**The Truth about Life Insurance Beneficiary Arrangements**

***Overview*:** In the language of life insurance, a **beneficiary** is the recipient of the policy's proceeds when the named insured dies. The owner of a life insurance policy has a great deal of flexibility in naming beneficiaries and generally can name anyone as beneficiary. The most important considerations in naming beneficiaries are making sure that the wishes of the policyowner are fulfilled and that legal complications are avoided.

How much do you know about life insurance beneficiary arrangements?

1. **True or False.** Generally, a contingent (or secondary) beneficiary is entitled to the policy proceeds if the primary beneficiary has predeceased the insured.
2. **True or False.** Per capita means "branches of the family," and per stirpes means "per heads."
3. **True or False.** If a beneficiary designation is **irrevocable**, the policyowner reserves the right to change the beneficiary.

**Read here to learn more about life insurance beneficiary designations.**

Beneficiaries are typically categorized as **primary** and **contingent**. A primary beneficiary is entitled to the proceeds of the policy upon the death of the insured, but such rights expire if he or she dies before the insured. A contingent (or secondary) beneficiary is entitled to the policy proceeds if the primary beneficiary has predeceased the insured. One fairly common arrangement might stipulate that, if policy proceeds are being paid over time to a primary beneficiary who dies before collecting the entire amount, the remaining proceeds will be payable to the contingent beneficiary. It is often desirable to have several levels of contingent beneficiaries.

A beneficiary can either be **specific** (a person identified by name and relationship), or a **class designation** (the naming of a group of individuals such as the "children of the insured"). While the naming of specific beneficiaries is usually clear-cut, unintended complications may arise when designating classes of beneficiaries.

For example, if you plan to name your children as beneficiaries, is it your intention to include adopted or stepchildren? If your children are minors, will the insurance company pay the proceeds to a minor beneficiary? (Generally, insurers will insist on paying proceeds to a legal guardian rather than to a minor.)

Consider the following situation in which the policyowner's intentions appear straightforward, but could become complicated. Margaret, who is seventy-years-old, planned for the proceeds of her life insurance policy to be paid to her children (Dan, Sara, and Marybeth) or her grandchildren. Now, what would happen if Dan and Sara were to die before their mother, with Dan leaving four children and Sara having no children? How should the proceeds of the policy be distributed when Margaret eventually dies?

**Per stirpes** and **per capita** are terms that describe methods of distributing property to family members and heirs. *Per stirpes* means "according to the family tree," and *per capita* means "per heads." In the example above, under a per stirpes distribution, Marybeth (one branch) would get one-half of the proceeds and Dan's surviving children (the other branch) would divide the remaining half among themselves. Under a per capita distribution, Marybeth and Dan's four children would *each* receive one-fifth of the proceeds. Remember, there might be complications if any of Dan's children are still minors when Margaret dies and legal guardians have not been appointed.

There are also different consequences to beneficiary designations being **revocable** or **irrevocable**. If a beneficiary designation is *revocable*, the policyowner reserves the right to change the beneficiary. A person designated as a revocable beneficiary has only an "expectation" of benefits, because the owner of the policy can exercise any of the policy rights without the consent of the revocable beneficiary.

On the other hand, an *irrevocable* beneficiary designation cannot be changed without the consent of that beneficiary. While this may sometimes be desirable for estate planning purposes, the *legal* status of an irrevocable beneficiary is uncertain. One position regards an irrevocable beneficiary as a "co-owner" of the policy; the beneficiary's consent is needed to exercise any policy rights. At the other extreme of legal opinion is the position that an irrevocable beneficiary's consent is needed only for exercising a change of beneficiary.

The latter position can create the somewhat puzzling effect of having the beneficiary's rights compromised if the policyowner exercises other rights, such as surrendering the policy or permitting it to lapse. Because of the vague legal status of an irrevocable designation, it is usually preferable to use revocable beneficiary designations. A further complication can arise when one's *estate* is named as beneficiary, because the proceeds of the policy can be tied up in the probate process or reduced by the claims of creditors.

These potential pitfalls make it clear that the distribution desired by the owner of a policy be clearly set forth in the beneficiary designation. Changes in family circumstances after policies are first written (for example, divorce) could leave the policyowner with unintended beneficiaries. Therefore, it is important for insurance policies to be reviewed regularly to ensure beneficiary arrangements are in concert with the wishes of the policyowner.

Quiz Answers: 1) *True*; 2) *False*; and 3) *False*.