Beneficiary Information Sheet

Please read these instructions carefully before completing a new beneficiary designation.

GENERAL INSTRUCTIONS

This sheet was created to help you correctly designate your beneficiary(ies). These guidelines do not include an example for every situation and are not intended to provide legal advice. Please review the drafting examples closely. If you have questions about completing a beneficiary change form, contact your carrier. If you have questions related to the effectiveness of a beneficiary designation, consult your legal advisor.

A new beneficiary to your policy may be named at any time prior to the death of the insured. A contingent beneficiary should also be named in the event the primary beneficiary dies before the insured. If the policyholder is not the insured, he or she may name a new beneficiary at any time up to 60 days after the death of the insured. A beneficiary must be a natural person or legal entity. When completing the designation form, please:

- Write or print the name of each beneficiary legibly.
- Indicate the relationship between the insured and each beneficiary.
- If known, list each beneficiaries' Social Security number and home address.

A. PRIMARY AND CONTINGENT BENEFICIARIES

If you name more than one primary beneficiary or contingent beneficiary for your policy, you may specify the percentage of the proceeds each is to receive (must total 100%). If you do not specify the percentage of the proceeds each beneficiary is to receive, the carrier will pay an equal share of the proceeds to each beneficiary of the same class, i.e. primary, 1st contingent, and 2nd contingent beneficiaries. Unless you instruct otherwise, the surviving beneficiaries of the same class will receive the share of a predeceased beneficiary of the same class. For example, if you name your children as the primary beneficiaries, we will pay an equal share of the policy proceeds to each child. However, if one of the children dies, we will divide the proceeds, otherwise payable to the deceased child, in equal shares among the surviving children.

Drafting Example

Primary Beneficiary:

- 50% to Mary Smith wife, if living, otherwise equally to the children of our marriage, Jane Smith, Sarah Smith and Sally Smith, or the survivor of them.
- 50% equally to my children, Jane Smith, Sarah Smith and Sally Smith, or the survivors of them.

If you do not want the surviving members of the same beneficiary class to receive the share of a deceased member of that class, you may direct payment to the heirs of the deceased class member. A common way to do this is to designate the members of the class *per stirpes.* Under a *per stirpes* designation, surviving descendants of a class member who die before the insured will receive that member's proceeds.

Drafting Example

Primary Beneficiary:

- 50% Mary Smith, wife,
  50% Equally to the children our marriage, per stirpes, John Smith, Sarah Smith and Sally Smith.

Contingent Beneficiary:

- If Mary Smith dies before the insured, her share shall be paid to John Smith, Sarah Smith and Sally Smith equally, per stirpes.

B. MINOR CHILDREN AS BENEFICIARIES

Special attention must be paid to a beneficiary designation in favor of children who may be minors when the insured dies. The carrier will not pay death proceeds directly to a minor. It will encourage the appointment of a guardian or conservator to receive the proceeds on behalf of the minor. If you wish to designate minor children as your beneficiaries, you should consider either creating a trust or appointing a custodian under your state's Uniform Gifts to Minors Act or Uniform Transfers to Minors Act to receive the proceeds on behalf of the child. These laws allow you to name a trusted person to receive the money and provide a remedy for any breach of duty. When the child attains the age of majority, the custodianship automatically terminates and the death proceeds may thereafter be paid directly to the child.

A designation under the Uniform Gift/Transfers to Minors Acts must be drafted carefully in order to establish the gift. A separate designation must be made for each child who may be a beneficiary. If you have any questions about using a gift/transfers to minors designation please contact your agent or insurance carrier.

Drafting Example

Primary Beneficiary:

- Equally to the following beneficiaries or to the survivor of them:

  John Doe as custodian for Mary Smith, a minor child, under the (your State) Uniform Transfers to Minors Act; and,

  John Doe as custodian for John Smith, a minor child, under the (your State) Uniform Transfers to Minors Act.

  In the event John Doe cannot serve or refuses to serve as custodian for any or all of the minor children, Jane Doe shall be the contingent custodian.

