

## Case Study: Creditor Protection

**Learning Objective:** Identify any current or potential creditor issues and discuss alternative strategies for the preservation of assets.

### The Facts

Geraldo's wife died of cancer two years ago when he was 56 and she was 52. Geraldo has not yet updated his will, since his spouse's death. He is currently relying on the provision that names his two adult children as equal beneficiaries and provides for an outright distribution of the assets (in the event of his spouse passing first). The current inventory of Geraldo's estate is as follows:

| Asset                                   | Fair Market Value                     | Additional Details  |
|---|---------------------------------------|---------------------|
| House                                   | \$425,000                             | Principal residence |
| Universal Life Policy on Geraldo's life | \$27,000 CSV                          |                     |
| Stock Portfolio                         | \$225,000                             |                     |
| RRSP – Mutual Funds                     | \$160,000                             |                     |
| Employer's Pension                      | \$135,000<br>Estimated commuted value | No residual value   |

Prior to her death, Geraldo's wife was the beneficiary of the universal life insurance policy and the RRSP, as well as the survivor under his pension plan. There were no contingent beneficiaries named on any of the plans and he has not yet made any changes.

Geraldo is self-employed and is concerned that the ultimate transfer of his assets to his children could be interfered with by a possible lawsuit. A concerned Geraldo has asked for advice regarding the current status of his assets vis-à-vis creditors as well as any suggestions as to how he might "creditor protect" those assets.

## Question

Bearing in mind that you are not a tax/legal expert, offer Geraldo general advice as to the current creditor status of his assets and suggest ways he might improve his position vis-à-vis creditors during his lifetime and at death, including any issues that should be considered when evaluating the strategy.

## Reference

- *257 Advanced Estate Planning Study Guide (Section 2.3)*
- *Estate Planning with Life Insurance, 6th Edition (Chapter 11)*

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