Divorce Settlement Protection

INSURING DIVORCE SETTLEMENT AND CHILD SUPPORT PAYMENTS AGAINST DISABILITY

Offer Issued and Underwritten by Hanleigh Management Inc., a Lloyd's of London Managing General Underwriter

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Hanleigh

Until now, there hasn't been a way to ensure divorce settlement and child support payments continue if the person making those payments, "the Payor," becomes totally disabled. While some people in white collar and professional/technical jobs may have disability income insurance through work or carry personal disability income insurance, it only insures a portion of their income, typically 40% to 60%. Many people don't have any disability income coverage other than Social Security. So, if the Payor becomes disabled, it ranges from difficult to impossible to continue divorce settlement and child support payments to an ex-spouse, "the Recipient," on top of paying his/her own bills. The Payor's only option has been to file for a reduction in the obligation based on his/her current financial circumstances, which is costly and stressful for both the Payor and Recipient

We will refer to divorce settlement payments throughout this document. Divorce settlement payments refer to all payments the Payor is required to make, as stipulated by the divorce decree, in addition to child support (e.g., spousal support, private school tuition, college tuition, medical insurance premiums, activity fees and expenses, payments to buy the Recipient out of the Payor's business, etc.)

Most people don't think about the impact a Payor's disability has on the Payor…

- If the Payor petitions the court to reduce divorce settlement payments and files with the state to reduce child support payments because his/her income has been reduced as a result of being disabled, the Payor incurs legal fees in addition to continuing the payments while going through the process. Even if the divorce settlement and/or child support payments are reduced (versus eliminated), the Payor is still paying something while trying to pay his/her own bills out of a substantially reduced income.

- If the Payor has agreed to or the court has ordered "guaranteed payments," the Payor is obligated to make the payments regardless of his/her financial circumstances.

- On top of the financial impact of a disability on the Payor, the Payor is dealing with a serious medical issue. The Payor may not be physically or mentally able to address the ongoing divorce settlement and/or child support payments because of the medical problem. If the Payor has remarried, the Payor's attorney will be forced to work with the Payor's current spouse, who is under a tremendous amount of stress from managing the disabled Payor's affairs and the financial crisis that has resulted from his/her disability. This is a nightmare for everyone involved.

The Recipient's financial suffering, if the Payor becomes disabled, is more obvious…

- If the Payor doesn't have any income while disabled, the Recipient could lose the remaining divorce settlement and child support payments.

- Even if the Payor has disability income benefits or income from sources other than employment, the Payor can file for reduced child support based on his/her reduced income. The Payor can also ask the court to reduce or eliminate the divorce settlement payments based on his/her reduced income.

- The Recipient can fight these requests but it takes time and money. No matter what the outcome, the Recipient suffers financially…paying legal fees and having child support and/or

If the Payor has the misfortune of becoming disabled while obligated to pay divorce settlement and/or child support payments, it will create substantial financial concerns for both the Payor and the Recipient.

Now there is a Solution

Hanleigh has developed a new disability product which can pay most/all of the expenses dictated by the divorce decree (e.g., spousal support, child support, children's medical insurance premiums, tuition, activity fees, etc.) if the Payor becomes disabled.

- The policy has an owner and a beneficiary.

  1. Whoever "owns" the policy has the right to make changes in the policy, receives premium notifications, past due premium notices, and all correspondence regarding the policy.

  2. The "beneficiary" receives the policy benefits from the insurance company when a claim is paid.

     - The policy can be owned by the Payor and the Payor can be the beneficiary (the Payor continues to pay the Recipient while disabled). This is probably the easiest way to set the program up and might make the most sense tax wise (see the Taxation of Benefits section).

     - The policy can be owned by the Recipient and the Recipient can be the beneficiary. In order to protect the Payor, the decree would have to include language addressing the Payor's obligations if disabled and the policy did pay and if the policy didn't pay (see the Coordinating the Divorce Decree and Disability Policy section).

     - The policy can be owned by the Payor and the Recipient can be the beneficiary. In order to protect the Payor, the decree would have to include language addressing the Payor's obligations if disabled and the policy did pay and if the policy didn't pay (see the Coordinating the Divorce Decree and Disability Policy section).

The owner and beneficiary of the policy must be determined at the time of application.

- The policy can insure the total settlement payments **the Payor is required to pay as stipulated in the divorce decree**. However, the policy can be issued for less than the total payments dictated by the decree (e.g., the Payor refuses to insure spousal support). The policy can also be split, with each party choosing to insure specific settlement expenses.

