under a collateral assignment split dollar plan because there is no need to fund the policy for a rollout under the endorsement plan. Once the employee reaches a certain age, the employer may transfer the policy to the employee and receive a deduction for the cash surrender value of the policy. Such cash value will be taxable income to the employee, which may be offset by an additional bonus to the employee. This is just one of many options that will be provided to meet the particular objectives of employer and employee clients.

30. What are the chances of the incoming Bush administration will try to revoke the Notice?

Representatives of the insurance industry on the Treasury Department transition team have indicated that they intend to ask the incoming Bush administration to revoke the Notice.

31. Who should agents, brokers and/or advisers contact if they have additional questions?

Questions of this nature should be directed to the attorneys in the Estate & Business Planning Group. Please call Jim Magner (617) 572-6532; Joe Byrnes (617) 572-6140; Russ Towers (617) 572-6542; or Bob Travers (617) 572-6539.

Appendix A

Spreadsheet #1: Split Dollar Redesigned as an Interest-Free Loan (Demand Loan) - Executive Owns Policy

		Corporation									Executive		
		(1)	(2)	(3)	(4)	(5)	(7)	(6)	(8)	(7)	(8)	(9)	(10)
	EOY Age	Beginning Loan Balance	Premium Payment	Annual Imputed Interest Income AFR*	Annual Imputed Compensation Deduction	Annual Loan	Corporate Recovery - Rollout	Ending Loan Balance	Net After Tax Annual Corporate Outlay	Net After Tax Cumulative Corporate Outlay	Annual Imputed Comp Income	Estimated Income tax on Annual Imputed Comp. Income**	Estimated Cumulative Tax Paid
1	51	$0	$25,000	$1,475	$1,475	$25,000	$0	$25,000	$25,000	$25,000	$1,475	$590	$590
2	52	25,000	25,000	2,950	2,950	25,000	0	50,000	25,000	50,000	2,950	1,180	1,770
3	53	50,000	25,000	4,425	4,425	25,000	0	75,000	25,000	75,000	4,425	1,770	3,540
4	54	75,000	25,000	5,900	5,900	25,000	0	100,000	25,000	100,000	5,900	2,360	5,900
5	55	100,000	25,000	7,375	7,375	25,000	0	125,000	25,000	125,000	7,375	2,950	8,850
6	56	125,000	25,000	8,850	8,850	25,000	0	150,000	25,000	150,000	8,850	3,540	12,390
7	57	150,000	25,000	10,325	10,325	25,000	0	175,000	25,000	175,000	10,325	4,130	16,520
8	58	175,000	25,000	11,800	11,800	25,000	0	200,000	25,000	200,000	11,800	4,720	21,240
9	59	200,000	25,000	13,275	13,275	25,000	0	225,000	25,000	225,000	13,275	5,310	26,550
10	60	225,000	25,000	14,750	14,750	25,000	0	250,000	25,000	250,000	14,750	5,900	32,450
11	61	250,000	0	14,750	14,750	0	0	250,000	0	250,000	14,750	5,900	38,350
12	62	250,000	0	14,750	14,750	0	0	250,000	0	250,000	14,750	5,900	44,250
13	63	250,000	0	14,750	14,750	0	0	250,000	0	250,000	14,750	5,900	50,150
14	64	250,000	0	14,750	14,750	0	0	250,000	0	250,000	14,750	5,900	56,050
15	65	250,000	0	14,750	14,750	0	0	250,000	0	250,000	14,750	5,900	61,950
16	66	250,000	0	0	0	0	(250,000)	0	(250,000)	0	0	0	61,950
			$250,000	$154,875	$154,875	$250,000			$0		$154,875	$61,950	

Assumptions:

*1/1/01 AFR Rate: 5.90% AFR will be an annual floating rate in actual case

**Combined Federal and State Personal Tax Rate for both Corporation and Executive: 40.00%

Spreadsheet #2: Split Dollar with Taxation at Plan Termination (Tax at Rollout) - Executive Owns Policy

