The wrong life insurance beneficiary can wreak havoc with your estate plan

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Life insurance can be a powerful financial and estate planning tool, but its benefits may be reduced or even eliminated if you designate the wrong beneficiary or fail to change beneficiaries when your circumstances change.

Here are common pitfalls to avoid:

Naming your estate as beneficiary. Doing so subjects life insurance proceeds to unnecessary state estate or inheritance taxes (in many states), exposes the proceeds to your estate's creditors and ensures that the proceeds will go through probate, which may delay payment to your loved ones.

Naming minor children as beneficiaries. Insurance companies won't pay life insurance proceeds directly to minors, which means a court-appointed guardian (who, if you're divorced, could be your former spouse) will manage the funds until your minor-age children reach the age of majority. A better approach is to designate a trust as beneficiary. This allows you to determine who will manage the funds and how they'll be distributed to your children.

Naming your former spouse as beneficiary. It's unlikely that you'd do this intentionally. But if you get divorced and neglect to designate a new beneficiary, this could be the result (even if you've updated your will or trust).

For many people, the best strategy is to establish an irrevocable life insurance trust ("ILIT") to purchase and own a life insurance policy, and to designate the ILIT as the policy's beneficiary. For more information on how to best address your life insurance policy in your estate plan, please contact us.

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