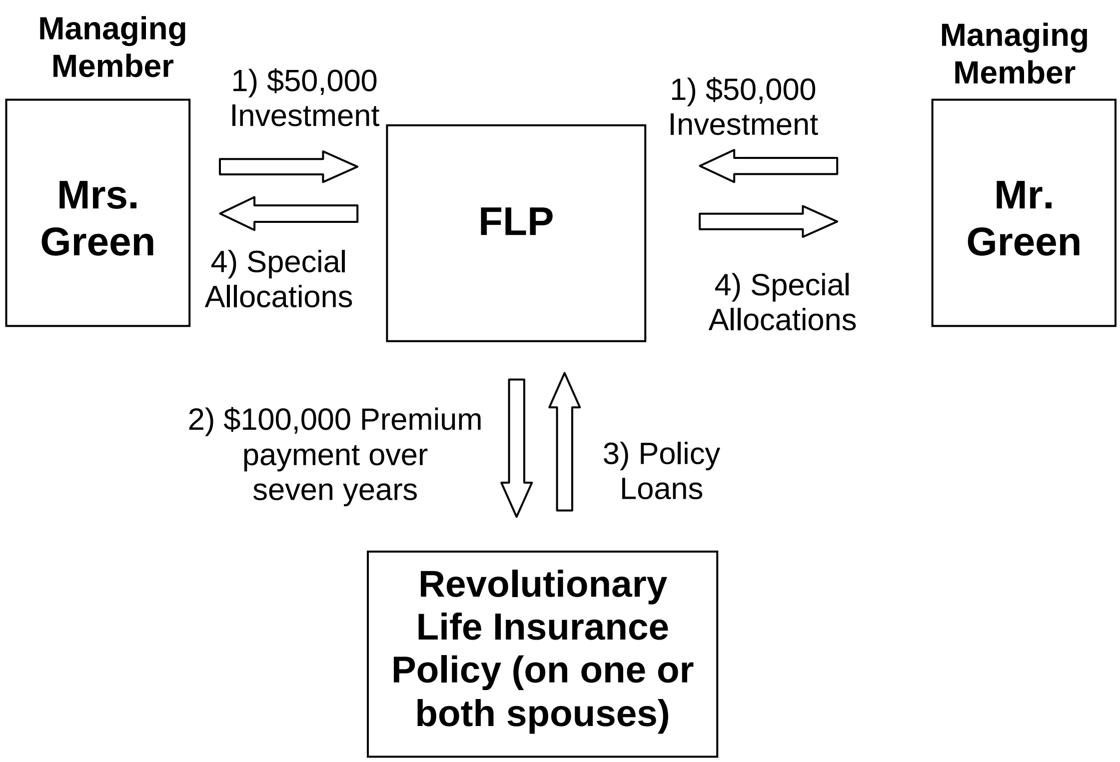
<u>Protecting Life Insurance in States Where it is Not Protected by Statute</u>

The following schematic is a simple one you can use to help your clients protect cash value life insurance in states where it is not protected from creditors. The following structure effectively allows the clients, through special allocations, to have access to tax-free loans from the life insurance policy.

For the following schematic assume that your clients, Mr. and Mrs. Green live in a state where life insurance is not protected from creditors. Assume Mr. Green read <u>**The Home Equity Management Guidebook: How to Achieve Maximum Wealth with Maximum Protection**</u> and has decided to fund $100,000 a year for seven years into a cash value policy to create a tax favorable retirement nest egg.

Since cash value life insurance is not protected in his state, Mr. Green will use the FLP structure below to take advantage of the “Charging Order” language of the FLP statute that will prevent creditors from getting their hands on the assets inside the FLP.



Steps for the above schematic:

1) Both parties capitalize the FLP each year with $50,000 for seven years.

2) As managers of the FLP, they vote to buy an indexed equity high cash value low expenses life insurance policy to grow tax favorable wealth inside the policy (Revolutionary life being the preferred policy).

3) After the policy is funded and when Mr. and Mrs. Green are in retirement, as managing members, they choose to have the FLP take a tax-free loan from the insurance policy.

4) Through "special allocations" both Mr. and/or Mrs. Green can receive from FLP tax-free the money it borrowed.

How can the Greens receive the special allocations "tax-free"? It's actually quite simple. When the FLP borrows money from the life policy, the Greens personally guarantee the loan. When that happens, the Green's basis in the FLP goes up by the same amount. Then when the FLP makes special allocations to the Greens, they will reduce their basis back down and are able to receive the money tax-free.

Why use this structure?

Think about all the clients pouring millions of dollars into cash value life insurance policies in states where the cash is not protected from creditors. That's not a good way to secure a client's wealth.

While the above structure will have a minor cost to it, in general, it's fairly simple and will allow a client to protect assets in an FLP or LLC setup in the correct state (one that has good charging order protection).

Additionally, it is important to make the FLP a multi-member entity to ensure that the entity will be respected by the court.

There are several other issues at play with the above structure that are outside the scope of this short summary. If you would like more information on this structure, it is covered in great detail in the Certified Wealth Preservation Planner (CWPP) course offered by the Wealth Preservation Institute (www.thewpi.org; info@thewpi.org).