Life insurance proceeds are exempt from execution

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Written by Dennis B. Funa

The proceeds of life insurance are exempt from the claims of creditors. In other words, they are “exempt assets”. Occasionally, statutes would provide for limitations as to the amount of or as to the beneficiaries entitled to the exemption. For example, in the United States, certain states do not protect the policy’s entire proceeds as it may allow creditors to take amounts beyond a certain threshold. Certain states protect the proceeds only if the policy beneficiaries are the policyholder’s spouse, children or other dependents.

The rationale of this statute is “to enable a husband, when death deprived wife and children of his support, to secure them from want and to prevent them from becoming a charge upon the public”.

This principle is enshrined in Rule 39 (Executions, Satisfaction and Effects of Judgments), Section 13 (k) of the Rules of Civil Procedure which provides that “(e)xcept as otherwise expressly provided by law, the following property, and no other shall be exempt from execution: (k) Monies, benefits, privileges, or annuities accruing or in any manner growing out of any *life* insurance.” The exemption is allowed regardless of the amount of premiums paid. This exemption does not apply to non-life insurance policies. However, in *Gallardo v. Morales*, it was ruled that while a life insurance is distinct and different from an accident insurance, a personal accident insurance which “insures for injuries and/ or death as a result of murder or assault or attempt thereat” is also a life insurance within the purview of Rule 39. Hence, the Court ruled, keeping in mind the intent of the rule, that the proceeds from the personal accident insurance shall likewise be exempt from execution. The Court also mentioned that in its broader sense, “life insurance” includes accident insurance, since life is insured under either contract. The Court ruled that exemption under the Rules of Court “applies to ordinary life insurance contracts, as well as to those which, although intended primarily to indemnify for risks arising from accident, likewise, insure against loss of life due, either to accidental causes, or to the willful and criminal act of another, which, as such, is not strictly accidental in nature.”

In case of further doubt, the Court reminded that such “statutes should be construed liberally and in the light of, and to give effect to, their purpose of enabling an individual to provide a fund after his death for his family which will be free from the claims of creditors.”

An interesting question is whether or not variable life insurance policy proceeds are also covered by the exemption. The Insurance Commission believes that such proceeds should also be exempt from garnishment or execution in keeping with the liberal interpretation accorded to exemption from executions of “monies, benefits, privileges, or annuities accruing or in any manner growing out of any *life* insurance”. Under Section 238 (b) of R.A. No. 10607, or the Amended Insurance Code, a variable contract is “any policy or contract on either a group or on an individual basis issued by an insurance company providing for benefits or other contractual payments or values thereunder to vary so as to reflect investment results of any segregated portfolio of investment x x x.” A variable life insurance is a life insurance policy. And such “monies, benefits, privileges, or annuities” have grown out of such life insurance.

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Dennis B. Funa (dennisfuna@yahoo.com) is the current Insurance Commissioner. He was appointed by President Rodrigo R. Duterte as the new Insurance Commissioner in December 2016.