C. TRUST AS BENEFICIARY:

When a living or *inter vivos* trust is to be the beneficiary, please list (1) the full name of the trustee as it appears in the trust document, (2) identify the trust by name and (3) provide the date it was created.

If the beneficiary is a testamentary trust, specify the beneficiary as the trustee of the testamentary trust created under the Will of _____-______. You do not have to identify the trustee or the date the trust was created. For testamentary trusts, you should provide for a contingent beneficiary in the event the testamentary trust is not established within a certain period of time following the death of the insured.

Drafting Examples

- Primary/Contingent Beneficiary:

  (*Living Trust*) John Doe, or successors in trust, of "My Trust" dated __________ ___, 2010.

  (*Testamentary Trust*) The trustee of the Testamentary Trust is to be established under the terms of my Will provided that my Will is admitted to probate and a trustee is appointed within six months of the date of the insured's death. If my Will is not probated or no trustee is appointed within six months of the date of the insured's death, to Jane Doe, my wife.

Naming life insurance beneficiaries: 10 ways to screw up

By Insure.com, May 16, 2013, 04:17:00 PM EDT

Naming who should get the life insurance money after you die sounds simple, but designating beneficiaries can get tricky.

Mistakes are common, financial advisers say -- and they can be heartbreaking and expensive.

When mistakes are made "you're not creating problems for you," says Keith Friedman, principal of FBO Strategies, an estate planning and insurance firm in Stamford, Conn. "You're creating problems for the people you leave behind."

Here are 10 life insurance beneficiary mistakes to avoid.

1. Naming a minor child

Life insurance companies won't pay the proceeds directly to minors. If you haven't created a trust or made any legal arrangements for someone to manage the money, the court will appoint a guardian, a costly process, to handle the proceeds until the child reaches 18 or 21, depending on the state.

Instead, you can leave the money for the child's benefit to a reliable adult; set up a trust to benefit the child and name the trust as the beneficiary of the policy; or name an adult custodian for the life insurance proceeds under the Uniform Transfers to Minor Act. Consult an estate attorney to decide the best course.

2. Making a dependent ineligible for government benefits

Naming a lifelong dependent, such as a child with special needs, as beneficiary puts the loved one at risk for losing eligibility for government assistance. Anyone who receives a gift or inheritance of more than $2,000 is disqualified for Supplemental Security Income and Medicaid, under federal law.

Work with an attorney to set up a special needs trust, and name the trust as beneficiary. A trustee you appoint will manage the money for the dependent's benefit.

Here's more on life insurance planning for parents of children with special needs . http://www.insure.com/life-insurance/special-needs-children.html

3. Overlooking your spouse in a community-property state

Generally you can name anyone with whom you have a relationship as beneficiary, even a secret lover.

"Life insurance is not a judge of someone's morals," Friedman says.

However, in community-property states, your spouse typically would have to sign a form waiving rights to the money if you designate anyone else as beneficiary. Community-property states are:

- Arizona
- California
- Idaho
- Louisiana
- Nevada

- New Mexico
- Texas
- Washington
- Wisconsin.

4. Falling into a tax trap

Life insurance death benefits are generally tax-free -- *except* when three different people play the roles of policy owner, the insured and the beneficiary. In that case, the death benefit could count as a taxable gift to the beneficiary, says Amy Rose Herrick, a Chartered Financial Consultant and life insurance agent with offices in the U.S. Virgin Islands and Tecumseh, Kan.

Say, for instance, a wife owns a life insurance policy on her husband's life and names their adult daughter as beneficiary. The wife effectively is creating a gift of the policy proceeds to her daughter, Herrick says. The person who makes the gift -- the wife -- is the one who would be subject to the tax, if the amount of the gift exceeds federal limits.

The problem could be avoided in most cases by having the husband own the policy, insuring himself. However the situation can get tricky in community-property states. Consult a financial adviser to decide the best way to structure the policy.

