

Importance of Naming a Beneficiary



You think you have everything under control. You work hard, pay your bills on time, invest wisely and have life insurance. What if you passed away tomorrow? Do you know who would inherit your assets?

While not pleasant to consider, should the unthinkable happen, it is critical you are prepared. Part of that preparation is naming a beneficiary for your life insurance.

Did you know...

...for some life insurance, when no beneficiary is named, death benefit proceeds are paid in an order of preference, i.e., spouse, children, parents, siblings? Other life insurance have death benefits default to your estate.

...when the insured dies, beneficiaries are fixed and planning options become limited?

...the percentage interests of all primary beneficiaries must add up to 100%? This is true of contingent beneficiaries as well.

Why should I designate a beneficiary?

Let's say you have coverage for \$500,000 of life insurance. That's a lot of money, which is why you want to make sure it goes to the right people when you die. If you're prepared, you'll have named your beneficiaries and indicated the specific percentages each beneficiary is to receive. Doing so means they will likely have quicker access to the death benefit's funds. This is especially important, since the death of a loved one often brings about unexpected expenses.

On the other hand, if you never get around to completing and submitting your beneficiary forms, your intentions have not been made clear. That means the death benefit may be paid as outlined in the coverage, either in an order of preference or as a default to your estate. If your estate is named, then the assets become a part of the overall estate and thus are retained until distributed by your executor or personal representative.

What are the roles in a life insurance contract?

There are three important positions in every life insurance contract:

1. Policy owner

The person, entity, partnership or representative who owns the policy, and who has the ability to exercise the rights granted in the policy.

2. Insured

The person whose death triggers the insurer's obligation to pay the death benefits.

3. Beneficiary

The person(s) selected by the policy owner who will receive the death benefits when the insured dies.

Primary beneficiary

The policy owner's first choice to receive the death benefits. This person must be alive at the time the insured dies in order to receive his/her share of the death benefit.

Contingent beneficiary

If the primary beneficiary dies before the insured does or doesn't qualify as a beneficiary under the policy, the contingent beneficiary is paid his/her share of the death benefits.

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Potential problems to avoid:

- › **Failing to update your beneficiary designation.** Don't "set it and forget it". The beneficiary named when life insurance is obtained isn't necessarily the right beneficiary at a later date.
- › **Not naming contingent beneficiaries.** It's important to have a "backup" plan. Contingent beneficiaries are just that—one or more persons who could receive your assets if your primary beneficiary dies or is not eligible.
- › **Naming minor children as beneficiaries.** While life insurance companies won't pay proceeds to minors, many states have adopted the Uniform Transfers to Minors Act ("UTMA"), which allows a minor to receive such funds once a Custodian is named. The Custodian then manages the account until the minor is typically 18 or 21 years of age. At that point, the child is entitled to receive the full balance of the policy proceeds, which s/he may not be prepared to manage at such a young age.
- › **Not filing a new beneficiary form after a life event.** Whenever a major life event takes place, such as a marriage, divorce or the birth of a child, take the time to review your beneficiary designations.
- › **Not clearly identifying the beneficiary.** Make the designation clear by stating the beneficiary's full name and relationship to the insured/owner (e.g. "Jennifer J. Johnson, Insured's daughter"). You also will be asked to provide their date of birth, Social Security Number, telephone number and street address.

Remember:

While beneficiary decisions may appear simple, they have the potential to become complicated and difficult to implement. Designating one's beneficiaries and reviewing them at frequent intervals is important, as these designations are the mechanism for distributing the policy's federal income tax-free death benefit under current tax law.

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