

Naming Beneficiaries

A major issue in estate planning is who to name as beneficiaries on life insurance policies, pension plan accounts, and IRAs. Often this important decision is given too little consideration. Naming beneficiaries can be complicated and can present the beneficiary with estate and income tax consequences, as well as benefits.

No matter who is designated, the beneficiaries of a life insurance policy will generally receive the death benefit proceeds federal income tax free. Unlike property disposed of in a will, insurance proceeds do not automatically go through probate.

- One of the advantages of life insurance is that proceeds payable to a named beneficiary pass outside of probate. Life insurance proceeds are paid immediately to named beneficiaries. Naming the “estate” as beneficiary subjects the money to the probate process, which can be both lengthy and costly.

The wording of beneficiary designations is very important. An improperly named beneficiary can have drastic effects on how the insurance proceeds are distributed.

You would not want to name a spouse simply by designating “husband” or “wife;” because this could result in an ex-spouse receiving proceeds intended for others. Accordingly, it is important to review insurance beneficiary designation in the event of divorce.

It is not generally advisable to name minor children as beneficiaries, but rather to name a guardian for minor children and a trustee for insurance proceeds and other assets to be managed until they reach the age of majority. Likewise, if a child named as beneficiary under your policy predeceases you and you would want the proceeds to go to their child(ren), you must specifically state such. You must also decide how such grandchildren will share in the proceeds with your other children, whether everything will be divided equally or whether the grandchildren will split what would have been their parent’s share.

Naming specific children may mean that later-born children will be left out unless the beneficiary designation is changed.

Saying “Children of the insured, John Smith” could mean that a wife’s child from a previous marriage, whom you meant to include, is in fact excluded.

Saying “Children born of the marriage of John and Susan Smith” may mean excluding adopted children.

We advise that Farm Credit Services **NOT** be named as the Beneficiary on life insurance contracts. A **Collateral Assignment** of the policy is a more effective way to accomplish the desire of loan repayment upon death. The Collateral Assignment will cover the Bank's interest as it appears at death, and will be paid prior to Beneficiary proceeds being distributed. This will keep FCS out of the accounting and tax implications should the death benefit exceed the loan balance.

It is also advisable to name a "contingent" or secondary beneficiary in the event a primary beneficiary has predeceased you.

Beneficiary designations should be reviewed regularly, and can be easily changed with the submission of a policy change form to the insurance company.

We always recommend that customers consult with a legal or tax advisor regarding their particular situation.

If you would like more information, have any questions, or would like a **Collateral Assignment** form, please call us!

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