

# Planning for the future

## Answers to the frequently asked questions about beneficiaries

Life insurance provides a valuable financial safety net for your loved ones in the event of your death. By naming a beneficiary, you select the person who'll receive your life insurance policy benefits when you pass away.

### **Q: What does primary beneficiary mean?**

**A:** The primary beneficiary is the person(s) you name to receive life insurance benefits (proceeds) upon your death.

### **Q: What does contingent beneficiary mean?**

**A:** The contingent beneficiary is the person(s) you name to receive life insurance proceeds in the event that the primary beneficiary passes away before or at the same time as you, the insured.

### **Q: What if I'm married, live in a Community Property state, and want to name someone other than my spouse as primary beneficiary? (Community Property states include: Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington, and Wisconsin.)**

**A:** In these situations, we recommend that you have your spouse sign the Community Property Consent portion of the Beneficiary Designation form, which enables them to waive any rights to the life insurance proceeds.

### **Q: Can I name a minor child(ren) as beneficiary?**

**A:** While we don't recommend naming minor children as beneficiaries, and won't pay death benefits directly to minors, it's possible to do so if necessary. If a life claim is made with a child named as a beneficiary, the benefit is paid to the minor through a Uniform Transfers to Minors Act-approved account or to the guardian of the minor's financial estate. If an account doesn't exist or there's no established guardianship, the benefit will be placed on hold and will be payable when the minor reaches the age of majority (the age when the child's no longer considered a minor — typically 18).

### **Q: Can I name a charity as the beneficiary?**

**A:** Yes, you're able to name a charitable organization that isn't your employer as a beneficiary. You'll need to indicate the name of the organization, a contact for the charity, its tax identification number, and the percentage of benefit that would be payable to the organization.



## Three quick tips for naming a beneficiary

Before you name your beneficiary, consider these quick tips:

- 1** Be clear about who your beneficiary is to avoid ambiguity and potential conflicts.
- 2** Review, and if necessary, revise your choices regularly, especially during life changes like marriage, childbirth, divorce, career transition, and economic hardship.
- 3** Talk to your attorney or tax advisor to discuss the impact of your beneficiary decisions.

### Q: Can I name a will as the beneficiary?

**A:** If you name a will as the beneficiary, the will needs to specifically state the insurance carrier's group life policy and how the proceeds should be distributed. We don't typically advise this approach because your employer may switch group life carriers from time to time. A will may also need to go through probate, a procedure in which a will is approved by a court of law, prior to being validated.

### Q: Can I name my estate as beneficiary?

**A:** Yes, you may name your estate as a beneficiary. In this case, your life insurance proceeds can help pay estate taxes and other settlement costs. After taxes and settlement costs are covered, any remaining proceeds will be distributed to your heirs, according to the terms of your will. If you don't have a will, state laws will decide how the life insurance proceeds are distributed.

The disadvantage of naming an estate as the beneficiary is that the life insurance proceeds may increase the amount of estate taxes payable and may be subject to probate costs and creditor claims. The estate will also need to be established prior to any claims being paid.

### Q: Can I name my employer as the beneficiary?

**A:** Most states don't allow you to name your employer as the beneficiary of group life insurance proceeds.

### Q: Can I name an irrevocable trust as beneficiary?

**A:** When an irrevocable trust is the named beneficiary, proceeds are paid into the trust rather than your estate. If all applicable estate tax rules are met, this can result in significant estate tax savings for larger estates because the proceeds aren't included in the taxable estate. Plus, when you establish the trust, you determine how proceeds should be used.

The disadvantage is that you surrender control over the trust and the policy, including the right to change the beneficiary. Since the trust is irrevocable, it cannot be altered once established.

### Q: Are group term life insurance proceeds taxable?

**A:** Group term life insurance proceeds are generally not taxable to the recipient (your beneficiary), regardless of the amount. The interest on the amount payable to your beneficiary is the only taxable portion.



For more information, or to update your beneficiary, please contact the Ware County Schools Benefits Service Center at (844) 703-1852.

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