		Corporation			Executive					
		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	EOY Age	Corporate Split Dollar Premium	Cash Surrender Value	Death Benefit	Economic Benefit*	Executive Split Dollar Premium	Income Tax** on Economic Benefit	Cash Surrender Value	Income Tax on Cash Value at Plan Termination	Estimated Cumulative Tax Paid cols. (6)+(8)
1	51	$25,000	$25,000	$25,000	$279	$0	$111	$472	$0	$111
2	52	25,000	50,000	50,000	297	0	119	2,421	0	230
3	53	25,000	75,000	75,000	316	0	126	6,416	0	357
4	54	25,000	100,000	100,000	341	0	137	12,666	0	493
5	55	25,000	125,000	125,000	369	0	148	21,444	0	641
6	56	25,000	150,000	150,000	404	0	162	32,922	0	802
7	57	25,000	175,000	175,000	451	0	181	47,322	0	983
8	58	25,000	200,000	200,000	520	0	208	65,041	0	1,191
9	59	25,000	225,000	225,000	544	0	218	86,490	0	1,409
10	60	25,000	250,000	250,000	561	0	224	112,022	0	1,633
11	61	0	250,000	250,000	619	0	248	140,727	0	1,881
12	62	0	250,000	250,000	679	0	271	171,961	0	2,152
13	63	0	250,000	250,000	738	0	295	206,266	0	2,447
14	64	0	250,000	250,000	808	0	323	244,053	0	2,771
15	65	0	250,000	250,000	892	0	357	285,321	0	3,128
16	66	(250,000)	0	0	0	0	0	308,634	114,128	117,256
		$0			$7,819	$0	$3,128			

Assumptions:

* Economic Benefit rates are based on John Hancock's current YRT rates

**Combined Federal and State Personal Tax Rate for both Corporation and Executive: 40.00%

Spreadsheet #3: Split Dollar with TAM Taxation - Executive Owns Policy

		Corporation			Executive								
		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
	EOY Age	Corporate Split Dollar Premium	Cash Surrender Value	Death Benefit	Economic Benefit*	Executive Split Dollar Premium	Income Tax** on Economic Benefit	Cash Surrender Value	Annual Percentage Increase in Cash Value	Cash Value Growth of Previously Taxed Cash Value	Taxable TAM Cash Value	TAM Income Tax** on Cash Value	Estimated Cumulative Tax Paid Cols. (6)+(11)
1	51	$25,000	$25,000	$25,000	$279	$0	$111	$472	0.000%	$0	$0	$0	$111
2	52	25,000	50,000	50,000	297	0	119	2,421	3.861%	491	1,931	772	1,002
3	53	25,000	75,000	75,000	316	0	126	6,416	5.159%	2,546	3,869	1,548	2,677
4	54	25,000	100,000	100,000	341	0	137	12,666	5.874%	6,793	5,874	2,350	5,163
5	55	25,000	125,000	125,000	369	0	148	21,444	6.376%	13,474	7,971	3,188	8,499
6	56	25,000	150,000	150,000	404	0	162	32,922	6.694%	22,880	10,042	4,017	12,677
7	57	25,000	175,000	175,000	451	0	181	47,322	6.926%	35,202	12,120	4,848	17,705
8	58	25,000	200,000	200,000	520	0	208	65,041	7.165%	50,712	14,329	5,732	23,645
9	59	25,000	225,000	225,000	544	0	218	86,490	7.395%	69,851	16,639	6,656	30,519
10	60	25,000	250,000	250,000	561	0	224	112,022	7.588%	93,053	18,969	7,588	38,331
11	61	0	250,000	250,000	619	0	248	140,727	7.929%	120,904	19,822	7,929	46,507
12	62	0	250,000	250,000	679	0	271	171,961	7.994%	151,976	19,985	7,994	54,772
13	63	0	250,000	250,000	738	0	295	206,266	8.130%	185,941	20,325	8,130	63,198
14	64	0	250,000	250,000	808	0	323	244,053	8.282%	223,348	20,704	8,282	71,803
15	65	0	250,000	250,000	892	0	357	285,321	8.353%	264,438	20,882	8,353	80,513
16	66	(250,000)	0	0	0	0	0	308,634	0.000%	0	0	0	80,513
		$0			$7,819	$0	$3,128					$77,385	

Assumptions:

* Economic Benefit rates are based on John Hancock's current YRT rates

**Combined Federal and State Personal Tax Rate for both Corporation and Executive: 40.00%

Spreadsheet #4: Split Dollar Redesigned as an Interest-Free Loan (Demand Loan) - Trust Owns Policy