Example

1. The Payor pays for coverage equal to all payments **except** spousal support.

2. The Recipient pays for coverage equal to all spousal support payments.

In this example, two policies could be issued, on to insure spousal support and one to insure everything else.

- The policy can be written to pay a monthly benefit for a maximum of 60 months. If the total obligation to pay extends beyond the 60 month payment period, a lump sum benefit equal to the unpaid balance of the total obligation is payable to the beneficiary after the monthly benefit period is over (see sample case study below). If the obligation to pay is less than 60 months, call Disability Specialists to discuss whether or not the risk is large enough to insure.

- The benefit amounts are not limited like traditional disability insurance benefits. For example, if the Payor's total obligation is $6,000,000 over 10 years, a policy can be written to insure it.

- The policy has an "elimination period," which is the number of days the Payor must be disabled prior to being eligible for benefits. The first benefit check is payable from the insurance company **not less than** 30 days after satisfying the elimination period. The Payor must submit proof of disability to the insurance company and the claim must be approved before the first claim check is written.

During the elimination period, the Payor must continue paying the Recipient from his/her personal funds. So, if the policy has a 90 day elimination period, the Payor has to have sufficient funds to continue paying the Recipient the first 90 days after he/she becomes disabled.

Once the 90 day elimination period has been satisfied benefits begin to accrue. This means starting on the 91st day the insured is getting credit for 1 days disability benefit for each day of disability. The first benefit check is written at the end of the 4th month. So, the Payor will have two choices regarding the payment in month 4, make the payment and get reimbursed by the policy or tell the Recipient he/she has to wait to collect from the policy at the end of the month.

Who the benefit is payable to must also be taken into consideration when making these decisions.

- The Payor has to submit proof of disability to the insurance company and the insurance company has to approve the claim (which is a process that takes some time), therefore we strongly recommend the Payor (or his/her representative) notify Hanleigh Management Inc. immediately upon becoming disabled.

- As the Payor makes monthly payments to the Recipient, the total obligation of the Payor **is reduced**. Therefore, the disability policy reduces the payout to match the reduction in the Payor's overall obligation.

Sample Case Study: Divorce with 2 minor children

The divorce decree requires:

- $5,000 per month of spousal support and child support is payable for 60 months. Spousal support stops at the end of this period.
- The next 60 months $2,500 per month of child support is payable. Child support stops for the oldest child at the end of this period.
- The next 36 months $1,250 per month of child support is payable and then stops for the younger child.
- The Payor is obligated to pay $20,000 per year of college expenses for 4 years, when each child goes to college. This is an additional $160,000 in total obligation.
- The cost of the children's medical insurance is $500 per month.

Calculations:

- ✓ $5,000 × 60 months = $300,000
- ✓ $2,500 × 60 months = $150,000
- ✓ $1,250 × 36 months = $45,000
- ✓ $500 (medical insurance premium) × 156 months = $78,000
- ✓ Total college obligation $160,000
- ✓ Total obligation: $733,000

Policy Payment Structure*

- When the policy is issued, the Payor has a monthly obligation of $5,000 per month for 60 months plus $500 per month in medical insurance premiums, totaling $5,500 per month.
- The policy is issued with a 90 day elimination period so the Payor will have to make the divorce settlement and child support payments from his/her own funds for the first 3 months. This reduces the total amount insured by the policy to $716,500 ($733,000 - $16,500 the amount paid by the Payor the first 90 days of total disability = $716,500).
- As described above, the policy has a 90 day elimination period and the Payor continues to make the monthly payments of $5,500 for 3 months. So, the policy is written to pay $5,500 per month for 57 months, which is the balance of the Payor's $5,500 per month obligation after the elimination period has been satisfied and the policy begins paying benefits.
- Since the $5,500 per month obligation only lasts for 57 more months and the policy pays benefits for 60 months, the policy would also pay $3,000 for 3 months ($2,500 child support plus $500 medical premium, beginning after 60 months).
- Assuming the Payor is deemed Permanently Totally Disabled from the Payor's regular occupation, the lump sum benefit payable after 60 monthly payments have been made, would start at $394,000 ($716,500 total obligation after the Payor has made the first 3 months of payments - (57 months benefit × $5,500) - (3 months benefit × $3,000)).
- Each month the policy is inforce and the Payor makes the $5,500 payment to the Recipient, the $5,500 monthly obligation is reduced by one month. So, the policy's monthly benefit reduces by one $5,500 per month payment, increases by one $3,000 per month payment (to maintain a total of 60 monthly benefit payments) and the lump sum benefit is reduced by $3,000.
    1. In month two, if the Payor becomes disabled, the policy would pay $5,500 for 56 months + $3,000 for 4 months + $391,000 lump sum benefit
    2. In month three, if the Payor becomes disabled, the policy would pay $5,500 for 55 months + $3,000 for 5 months + $388,000 lump sum
    3. In month four, if the Payor becomes disabled, the policy would pay $5,500 for 54 months + $3,000 for 6 months + $385,000 lump sum

