

Life Insurance Beneficiaries

Everything you need to know

In life insurance, the beneficiary is the person you choose to receive the benefits outlined in your policy upon your death. We purchase life insurance for any number of reasons and life insurance helps those we leave behind. We don't want to leave our loved ones with unpaid bills. We want to provide enough money to pay for our funeral expenses and other living expenses.

Often, we think of our beneficiary as an "heir." That named beneficiary (or beneficiaries) will receive the insurance proceeds of your life insurance policy should you die. Deciding on your beneficiary is an important decision and reviewing the named beneficiary annually is also important. You may get married or divorced or the named beneficiary could pass away. If you do not keep your beneficiary information current, your proceeds could go to someone you are no longer in contact with. Without a named beneficiary, the benefits of your life insurance will likely go through a legal process (probate) to determine how your benefits will be distributed.

"What kinds of beneficiaries are there?"

There are two types of beneficiaries: the primary beneficiary and the contingent beneficiary. The primary beneficiary is the "first in line" to receive any benefits. The contingent beneficiary will only receive benefits if the primary beneficiary has passed away.

You can name more than one primary beneficiary. In the case where you have two siblings that you would like as beneficiaries, you can opt to name them both as equal beneficiaries who will receive a 50 percent benefit. You can determine who receives a benefit and the way your benefit is divided.

You should always name a secondary or contingent beneficiary. This is the person or entity that will receive the proceeds of the insurance funds should the primary beneficiary be deceased. Doing this helps to insure that your wishes for the distribution of your life insurance are followed and not determined in a legal process called probate.

It's also important to review your beneficiary at least annually and make any necessary updates. Selecting the

primary beneficiary is an important decision. The person must be legally competent to receive the financial benefit. This means minors may not receive a benefit if they are not yet of legal age.

"Should I make my minor child a beneficiary?"

The most secure way to take care of money left to a minor child through a life insurance policy is to use a trust. It's best to avoid naming a minor as a life insurance beneficiary. Giving a child a large sum of money intended to last several years is concerning. Insurers are not legally permitted to pay out death benefits to anyone under the age of adulthood (18 in most states).

The best alternatives to ensure your minor children are financially protected in case of your death are to name a trusted adult as your beneficiary or create a trust. As a last resort, you can name your child as a contingent beneficiary in case your spouse or co-parent also dies. Creating a strong estate plan, complete with a will and trust, and updating your life insurance beneficiaries after every major life event will keep your children financially safe in case you die while they still depend on you.

“What happens to the death benefit if you name a minor as a beneficiary?”

If your beneficiary is under the age of adulthood when you die, the death benefit will be given to a custodian of the funds to hold on to. This custodian can be court-appointed, but the court will most likely choose the surviving parent. If you want to designate someone other than the child’s surviving parent to be the custodian, you need to specify that in your policy. This person will put the death benefit into a custodial account, such as a life insurance trust, to receive the payout as the beneficiary.

“What’s the difference between a minor and a dependent?”

A minor is a child under the age of adulthood. A dependent is someone who relies on you for their care. Every minor is a dependent, but not every dependent is a minor. Your life insurance coverage should be enough to make sure every dependent in your household, whether that person is an adult you care for or a child, has enough to continue living on in the absence of your financial contributions.

“Who should I name as a beneficiary if I’m a single parent?”

If you’re a single parent, you’ll need to name a legal guardian for your children in case something happens to you. In most cases, you’ll want to name that same caretaker as your life insurance beneficiary to ensure your child is financially covered.

Even if your child’s other parent is still alive, you are not required to give any portion of the death benefit to them (regardless of whether they contribute to your child’s finances). However, if you trust another adult, such as an adult sibling, grandparent, other relative or close friend, you may decide to allocate part of the death benefit to them for your children’s care.

A will can come in handy for every parent, but especially single parents looking for more control over how their assets will pay out to their children. A will can allow you to delegate exactly how much money from your life insurance benefit should be used and can help clarify your wishes. A will can be especially helpful for an added layer of protection if your relationship with your child’s other parent is complicated.

Deciding on a beneficiary involves a lot of factors. It’s very common for people to name their spouse or domestic partner, sibling or adult children as the primary beneficiary.

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