The Asset Protection Against Judgments and Creditors
You Gain from Life Insurance and Annuities

Creditors and judgments are a fact of life, especially if you're wealthy. The more money you make, the more some people will try to get. A lot of our clients come to us looking to protect their assets from judgments and liens. At the same time, they want to be able to continue to grow wealth for the rest of their lives. Yield is important to them, but so is legal protection.

That's why many of our clients use life insurance and annuities as part of their asset protection strategy. Life insurance and annuities have the rare advantage of being protected from most judgments and liens. While laws vary from state to state, often these insurance proceeds are considered uncollectible assets. As a matter of policy, they also bypass probate.

If protecting your assets from creditors is your goal, then life insurance or annuities might be the ideal financial vehicle for you.

Skipping Probate with Contractual Obligations

One of the benefits of using insurance and annuities is that they bypasses probate. Most of your assets will go through probate when you pass away, with your will determining their final disposition. However, life insurance and annuities don't do that. These are contractual obligations between you, the insurance company, and the beneficiary. As such, the funds from those policies don't go into your estate. This is important because anyone who brings a judgment or debt against your estate is going to be able to use its value to prove you have assets to pay the case. Life insurance policies, for example, aren't considered part of that estate in probate court and are uncollectible as a result. But life insurance doesn't just protect your money when your estate is being settled. It can also be used to protect your assets when you're alive.

How Life Insurance Policies Protect Your Wealth

In the case of judgments and liens, collectible assets are any assets with a cash value that aren't protected by law. For the most part, these assets are just about anything you can sell for cash. So property, stocks, bonds, and other investments are considered collectible assets. If you were to get sued by a creditor, those assets could be claimed to satisfy the judgment.

There are a few things that sit on the "uncollectible" end of the spectrum. Among those are insurance policies and annuities. Annuities and life insurance policies are considered protected assets in many states in the United States. Different states may protect different amounts from these policies. In some states, the cash value of the policy is protected. In others, only proceeds paid to beneficiaries are protected. Finally, in the best states, such as Florida, all the funds from the policies are protected.

If you're in a state where life insurance policies and annuities are considered collectible, then you may want to consider the use of a trust. The trust helps to provide an additional layer of insulation to the account by removing the funds from your name. As long as the trust is irrevocable, most states have held that the assets in those trusts can't be used to satisfy judgments or debts. Of course, the key to asset protection is preparation. Life insurance is one of those products that's best purchased when you don't need it. Using it as a part of asset protection is no exception to that rule.

When Do You Need Asset Protection?

Just about all clients have assets that need to be protected. While the basics in your life, like the home you live in and the car you drive, might be safe from collection, many of your investment and cash accounts aren't. The same goes for any vacation properties. The key is to use life insurance and annuities to protect these assets before you ever need to. Once you're the subject of a lawsuit, then moving those funds around could be impossible. In some cases, if someone has enough assets, the court will prevent them from being able to move them if a judgment is imminent. People tend not to plan for this because they think it's unlikely. The issue is that **we live in a very litigious society. Also, the largest cause of US bankruptcies is medical expenses.** The wealthier you are, the more likely it is that people are going to try to claim you owe them money. Even something as simple as someone tripping and falling in your yard or a former business partner claiming you stole clients could cost millions. Noone ever expects to be the subject of a lawsuit or creditor claim or a stroke, cancer or heart attack, but each of these can devastate your assets and loveones. We use life insurance and annuities as a way to protect clients' assets during and after their lives. Our strategies help our clients reduce the risk of asset loss while ensuring they're also building a legacy.