A "Benefit Payment Table" will be included with each illustration showing the maximum monthly and lump sum benefits payable over the term of the policy based on the date of disability.

- If the lump sum benefit is reduced to zero, then the monthly benefit payout is adjusted each month to reflect the remaining obligation of the Payor, as provided by the divorce decree. In other words, if the lump sum benefit is reduced to zero, each month the policy reduces the monthly payout by one month (59, 58, 57, etc.)
- The reducing benefit each month is reflected in the pricing of the policy.

** This is a sample case study and results may vary. At the time of claim, each policy will pay in accordance with the terms of the Payor's current divorce decree, at the time of claim.* ***The policy benefits will be limited to and not exceed the decree's stated benefits, during the claim****.*

- We understand that all settlements have changing monthly obligations, as spousal support and child support payments are made and/or change payments for college are made, etc. The policy can be written to accommodate these adjustments. **The objective of the policy is to insure the payments the Payor is obligated to make to the Recipient, per the terms of the current divorce decree, NOT pay the recipient more than he/she is entitled to receive.**

Taxation of Benefits

How the benefits are taxed should be discussed with a qualified tax professional (your CPA or a tax attorney).

We know premiums for personal disability insurance are not income tax deductible to the insured and the benefits are received income tax free, by the insured. If the Divorce Settlement Disability Policy is viewed the same way, then the Payor would not be able to deduct the premiums but if he/she received the benefits they would be income tax free.

If the Payor continues to make the divorce settlement payments to the Recipient, the portion of the payments that are considered spousal support would be income tax deductible to the Payor and taxable as income to the Recipient. So…the Payor could collect the insurance benefits income tax free, use them to pay the spousal support and receive an income tax deduction for the spousal support.

The policy also provides benefits to pay non-deductible settlement payments such as child support, medical insurance, tuition etc. Since the insurance benefit is not taxable as income, there is no income tax consequence from paying these expenses with the insurance benefit.

If the policy benefits are received by the Recipient directly from the insurance policy, we strongly suggest you discuss with your CPA or tax attorney what the income tax implications are.

- Will the Payor still get the deduction for the spousal support payments, even if he/she didn't write the actual check?
- Will the Recipient have to declare the portion of the benefit that is paying the spousal support payments as income?

These questions don't come up if the Payor receives the benefit and makes the payments to the Recipient, which is why it MAY be the preferred way to set up the policy.

Additional Details of the Product Offering

- The policy is renewable every 5 years. The policy is not guaranteed to be renewed and policy provisions can change on each renewal. So, if the obligation to pay extends beyond 5 years, when the policy is renewed:
    1. The policy will be rewritten to insure the remaining total obligation and to mirror the remaining payments.
    2. The Payor will be required to prove medical insurability. The details of proving medical insurability depend on the amount of coverage applied for and age. Presently, if the total obligation is $1,000,000 or less, and the Payor is under age 65, Modified Guaranteed Issue underwriting is available (see the "Modified Guaranteed Issue (MGI)" section of this summary). If benefits are in excess of $1,000,000, full medical underwriting is required for the benefits exceeding $1,000,000. At the time of renewal the current MGI qualification requirements will apply.
    3. The premium will be based on the new benefit and the insured's age at the time of renewal. However, the premium will not be less than the minimum policy premium of $1,000.
- Coverage has a 3/12/12 preexisting conditions limitation. This means if your disability begins during the first 12 months the policy is inforce and the disability is caused or contributed to by a preexisting condition, the disability will not be covered.

A preexisting condition means a condition for which: (1) medical advice or treatment was recommended by or received from a Physician during the 3 Months period preceding the Effective Date of this coverage; or (2) symptoms were present during the 12 Months period preceding the Effective Date of this coverage that would cause a reasonably prudent person to seek advice or treatment from a Physician.

- Benefits for disabilities caused by or related to mental and nervous disorders and alcohol and drug abuse are NOT COVERED.