5. Assuming your will trumps the policy

A life insurance policy is a contract. Regardless of what your will says, the life insurance money will be paid to the beneficiary listed on the policy. That's why it's important to contact your insurer to change your beneficiary if needed.

See more information on wills vs. life insurance policies: Who's the boss?

6. Forgetting to update

"Designating beneficiaries are not 'set it and forget it' events," says Tara Reynolds, vice president at MassMutual. You should review your policy every three years and after major life events, such as marriage, having children or divorce. Change the beneficiaries when circumstances change.

Unfortunately, many people forget to do so.

"Half of my practice is second or third marriages," says Peter Blatt, a tax attorney and financial adviser in Palm Beach Gardens, Fla. "It's not uncommon to find the ex-spouse still listed as beneficiary on the life insurance policy" when reviewing a client's portfolio.

7. Neglecting details

Beneficiaries:
By branch or by person?

You want to leave life insurance money to your kids and grandkids, and you want it divided evenly.

But how?

There are two ways of distributing the money -- per stirpes and per capita. You can specify either method on the life insurance policy, and both are acceptable options when naming beneficiaries, says Ed Graves, a professor of insurance for The American College in Bryn Mawr, Pa. "But the possible outcomes can be drastically different from one approach to the other."

Per stirpes means the proceeds are divided by branch of the family, and per capita means they are divided by head.

Say, for instance, you want to leave the money to your two children, Bob and Sue, or to your grandchildren if Bob or Sue predeceases you. Bob has three children and Sue has one child. Now suppose Bob dies before you do.

Under per stirpes, half the money would go to Bob's three children, and half would go to Sue. Under per capita, the money would be divided equally among Bob's three children and Sue; each would get 25 percent.

Choose the distribution method to match your intentions. Graves recommends you diagram the possible scenarios.

"Complex situations should probably have an attorney involved," he adds.

Be specific when you name beneficiaries. Instead of "my children," list their names, Social Security numbers and addresses, says Ed Graves, a professor of insurance at The American College in Bryn Mawr, Pa.

Otherwise, "the insurance company has to launch a search and that can take a lot of time," Graves says.

When naming multiple beneficiaries, decide whether you want the money divided "per stirpes," which means by branch of the family, or per capita, which means by head. (See sidebar.)

8. Staying mum

"The most important thing is to tell someone so they know you have a life insurance policy, where it is and how to find it," says Joshua Hazelwood, vice president at MassMutual.

Open communication with beneficiaries now can save a family from chaos later - or even worse, never claiming the benefit.

9. Giving money with no strings attached

Naming your young-adult children as beneficiaries without setting any conditions for how the money is dispersed can be a setup for financial failure. How many 18- or 21-year-olds can handle a huge influx of cash? One way is to set up a trust with specifics for how the money can be released and what it can be used for until the young adult reaches a certain age.

"It allows me as a parent to instill what I feel is valued in my absence," Friedman says. "I don't want to leave my children with millions of dollars when they're 18 with unfettered access."

Insurers are beginning to introduce policies that let you arrange for the death benefit to be paid out in installments. Minnesota Life Insurance Co.'s new indexed universal life product, Omega Builder IUL, includes that option, calling it an "income protection agreement."

10. Naming only a primary beneficiary

"Most people just think they're going to make their spouse beneficiary, but don't take into account the spouse might predecease them," Friedman says. "It's conceivable that something would happen to you and your spouse together."

Blatt says he even sees cases where people fail to name any beneficiaries. When there is no living beneficiary, the life insurance benefit typically goes into the estate and is subject to probate. That leads to two complications. One, heirs might face a long wait to get the money. Two, the life insurance proceeds, which normally would be protected from creditors, now can be used to pay off creditors.

Advisers recommend naming secondary and final beneficiaries. If the primary beneficiary dies before you do, then the money passes to the secondary beneficiary. If the secondary beneficiary has passed away when you die, then the death benefit goes to the final beneficiary.

The views and opinions expressed herein are the views and opinions of the author