DIVORCE PLANNING WITH LIFE INSURANCE

DIVORCE PLANNING

When two people marry, they are not contemplating that someday they may be involved in divorce planning. However, all too often this is where marriages can wind up. In a dissolution of marriage, family property must be divided up and provisions are made for children.

Child support, and often alimony payments, can be ordered as part of the divorce decree. In order to secure this obligation, the court will typically require sufficient life insurance on the primary wage earner to fund the obligation as part of the divorce decree. That way, if the payer-parent dies, future obligations are funded through life insurance. The beneficiary may be the spouse or child. This also provides peace of mind to the paying parent that their child is well taken care of if they die.

LIFE INSURANCE NEEDS

In many divorces that include provisions for alimony or child support, the court order will often require the supporting spouse to carry a life insurance policy to ensure that the settlement will be paid if the supporting spouse dies. If insurance is required, the term of the coverage will need to be determined. If the policy is meant as security for child support only, the policy can be terminated when the last dependent child reaches the age of majority. It may also be negotiated that the policy remain in effect for a longer period of time stated either as a term of years, after all the children's education is completed or in some cases for life, with the children as beneficiaries.

If the insurance is for alimony, it may continue for as long as the alimony payments continue which may be for life, until the payee is remarried, or until retirement plans are accessed at retirement if the spouse receives an interest in the retirement plans.

If the court does not order life insurance, it may be in the best interest of the non-supporting spouse to take out a policy insuring the supporting spouse to ensure future alimony or child support payments.

TYPES OF LIFE INSURANCE AVAILABLE

Term insurance and permanent insurance can both be used to satisfy the obligation to pay child support or alimony.	
Term Insurance	Term insurance works for a temporary need for a specific term of years. If the policy is only needed for a short time, then term insurance may suffice. If the coverage is ten years or less term insurance may be the most effective means of providing coverage.
Permanent Insurance	Permanent insurance will provide coverage for life and can also be used for other purposes after the obligation has ended. It also ensures that if the insured becomes uninsurable, they can retain the coverage. If coverage is needed for between 10 to 14 years then either a term or permanent product could be used. If the coverage period is fifteen years or greater permanent insurance is a better choice.

California Residents: The Accelerated Benefit Rider for Chronic Illness is not available in conjunction with term coverage whether it is the base policy or a rider.

WHY USE SIGNATURE GUARANTEED UNIVERSAL LIFE

Signature Guaranteed Universal Life Insurance (SGUL) has features that work well when there is an obligation for a term of years that is close to fifteen years up to the life of the responsible party.

If the obligation ends in the event the divorced spouse remarries, then there are three cash-out periods available at policy years 15, 20, and 25.[1] If the obligation is for approximately fifteen years, the insured has the ability to cash out a portion of their premiums making this as affordable as term insurance. It also allows the insured to determine at the time the obligation ends if the insurance would be useful for the insured to keep in force. If in the meantime, the insured has experienced a serious illness, they can keep the policy. If the insured is diagnosed with a serious illness they will also have the added benefit of the Accelerated Benefit Riders for Critical, Chronic and Terminal illness or the Accelerated Benefit Rider for Terminal Illness (NY only) they could utilize to meet any obligations or provide for dependents. With the benefits and flexibility of permanent insurance and the ability to cash out the policy if the insured's situation changes, this policy is a great match to be used in a divorce situation.

WHY SIGNATURE GUARANTEED UL CAN BE A GOOD PRODUCT IN THE DIVORCE MARKET:

- ✓ Guarantees coverage if premiums are paid and loans are not taken.
- ✓ Premiums are less than traditional Universal Life because SGUL does not generate significant cash value.
- ✓ After 15, 20, or 25 years, the insured can exercise the built in Cash-Out Guarantee and receive a full or partial return of their premiums paid.[1]
- ✓ Includes the Accelerated Benefit Riders for Critical, Chronic, and Terminal Illness or the Accelerated Benefit Rider for Terminal Illness (NY only) that can provide protection if the insured has a qualifying illness.

[1]The Guaranteed Cash Out rider is not available with all policies. May not be available on all substandard rated policies and some substandard policies may only qualify for the Cash-Out option on the 15th Policy anniversary.

CASE STUDY: JIM AND MARY

- Decided to dissolve their marriage and divorce after seven years.
- Lived in a non-community property state.
- Mary was a stay-at-home mom and Jim was an attorney and made over $150,000 per year.
- They had three children together, ages 4, 2, and 1.
- Both are thirty-two years old.