- Hanleigh is offering people under age 65 and working in white collar occupations **up to $1,000,000 of total coverage on a Modified Guaranteed Issue (MGI)**. Blue and grey collar occupations **may** also be eligible for MGI. An explanation of how the MGI offer works will follow.

- Total benefits in excess of $1,000,000 and insureds ages 65 through 69 are medically underwritten. If the insured has medical issues, the policy can exclude those conditions from coverage or Underwriters may refuse to issue coverage. We have innovative underwriters and looks for ways to issue policies with exclusions, rather than decline to offer coverage.

- The definition of total disability includes **“Your Occupation”** protection for the term of each policy. This means:
    1. “Your Occupation” is defined as your ability to perform the material duties of the occupation you are working in at the time of claim (e.g., if you are a physician, your occupation is your board certified medical specialty).
    2. The insurance company CANNOT require you work in another occupation, if you are totally disabled from your regular occupation.

- During the **monthly benefit payment period**, in order to qualify for disability benefits, you must be deemed totally disabled from your regular occupation and **not working in another occupation**. It’s your choice to return to work in another occupation. If you return to work in another occupation, your benefit **can be reduced** in accordance with the definition of residual disability.

- After the monthly benefit payment period is completed, you are eligible for the lump sum benefit if you are deemed **permanently totally disabled from your regular occupation**. This means you are not expected to recover and return to work in your regular occupation.

- If there has been a change in the divorce decree since the policy was issued and the obligation of the Payor has changed, at the time of claim the policy will pay the maximum policy benefit or the payment dictated by the most current decree, **whichever is less**.

Examples:

1. The policy is issued with a $5,000 per month benefit. Two years after the policy is issued the Recipient gets remarried and spousal support stops, reducing the monthly obligation to $2,500 per month. If the Payor becomes disabled the policy would only pay $2,500 per month. In this example it would make sense to amend the policy when the obligation was reduced to $2,500 per month, which will reduce the premium.
2. The Policy is issued with a $5,000 per month benefit. The Payor's child support is increased by $300 per month because of an increase in income. The Payor becomes disabled and the total obligation is $5,300 per month. The policy only pays $5,000 per month.

   The divorce decree can also include language stating if the Payor becomes totally disabled and the disability benefit is less than the monthly obligation, the Payor can file to have the monthly obligation **reduced by the amount of obligation in excess of the policy benefit for total disability**. In this example, the Payor could have the obligation reduced by $300 per month.

- The monthly benefit also includes the **residual disability rider**. The residual benefit reduces the settlement payment the Payor has to pay out of earnings, while working at a reduced income level because of a disability.

Residual benefits are payable if you are working in your own or another occupation but your ability to work in your own occupation is restricted due to disability and you have a 20% or greater loss of income. The benefit payable is calculated by multiplying the total disability benefit by the percentage income is reduced.

<u>Example</u>:

If the Payor's total monthly obligation is $5,000 per month, the policy benefit for total disability is $5,000 per month, and the Payor is working part-time and suffers a 60% income loss:

1. The policy would pay the beneficiary $3,000 per month ($5,000 benefit × 60% income loss)

2. The Payor would be required to pay the Recipient $2,000 per month from his/her own funds (the remainder of the $5,000 per month obligation)

This situation should also be discussed with the Payor and Recipient. If possible, agreement should be reached as to whether or not the Payor can file to reduce his/her obligation if partially disabled and his/her disability claim is approved. Whatever the decision, it should be written into the divorce decree.

Coordinating the Divorce Decree and Disability Policy to Achieve Desired Results

In addition to coordinating the decree and the policy as described in the examples above, there are some other issues the Payor and Recipient should discuss/decide on.

- The policy pays a lump sum benefit that can include significant amounts of money for future expenses if the children are young and/or the Payor is responsible for paying college tuition or other expenses. If the Payor wants the lump sum benefit payable to a trust for the minor children, it needs to be stated in the divorce decree and the policy's lump sum benefit assigned to the trust. However, since the lump sum benefit reduces each month the Payor pays the monthly obligation, it makes sense to require a minimum benefit if the lump sum benefit is going to be payable to a trust (e.g., $50,000 or $100,000). There's no reason to incur the cost of setting up a trust for a small amount of money.

- If the claim is denied by the insurance company and no benefits are payable, the Payor is responsible for continuing the monthly obligation stipulated by the decree from his/her own funds. Therefore the decree should stipulate if the disability claim is denied what the Payor's obligations are.

