After the sunset — increased coverage for a new dawn in estate planning

On January 1, 2026, the federal lifetime estate and gift tax exemption will drop from the current $13.61 million per person (inflation-adjusted from a base exemption of $10 million) to about $7.2 million per person (inflation-adjusted from a base exemption of $5 million). As the sun sets on the largest lifetime exemption, uncertainty looms for many high-net-worth clients. With constant fluctuations in tax legislation, it is no wonder why many high-net-worth clients are sitting on the sidelines and awaiting clarity from Congress before taking action.

Understanding the impact of the sunset

Life insurance has long been utilized as a tool in estate planning. It can provide the liquidity needed to cover estate taxes, which are generally due nine months after death, and to help achieve other legacy planning goals such as estate equalization. The fast-approaching expiration of higher exemptions has prompted a reevaluation of estate planning strategies, including the role of life insurance in affluent clients' plans. Today, higher exemptions mean fewer families are subject to federal estate taxes, but when the exemption sunsets on January 1, 2026, these high-net-worth families may be surprised to find that they now have an estate tax liability, or that their exposure has increased.

How does it work? Let's look at a quick example:

- Heather (65) and Mark (65) are married with a $35,000,000 estate.
- In 2024, their estate tax liability is $3,112,000 (assuming a 40% tax rate).
- On January 1, 2026, if the exemption is reduced to an assumed $7,200,000 ($5,000,000 indexed for inflation), their estate tax liability jumps to $8,240,000.

They are surprised to learn that, seemingly overnight, their estimated estate tax has more than doubled — and this assumes no growth. Realistically, the amount would be even greater, assuming a modest projection for appreciation on the assets in their estate.

Their financial professional recommends they purchase a $10 million life insurance policy to help cover their projected estate tax liability in 2026 along with a growth factor, but Mark and Heather are hesitant to do so because it is more than they feel they need in 2024. They are reluctant to move forward with purchasing the $10 million policy in the event the exemption is extended, or new tax laws are enacted where they feel they do not need that much coverage. At the same time, they also realize that waiting comes with insurability risks — if they wait to buy the coverage they need, one or both of them could have a change in health that could make purchasing life insurance unaffordable or unattainable.

In situations like these, clients often fail to take action at all, remaining paralyzed by indecision. John Hancock remains committed to helping address the complex needs of our customers, and to address these concerns, we are excited to introduce an innovative option to help provide flexibility amidst tax law uncertainty.

Driving action with the Survivorship Guaranteed Purchase Option

To help address this need, John Hancock is now offering a Survivorship Guaranteed Purchase Option (SGPO) on all qualifying survivorship policies issued between June 3, 2024 and December 31, 2024. If the basic exclusion amount is $8 million per person or less in 2026 (reflecting the sunset of the exemption plus inflation), clients will have an option to purchase an additional policy *without additional underwriting*. The maximum face amount on the new policy will be equal to a maximum of the lesser of $5 million or the original policy face value. There is no charge for this feature in 2024 or to elect to exercise the option in 2026 and because the second policy is a new policy, the clients' insurance agent has a new sales opportunity to help their clients.

How it works

- No charge for SGPO in 2024 or at time of exercise
- In 2024:
  - Automatically included on qualifying survivorship policies issued between June 3, 2024 and December 31, 2024;
  - Available for approved risk classes of 200% or better; and
  - Issue ages 75 or younger
- In 2026:
  - Option to purchase second policy must be exercised between January 1, 2026 and June 30, 2026
  - Second policy face amount equal to a maximum of the lesser of $5 million or original policy face amount
  - New policy is the same rate class as original policy
  - Second policy purchased is fully commissionable

Let's look at how the SGPO helps drive action and build in flexibility using the above example:

Mark and Heather ultimately decide to purchase a $6 million survivorship life insurance policy in 2024 to help cover their current estate tax liability plus growth. They have confidence today knowing that they are currently protected. Because they purchased the policy with John Hancock in July 2024, the SGPO was automatically included on their policy. Mark and Heather are excited to know they have access to more coverage in 2026 should they need it — without having to go through underwriting. Assuming the sunset of the exemption happens in 2026 as anticipated, they can elect to buy a second policy for up to $5 million of additional coverage to cover their increased tax liability.

When it comes to structuring complex, large estate planning cases and helping drive client action, offering flexible solutions is essential. The SGPO enables high-net-worth clients to protect their families and preserve insurability today, while providing time to acclimate to changing tax laws. The SGPO reaffirms John Hancock's **commitment to the survivorship market** and focuses on offering innovative options to help address clients' needs. Combined with unmatched capacity and retention, and industry-leading Underwriting and Advanced Markets expertise in the high-net-worth space, John Hancock is poised to be the carrier of choice when it comes to estate planning cases.