In the divorce settlement, Jim was ordered to pay Mary child support in the amount of $3,500 per month until the later of the children reaching age 18 or graduating from high school. As each child reached 18 the child support requirement would diminish as that child was no longer subject to support. Jim also agreed to pay for the children's college education and to pay Mary $1,500 per month until she remarried or died.

Mary's attorney requested and the Judge agreed to require Jim to obtain life insurance to protect his wife and children and to ensure that either he or the life insurance will fulfill his commitment. The cost of child support could be up to $657,000 if all children remain healthy as that could be a seventeen year obligation. The cost of alimony could be as much as $936,000 if Mary does not re-marry and lives into her 80's. Add to that the cost of college education and the cost could really skyrocket. After considerable negotiation it was determined that Jim would purchase a $1,000,000 permanent policy that would be available to help Mary meet her and the children's needs if something happened to Jim. Her attorney negotiated a permanent policy since the children were so young and because the payments to Mary could potentially go on after Jim would no longer qualify for term insurance. Jim's attorney negotiated the face amount and, after reviewing various insurance proposals, decided on the Signature Guaranteed UL policy in order to keep the cost down while meeting the need for permanent coverage. If Mary remarried, Jim could discontinue the policy later or keep the policy for himself naming new beneficiaries or keeping his children as beneficiaries.

The SGUL policy is a cost effective permanent policy that can meet multiple needs and if those needs are ultimately satisfied the policy owner can obtain a partial or full return of premium through the Cash-Out feature.[2] Being able to enjoy permanent coverage for 25 years and then receive back your paid premiums can be a great way to protect loved ones if something happens to you and then receive a refund after the protection period to meet other retirement needs.

[2]The value of the Cash-Out Rider is limited by a percentage of the death benefit and may not always equal the full amount of premiums paid.

Policy Form Series SGUL15, SGUL15(NY), GCOR15, GCOR15(NY), ABD11(NY) (Forms may vary by state).

Accelerated Benefit Riders Notice:

Policy Form Series: ABR14-TM; ABR14-CH; ABR14-CT. **Forms will vary by state and may not be available in all states.** Have your agent refer to rider forms for a complete list of illnesses and definitions. Some states may limit the definition of terminal illness to conditions that are expected to result in death within 12 months. The riders are offered at no additional premium. However, the accelerated payment will be less than the requested death benefit because it will be reduced by an actuarial discount and an administrative fee of up to $500. The amount of the reduction is primarily dependent on American National's determination of the insured's life expectancy at the time of election. Outstanding Policy Loans will reduce the amount of the benefit payment. The accelerated death benefit is an unrestricted cash payment. The Chronic and Terminal rider are intended to receive favorable tax treatment under 101(g) of the IRC. Receipt of a benefit could be a taxable event. You should consult a tax advisor regarding the tax status of any benefit paid under these riders. Receipt of Accelerated Benefits may affect your eligibility for Medicaid, supplemental security income, or other governmental benefits or entitlements. Before accelerating any benefit you should consult an advisor to determine the impact on your eligibility. Accelerated Benefit Riders are not replacements for Long Term Care Insurance. **This is a life insurance benefit that also gives you the option to accelerate some or all of the death benefit in the event that you meet the criteria for a qualifying event described in the policy. This policy or certificate does not provide long-term care insurance subject to California long-term care insurance law. The policy or certificate is not a California Partnership for Long-Term Care program policy. This policy or certificate is not a Medicare supplement policy.** Accelerated benefit riders ("ABR") and long-term care insurance ("LTCI") provide different types of benefits. An ABR allows the insured to access a portion of the life insurance policy's death benefit while living and may be used for any purpose. LTCI provides reimbursement for necessary care received due to a prolonged illness or disability. Coverage may include reimbursement for the cost of a nursing home, assisted living, home health care, homemaker services, adult day care, hospice services or respite care for the primary caretaker. The benefits may be conditioned on certain requirements or meeting an elimination period or limited by type of service, the number of days or a maximum dollar limit. Benefits under some ABRs and all LTCI are conditioned upon the insured not being able to perform two or more of the activities of daily living or being cognitively impaired. California: See form 10741-CM for a more detailed comparison of benefits provided by an ABR and LTCI.

New York Accelerated Benefit Rider for Terminal Illness Notice:

Receipt of accelerated death benefits may affect eligibility for public assistance programs. The rider is offered at no additional premium, however, an administrative fee not to exceed $300 will be deducted from the initial accelerated benefit. Any amounts accelerated will be held as a lien against the death benefit.

Neither American National nor its agents offer tax or legal advice. Clients should consult their own tax and legal advisors.

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