

5 mistakes to avoid when naming a beneficiary

When purchasing a life insurance policy, one of the most important decisions you'll make is choosing a beneficiary. This is the person or entity that will receive the proceeds of your policy in the event of your death. While it may seem like a straightforward decision, there are several mistakes that can be made when naming a beneficiary. Here are five mistakes to avoid:

1. Not updating your beneficiary information regularly

Life is unpredictable, and your circumstances can change rapidly. It's important to regularly review your beneficiary information and ensure it's up to date. Failing to update your beneficiary information could result in your life insurance proceeds being paid to someone who you no longer want to receive them, or to someone who is no longer alive.

2. Naming a minor child as the beneficiary

While you may want your child to receive your life insurance proceeds, naming a minor child as the beneficiary can create several problems. Minors cannot legally receive large sums of money, so a court-appointed guardian may be required to manage the funds until the child reaches adulthood. This process can be time-consuming and expensive. Instead, consider setting up a trust for your child and naming the trust as the beneficiary.

3. Not considering the tax implications

When you name a beneficiary, it's important to consider the tax implications. If you name an individual as your beneficiary, they will receive the proceeds tax-free. However, if you name your estate as the beneficiary, the proceeds will be subject to estate taxes. This can result in a significant reduction in the amount of money your beneficiaries will receive.

4. Naming a charity as the primary beneficiary

While many people choose to name a charity as a beneficiary, it's important to consider the impact this will have on your loved ones. If you name a charity as the primary beneficiary, your family may not receive any of the life insurance proceeds. Instead, consider naming your loved ones as the primary beneficiaries and a charity as the contingent beneficiary.

5. Failing to name a contingent beneficiary

It's important to name a contingent beneficiary in case your primary beneficiary predeceases you or is unable to receive the proceeds for any reason. Failing to name a contingent beneficiary can result in the proceeds being paid to your estate, which can create additional complications and delay the payout of the proceeds.

In conclusion, choosing a beneficiary for your life insurance policy is a crucial decision that should not be taken lightly. Avoid these common mistakes by updating your beneficiary information regularly, not naming a minor child as the beneficiary, considering the tax

implications, not naming a charity as the primary beneficiary, and naming a contingent beneficiary. By avoiding these mistakes, you can ensure that your loved ones receive the proceeds of your life insurance policy as intended.