

## CAPITAL INSURANCE AGENCY OF WISCONSIN

Are All Beneficiaries Alike?

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What Is A Beneficiary?

In the world of life insurance, beneficiary is an important, common term. It refers to a person or entity who is named by the life insurance policy to receive the policy's benefits. The benefits (or proceeds) received after a policyholder dies are generally cash, but sometimes benefits are in the form of services or other types of awards. Entities are included because, besides people, business partnerships, corporations, trusts, churches, schools/colleges/universities, or charities may all be selected as beneficiaries.

Beneficiary Types

Beneficiaries are not alike. Life insurance policies are designed to protect persons/entities that are important to the life insurance policyholder. These policies may use different types of beneficiaries to fit a policyholder's preferences and/or to comply with legal or tax issues. The types of beneficiaries also have a LOT to do with the control of the proceeds and the beneficiary's rights.

Here are the most common types of beneficiaries:

- \* Absolute Beneficiary - please refer to Irrevocable Beneficiary.
- \* Contingent Beneficiary - the party named to receive policy benefits, but only in the case of death of the primary beneficiary. Contingent Beneficiaries are often called secondary beneficiaries.
- \* Irrevocable Beneficiary - a beneficiary who's right to receive the insurance proceeds may not be changed UNLESS that beneficiary gives the policyholder his written consent to do so. Also known as an absolute beneficiary.
- \* Primary Beneficiary - typically, the party named to be first to receive the policy benefits and proceeds. If any others should be listed, they are considered

contingent or secondary beneficiaries.

- \* Revocable Beneficiary - any beneficiary for which the policyholder retains the right to change. These beneficiaries exist on the whim of the policyholder.
- \* Secondary Beneficiary - please refer to Contingent Beneficiary.

Note that several of these beneficiaries can be combined, i.e., Revocable, Primary Beneficiary or Absolute, Secondary Beneficiary.

#### Other Methods for Designating Beneficiaries

- \* Per Stripes Designation - this method is the ultimate contingency plan. It allows the policy owner to pass the proceeds equally to his direct heirs and, in the event of any person's death, that share is passed on to any descendants. Example: Joe designates his children, Bill, Trudy and Stan, to equally share \$3 million in policy proceeds (\$1 million apiece). Joe dies in a car accident and Bill dies in the same tragedy. Therefore, Bill's children, Gary, Paulie and Pam become equal participants in Bill's share of the proceeds. In this instance, Joe's surviving children each get \$1 million while Bill's children share the amount that Bill would have received (roughly \$333,000 apiece).

If you need to discuss your plans on providing for your loved ones, an insurance professional is a great place to start.