3 pitfalls to avoid when naming a beneficiary of a life insurance policy

Published on December 12, 2019

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

Common pitfalls to avoid include:

1. ***Naming your estate as beneficiary.*** Doing so can subject life insurance proceeds to unnecessary state inheritance taxes (in many states), expose the proceeds to your estate's creditors and ensure that the proceeds will go through probate, which may delay payment to your loved ones.
2. ***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.
3. ***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, an effective 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.

If you're unsure of whom to name as beneficiary of your life insurance policy or retirement plan or would like to learn about more ways to provide for your minor children, please contact us.

The Law Office of Eugene Gorrin, LLC
17 Watchung Avenue, Suite 204
Chatham, NJ 07928
973.701.9300
egorrin@gorrinlaw.com
www.gorrinlaw.com