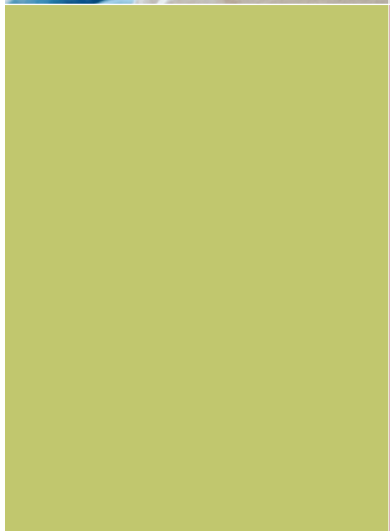


Unit Values

What You Need to Know



Ever wondered why the unit values of an investment you see on your statement are different from what you might see on CNNMoney.com or in the newspaper?

Why aren't they identical?

If you compare the unit values of an investment on your John Hancock retirement account statement with the published share prices or net asset values (NAVs) of the corresponding mutual fund, you may find they're different. Sometimes, the unit values are higher than the NAVs, sometimes lower, but only rarely are they the same.

Before we explore the answers to these questions, let's start by making a key distinction between the terms: unit value, share price and NAV.

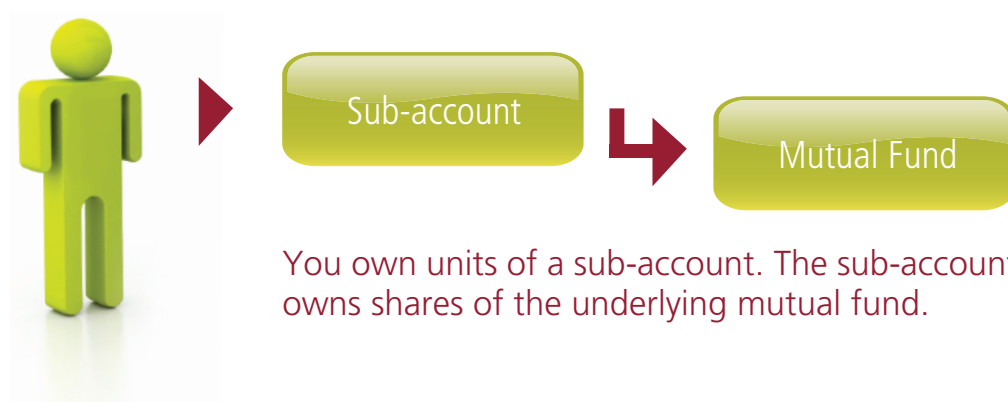
- Sub-accounts have unit values
- Mutual Funds have NAVs or share prices

Keeping this terminology in mind, let's examine the relationship between your investment in a sub-account and the underlying mutual fund.

The relationship between a sub-account and its underlying mutual fund

When you make a contribution to your John Hancock retirement plan, you are buying units of a sub-account. The sub-account then invests in the underlying mutual fund on your behalf. You are not buying shares of a mutual fund directly.

This diagram illustrates the relationship between the retirement account participant, the sub-account and the underlying mutual fund. As you can see, you own units of the sub-account, while the sub-account owns shares of the fund.



An underlying mutual fund is commonly referred to as a fund.

John Hancock Life Insurance Company (U.S.A.) and John Hancock Life Insurance Company of New York are collectively referred to as "John Hancock".

Why John Hancock uses sub-accounts

As a life insurance company, John Hancock offers insurance products governed by state insurance laws. According to these state laws, participants in a Group Annuity Contract cannot directly invest contributions in mutual funds. Payments must first be made to a John Hancock sub-account which then invests the money into a mutual fund or another security. A John Hancock sub-account commonly is referred to as your investment option.

How unit values and NAVs are calculated

JH Sub-account Market Value ÷ No. of Units = Unit Value

Example: $\$7000 \div 120 = \58.34

Mutual Fund Market Value ÷ No. of Shares = Net Asset Value

Example: $\$7000 \div 700 = \10

Unit Value Calculation:

The value of each unit is determined at the close of business each day by taking the market value of the total assets in the sub-account and dividing it by the number of units held in the sub-account.

NAV Calculation:

Similarly, at the close of the business day, the mutual fund company calculates the NAV of the mutual fund share by dividing the market value of the mutual fund's total assets by the number of shares issued.

The equations above are similar.

However, the differences in valuation stem from the sub-account and its underlying mutual fund operating separately as two independent investment entities. As separate investment entities, action taken by one doesn't necessarily have the same impact on the other. This may result in differences between the unit values in your retirement account and the underlying mutual fund's share prices.

What causes unit values and NAVs to differ?