- If the Payor has chosen NOT to insure the total obligation stipulated in the divorce decree, can the Payor file to have the obligation in excess of what is insured reduced or eliminated, at the time of claim? This is a different issue than the one raised in the example above where the Payor **chose to insure the entire obligation** and the obligation increased before the onset of disability.

- If the policy limits benefits or has a maximum stated benefit for certain stipulated expenses (i.e. expenses that vary in amount and/or frequency, like activity expenses), can the Payor file to have those expenses not covered by the policy reduced or eliminated, or is there language in the policy that says the policy benefit satisfies the Payor's obligation to pay variable expenses.

What if the Divorce Decree is NOT Coordinated with the Disability Policy

If the divorce decree does not address the issues raised above, the policy will pay the benefits dictated by the most current decree as of the date of the onset of the claim, up to the maximum benefit amount. The Payor and Recipient would have to deal with any other issues through their attorney's and the courts.

Modified Guaranteed Issue (MGI) Requirements

If you are under age 65, Hanleigh offers coverage on an MGI basis. If you are age 65 through age 69, coverage is available with medical underwriting.

If you can answer the following questions "no," you qualify for up to $1,000,000 MGI disability coverage at the discounted rates.

- Have you missed 3 consecutive days of work in the past 6 months?
- Are you currently partially disabled or have you been partially disabled in the past 6 months for 3 consecutive days (partially disabled is defined as "your ability to work is or has been restricted")?
- Have you been hospitalized in the last 6 months and/or are you home bound?
- Are you currently receiving disability income benefits or have you received disability income benefits in the past 12 months?
- Have you been treated for or diagnosed with any of the following conditions: HIV, Stroke, MS, Diabetes, Heart or circulatory disease, Parkinson's disease, and/or a condition that could lead to blindness? (extra question for physician's: a condition that could lead to the loss of use of a limb)

Answering "yes" to one of these questions does NOT mean a policy will not be issued, even if you have a significant medical issue. Underwriters will evaluate your medical condition and determine:

- If you still qualify for the discounted rates and 5 year renewable policy
- If you qualify for coverage at higher rates and/or with a waiver for a specific condition
- If your policy is renewable in 1 or 3 years, rather than 5 years
- If you are a decline for coverage

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Divorce Settlement Disability Policy Sample Annual Premiums

Plan Design

- 90 day elimination period
- Policy Term Five Years Less One Day

Benefits Year 1

- $5,500 per month for 57 months then $3,000 per month for 3 months
- Lump sum benefit $394,000 after 60 months
- Total insured obligation $716,500

Age	Year	Base	Surplus Lines Taxes/Fees	Total
30	1	$1,077.00	$253.85	$1,330.85
	2	$1,000.00	$250.00	$1,250.00
	3	$1,000.00	$250.00	$1,250.00
	4	$1,000.00	$250.00	$1,250.00
	5	$1,000.00	$250.00	$1,250.00
35	1	$1,221.00	$261.05	$1,482.05
	2	$1,107.00	$255.35	$1,362.35
	3	$1,000.00	$250.00	$1,250.00
	4	$1,000.00	$250.00	$1,250.00
	5	$1,000.00	$250.00	$1,250.00
40	1	$1,474.00	$273.70	$1,747.70
	2	$1,336.00	$266.80	$1,602.80
	3	$1,199.00	$259.95	$1,458.95
	4	$1,063.00	$253.15	$1,316.15
	5	$1,000.00	$250.00	$1,250.00
45	1	$1,980.00	$299.00	$2,279.00
	2	$1,797.00	$289.85	$2,086.85
	3	$1,613.00	$280.65	$1,893.65
	4	$1,428.00	$271.40	$1,699.40
	5	$1,245.00	$262.25	$1,507.25
50	1	$2,774.00	$338.70	$3,112.70
	2	$2,516.00	$325.80	$2,841.80
	3	$2,258.00	$312.90	$2,570.90
	4	$2,000.00	$300.00	$2,300.00
	5	$1,742.00	$287.10	$2,029.10
55	1	$3,919.00	$395.95	$4,314.95
	2	$3,555.00	$377.75	$3,932.75
	3	$3,191.00	$359.55	$3,550.55
	4	$2,827.00	$341.35	$3,168.35
	5	$2,463.00	$323.15	$2,786.15

Premiums were run for the state of New Jersey; occupation class, Executive. The base premium is the same for all states; the taxes and policy fee vary by state.