Investment Insight:
Name Beneficiaries Properly to Achieve Your Wishes

Who owns the insurance is a critical matter in wealth management. Trusts can protect your interests and save the day.

Naming a beneficiary of a life insurance policy sounds like a simple task and, in general, the person you name as beneficiary will be paid the proceeds of your policy. However, there are issues that may not have been addressed when completing the beneficiary designations. With the stroke of a pen, you may have generated a tax bill – either income tax, gift tax or estate tax.

Take this example. You are insured by a life insurance policy that is owned by your spouse. Your children are named as beneficiaries. At your death, the proceeds of your life insurance policy are paid to your children. Easy enough. However, according to the Internal Revenue Service, your spouse has just made a gift to your children that may trigger gift taxes.

One of the advantages of life insurance is that proceeds paid to a named beneficiary pass outside of probate. Naming your "estate" as beneficiary subjects the proceeds to the probate process which can be both lengthy and costly. In addition, when your estate receives the proceeds of your life insurance policy, those proceeds are available to your creditors.

The rules and regulations that affect how our assets are transferred to our beneficiaries at death are complicated. And, different rules apply to different types of assets. Life insurance is no exception. It is important to understand how those rules apply to your particular situation.

COMMON BLUNDERS THAT PERTAIN TO LIFE INSURANCE:

1. Naming minors as beneficiaries. On the surface, it makes sense to designate children as beneficiaries, especially since you are buying the coverage to protect them. However, if you die while they are minors, a number of legal complications will ensue. Under the law, minors cannot receive or control large sums of money. In most jurisdictions, state law determines when children are entitled to receive insurance proceeds, and that may be as young as 18 or as old as 21. Do you really want your 18 year old to be handed a large sum of money outright with no stipulations? Think shiny, new red car!

The complexities of building, preserving and passing along wealth have never been greater. Affluent investors are increasingly seeking guidance and comprehensive solutions that consider their unique circumstances and long-term goals. It's my pleasure to work with such individuals to offer insight, advice and solutions in helping them reach their goals.

A solution? A trust can save the day. A trust can be set up to receive life insurance proceeds. The advantage is that the insured establishes the trust, selects the trustee and establishes the terms under which assets can be used and distributed from the trust. In this way, the life insurance proceeds can be used in the manner specifically designated by the insured.

2. Not keeping beneficiaries current. Life is like a movie. Scenes and characters change. As each year passes, children, siblings, business partners, in-laws and spouses in your life may change. Is your beneficiary designation current? Is your beneficiary paperwork keeping pace with your intentions for who should benefit from life insurance and/or your IRA in the event of your death?

Sometimes, seemingly minor oversights can have tremendous consequences, especially where financial paperwork is concerned. Most of us name our beneficiaries on the appropriate paperwork on the day we buy a policy…and then never give the matter another thought, not for years and years. That could be a BIG mistake.

Good intentions are not enough. The paperwork must be current. Insurance companies are legally obligated to do what your documents direct them to do. The tricky thing about life insurance and other tools is that the devil is in the details. You may need help in identifying trap doors that are hidden from view.

I can help you flag vulnerabilities and/or unintended consequences that could jeopardize your plans. Call me to make an appointment today where we can review not only your life insurance policies, but your IRAs and trusts as well.