		Corporation									Executive			
		(1)	(2)	(3)	(4)	(5)	(7)	(6)	(8)	(7)	(8)	(9)	(10)	(11)
	EOY Age	Beginning Loan Balance	Premium Payment	Annual Imputed Interest Income AFR*	Annual Imputed Compensation Deduction	Annual Loan	Corporate Recovery - Rollout	Ending Loan Balance	Net After Tax Annual Corporate Outlay	Net After Tax Cumulative Corporate Outlay	Annual Imputed Comp Income	Estimated Income tax on Annual Imputed Comp. Income**	Estimated Gift tax on Annual Imputed Comp. Income***	Estimated Cumulative Tax Paid cols. (9)+(10)
1	51	$0	$25,000	$1,475	$1,475	$25,000	$0	$25,000	$25,000	$25,000	$1,475	$590	$811	$1,401
2	52	25,000	25,000	2,950	2,950	25,000	0	50,000	25,000	50,000	2,950	1,180	1,623	4,204
3	53	50,000	25,000	4,425	4,425	25,000	0	75,000	25,000	75,000	4,425	1,770	2,434	8,408
4	54	75,000	25,000	5,900	5,900	25,000	0	100,000	25,000	100,000	5,900	2,360	3,245	14,013
5	55	100,000	25,000	7,375	7,375	25,000	0	125,000	25,000	125,000	7,375	2,950	4,056	21,019
6	56	125,000	25,000	8,850	8,850	25,000	0	150,000	25,000	150,000	8,850	3,540	4,868	29,426
7	57	150,000	25,000	10,325	10,325	25,000	0	175,000	25,000	175,000	10,325	4,130	5,679	39,235
8	58	175,000	25,000	11,800	11,800	25,000	0	200,000	25,000	200,000	11,800	4,720	6,490	50,445
9	59	200,000	25,000	13,275	13,275	25,000	0	225,000	25,000	225,000	13,275	5,310	7,301	63,056
10	60	225,000	25,000	14,750	14,750	25,000	0	250,000	25,000	250,000	14,750	5,900	8,113	77,069
11	61	250,000	0	14,750	14,750	0	0	250,000	0	250,000	14,750	5,900	8,113	91,081
12	62	250,000	0	14,750	14,750	0	0	250,000	0	250,000	14,750	5,900	8,113	105,094
13	63	250,000	0	14,750	14,750	0	0	250,000	0	250,000	14,750	5,900	8,113	119,106
14	64	250,000	0	14,750	14,750	0	0	250,000	0	250,000	14,750	5,900	8,113	133,119
15	65	250,000	0	14,750	14,750	0	0	250,000	0	250,000	14,750	5,900	8,113	147,131
16	66	250,000	0	0	0	0	(250,000)	0	(250,000)	0	0	0	0	147,131
			$250,000	$154,875	$154,875	$250,000			$0		$154,875	$61,950	$85,181	

Assumptions:

*1/1/01 AFR Rate: 5.90% AFR will be an annual floating rate in actual case

**Combined Federal and State Personal Tax Rate for both Corporation and Executive: 40.00%

***Assumed Gift Tax rate: 55.00%

Spreadsheet #5: Split Dollar with Taxation at Plan Termination (Tax at Rollout) - Trust Owns Policy

		Corporation			Executive							
		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
	EOY Age	Corporate Split Dollar Premium	Cash Surrender Value	Death Benefit	Economic Benefit*	Executive Split Dollar Premium	Income Tax** on Economic Benefit	Gift Tax*** on Economic Benefit	Cash Surrender Value	Income Tax** on Cash Value at Plan Termination	Gift Tax*** on Cash Value at Plan Termination	Estimated Cumulative Tax Paid cols. (6)+(7)+(9)+(10)
1	51	$25,000	$25,000	$25,000	$279	$0	$111	$153	$472	$0	$0	$265
2	52	25,000	50,000	50,000	297	0	119	163	2,421	0	0	547
3	53	25,000	75,000	75,000	316	0	126	174	6,416	0	0	847
4	54	25,000	100,000	100,000	341	0	137	188	12,666	0	0	1,171
5	55	25,000	125,000	125,000	369	0	148	203	21,444	0	0	1,522
6	56	25,000	150,000	150,000	404	0	162	222	32,922	0	0	1,906
7	57	25,000	175,000	175,000	451	0	181	248	47,322	0	0	2,335
8	58	25,000	200,000	200,000	520	0	208	286	65,041	0	0	2,829
9	59	25,000	225,000	225,000	544	0	218	299	86,490	0	0	3,346
10	60	25,000	250,000	250,000	561	0	224	308	112,022	0	0	3,879
11	61	0	250,000	250,000	619	0	248	341	140,727	0	0	4,467
12	62	0	250,000	250,000	679	0	271	373	171,961	0	0	5,112
13	63	0	250,000	250,000	738	0	295	406	206,266	0	0	5,813
14	64	0	250,000	250,000	808	0	323	444	244,053	0	0	6,580
15	65	0	250,000	250,000	892	0	357	491	285,321	0	0	7,428
16	66	(250,000)	0	0	0	0	0	0	308,634	114,128	156,926	278,483
		$0			$7,819	$0	$3,128	$4,301		$114,128	$156,926	