There are many possible reasons why the unit values and NAVs in the above equations would be different. The most common reasons include:

Mutual fund distributes dividends, sub-accounts do not

A mutual fund's assets will include accumulated dividends and capital gains earned through the fund's investment portfolio. If the mutual fund decides to distribute the dividends to shareholders, the NAV will decrease by the amount of the dividend. John Hancock sub-accounts do not declare or pay out dividends that are distributed by the underlying mutual fund. All dividends are re-invested into the underlying mutual fund at the lower NAV.

Before dividend distribution

NAV per share of ABC Mutual Fund is \$10

Unit value of Sub-account A is \$20

$\$2,000,000$ total Sub-account A market value ÷ $\$20/\text{unit} = 100,000$ units

$\$2,000,000$ total Mutual Fund ABC market value ÷ $\$10/\text{share} = 200,000$ shares

$\$10,000$ participant's Sub-account A market value ÷ $\$20/\text{unit} = 500$ units

After \$2 dividend distribution

Sub-account A receives $\$2 \times 200,000$ shares = $\$400,000$ from dividend distribution

NAV per share of ABC Mutual Fund is reduced to \$8

Sub-account A purchases $\$400,000 \div \$8/\text{share} = 50,000$ shares of Mutual Fund ABC

Sub-account A now owns $50,000$ shares + $200,000$ shares = $250,000$ shares of Mutual Fund ABC

Market value of Mutual Fund ABC = $250,000$ shares \times $\$8 = \$2,000,000$ (unchanged)

Unit value of Sub-account A is \$20 (unchanged)

$\$2,000,000$ total Sub-account A market value ÷ $\$20/\text{unit} = 100,000$ units (unchanged)

$\$10,000$ participant's Sub-account A market value ÷ $\$20/\text{unit} = 500$ units (unchanged)

The bottom line: When an underlying mutual fund distributes dividends, the NAV of the fund goes down and the unit value of the sub-account remains the same.

Mutual fund share splits, sub-accounts do not

Mutual funds may split their shares when they reach a certain value. Before and after the split, the fund's overall market value and the value of each investor's stake in the fund remain the same. So, as the number of shares increase with the split, the price or NAV per share must decrease.

Example: Share Prices of ABC Mutual Fund

Before stock split: $\$2,000 \text{ total market value} \div 100 \text{ shares} = \20 NAV per share

After 2 for 1 stock split: $\$2,000 \text{ total market value} \div 200 \text{ shares} = \10 NAV per share

John Hancock does not split a sub-account's units when an underlying mutual fund splits its shares. Instead, the sub-account owns twice as many shares of that fund at half the value. The participant's overall market value remains the same as do the number of units and the unit value.

Example: Unit Values of Sub-Account that Invests in ABC Mutual Fund

Before stock split: $\$2,000 \text{ total market value} \div 100 \text{ units} = \$20 \text{ unit value } (\$20 \times 100 \text{ shares})$

After 2 for 1 stock split: $\$2,000 \text{ total market value} \div 100 \text{ units} = \$20 \text{ unit value } (\$10 \times 200 \text{ shares})$

The bottom line: When an external or underlying mutual fund splits its stock, its NAV goes down and the number of shares goes up, but the unit value for the corresponding sub-account remains the same.

A sub-account can replace its underlying Mutual Fund

Occasionally, John Hancock and other retirement plan providers find it necessary to replace an underlying mutual fund with another that has similar investment objectives. When this happens, the unit value of the sub-account is not adjusted to match the NAV of the new underlying fund.

Before Replacement of Underlying Fund

NAV of underlying Mutual Fund A is \$10

Unit Value of Sub-account A is \$20

$\$2,000,000 \text{ total Sub-account A market value} \div \$20/\text{unit} = 100,000 \text{ units}$

$\$10,000 \text{ participant's Sub-account A market value} \div \$20/\text{unit} = 500 \text{ units}$

After Replacement of Underlying Fund

If the NAV of underlying Mutual Fund B is \$15/share

Unit value of Sub-account B remains unchanged at \$20/unit

$\$2,000,000 \text{ total Sub-account B market value} \div \$20/\text{unit} = 100,000 \text{ units}$

$\$10,000 \text{ participant's Sub-account B market value} \div \$20/\text{unit} = 500 \text{ units}$

The unit value remains unchanged, but what does change is the number of underlying fund shares the sub-account owns.

$\$2,000,000 \text{ total value of Sub-account B value} \div \$15/\text{share of Mutual Fund B} = 133,333 \text{ shares of underlying Mutual Fund B}$

The bottom line: When a replacement occurs, the sub-account's unit value and the number of units remains the same. What changes is the number of shares the sub-account owns in the underlying fund.



Go to the investment options section on our website for more information on the daily unit values and to review fund sheets.

To obtain group annuity investment option Fund sheets and prospectuses for each sub-account's underlying investment vehicle call 1-800-395-1113. These documents contain complete details on investment objectives, risks, fees, charges and expenses as well as other information about the underlying investment vehicle, which should be carefully considered. Please read these documents carefully prior to investing.

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