John Hancock
LIFE INSURANCE

Life Insurance as a Creditor Protection Tool

IT IS NO STRETCH to say that the state of the economy is a major issue in many consumers' minds. It seems that the media reports on a grim facet of the economy each day. In the midst of this environment, one issue that has received increasing attention is creditor protection. People are scrutinizing their assets in order to see how they can be shielded from today's adverse conditions. The question for financial advisors is how to address those concerns.

Current Situation

Before we answer that question, let's take a look at the current situation. By many accounts, overall confidence in the economy has plummeted. Many consumers have responded to this by tightening their budgets and increasing their savings rates. Recent polling indicates that 57% of Americans think the U.S. economic outlook is getting worse.[1] A look at bankruptcy filings provides a telling statistic. For the twelve-month period ending June 2008, there were 967,609 total filings in U.S. bankruptcy courts. Compare that to the twelve-month period ending June 2009 with 1,306,315 total filings.[2] That is an increase of roughly 35% over one year! Clearly there is a need for financial products that can provide protection and stability for today's mood.

Some industries, such as law or medicine, have always considered creditor protection as a hot button topic. Professionals in these areas constantly face the specter of lawsuits as it relates to their practices. More recently, the idea that there is a need to safeguard property against judgments and creditors has become more widespread. It is important to note that in addition to federal codes, creditor protection statutes can vary widely from state to state. However, many people are unaware that certain assets contain built-in creditor protection features. For instance, Social Security benefits are exempt from seizure by creditors. In some states, a primary residence can be secured. It is critical that planning be undertaken before a judgment or bankruptcy filing becomes imminent.

1. http://www.gallup.com/poll/110824/Gallup-Daily-US-Economic-Outlook.aspx
2. http://www.uscourts.gov/bnkrpctystats/statistics.htm#quarterly

Life Insurance as an Asset Protection Tool

One asset that is often overlooked as a creditor protection tool is life insurance. Because life insurance is considered to serve public policy interests, policies receive protection under federal and state statutes. For policyholders who file for protection under the federal bankruptcy laws, the federal Bankruptcy Code protects the actual insurance element of unmatured life insurance policies owned by a debtor and up to a specified amount ($10,775 for 2008) of the debtor's aggregate interest in any accrued dividend, interest or loan value, provided that the insured is either the debtor, debtor's spouse or an individual on whom the debtor is a dependant. Many states provide more extensive exemptions of life insurance than federal law. In addition to the bankruptcy exemptions, many states provide protection for the cash value and death benefit of life insurance in a non-bankruptcy context.[3] In the realm of creditor protection, it does not get much better than that!

Since cash values can be protected, a permanent policy has an added benefit over a term policy. Consider the Protection Whole Life product. This product is simple, versatile and provides for guaranteed values. For the client with an eye on estate planning needs and creditor protection, Protection Whole Life would be a good fit. As an example, let's look at a 45-year-old male, Preferred Non Smoker applying for a $1,000,000 death benefit. Using a 20 pay, the premiums would be $15,670. At age 65, when the premium stream ends, the *guaranteed* cash value would be $458,590.[4] That would be a significant amount that would not be subject to attachment. The income tax advantages to life insurance cash values are an added bonus here. It is easy to see that life insurance can help provide debtors reassurance. Including trust planning along with the life insurance could add even more creditor protection.

Looking Ahead

Everyone's hope is that the economy improves as we move forward. A silver lining in the recent downturn is that it has forced people to think more intently about the imperative planning that must be done to secure their future. Part of that planning should include a discussion of the role life insurance can play in addressing creditor protection issues.

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3. Advanced Markets, *Because You Asked*, June 2009.
4. The data shown is taken from an illustration.

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