Assumptions:

* Economic Benefit rates are based on John Hancock's current YRT rates
**Combined Federal and State Personal Tax Rate for both Corporation and Executive: 40.00%
***Assumed Gift Tax rate: 55.00%

Spreadsheet #6: Split Dollar with TAM Taxation - Trust Owns Policy

		Corporation			Executive										
		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
	EOY Age	Corporate Split Dollar Premium	Cash Surrender Value	Death Benefit	Economic Benefit*	Executive Split Dollar Premium	Income Tax** on Economic Benefit	Gift Tax*** on Economic Benefit	Cash Surrender Value	Annual Percentage Increase in Cash Value	Cash Value Growth of Previously Taxed Cash Value	Taxable TAM Cash Value	TAM Income Tax** on Cash Value	TAM Gift Tax*** on Cash Value	Estimated Cumulative Tax Paid cols. (6)+(7)+(12)+(13)
1	51	$25,000	$25,000	$25,000	$279	$0	$111	$153	$472	0.000%	$0	$0	$0	$0	$265
2	52	25,000	50,000	50,000	297	0	119	163	2,421	3.861%	491	1,931	772	1,062	2,381
3	53	25,000	75,000	75,000	316	0	126	174	6,416	5.159%	2,546	3,869	1,548	2,128	6,357
4	54	25,000	100,000	100,000	341	0	137	188	12,666	5.874%	6,793	5,874	2,350	3,231	12,261
5	55	25,000	125,000	125,000	369	0	148	203	21,444	6.376%	13,474	7,971	3,188	4,384	20,184
6	56	25,000	150,000	150,000	404	0	162	222	32,922	6.694%	22,880	10,042	4,017	5,523	30,108
7	57	25,000	175,000	175,000	451	0	181	248	47,322	6.926%	35,202	12,120	4,848	6,666	42,050
8	58	25,000	200,000	200,000	520	0	208	286	65,041	7.165%	50,712	14,329	5,732	7,881	56,157
9	59	25,000	225,000	225,000	544	0	218	299	86,490	7.395%	69,851	16,639	6,656	9,152	72,482
10	60	25,000	250,000	250,000	561	0	224	308	112,022	7.588%	93,053	18,969	7,588	10,433	91,035
11	61	0	250,000	250,000	619	0	248	341	140,727	7.929%	120,904	19,822	7,929	10,902	110,454
12	62	0	250,000	250,000	679	0	271	373	171,961	7.994%	151,976	19,985	7,994	10,992	130,085
13	63	0	250,000	250,000	738	0	295	406	206,266	8.130%	185,941	20,325	8,130	11,179	150,094
14	64	0	250,000	250,000	808	0	323	444	244,053	8.282%	223,348	20,704	8,282	11,387	170,531
15	65	0	250,000	250,000	892	0	357	491	285,321	8.353%	264,438	20,882	8,353	11,485	191,217
16	66	(250,000)	0	0	0	0	0	0	308,634	0.000%	0	0	0	0	191,217
		$0			$7,819	$0	$3,128	$4,301					$77,385	$106,404	

Assumptions:

* Economic Benefit rates are based on John Hancock's current YRT rates

**Combined Federal and State Personal Tax Rate for both Corporation and Executive: 40.00%

***Assumed Gift Tax rate: 55.00%

John Hancock Life Insurance Company
John Hancock Variable Life Insurance Company*
Signator Investors, inc., Member NASD, SIPC
Boston, MA 02117
(*Not Licensed in New York)

ADV-1219 1/01

This is a supplemental illustration and not valid unless accompanied by a full illustration.