

## Naming Life Insurance Beneficiaries

### Frequently Asked Questions

---

The primary purpose of life insurance is to provide financial support to a beneficiary when he or she needs it most – at the loss of a loved one. Therefore, it is very important your beneficiary designations be kept up to date. The following are a few instances when you should consider changing beneficiary designation(s) on your life insurance policy:

- When you get married.
- When you get divorced.
- When you have or adopt a child.
- When a spouse or loved one passes away.

#### **1. What does “Primary Beneficiary” mean?**

The primary beneficiary is the person or persons the insured names to receive the life insurance proceeds upon his or her death.

#### **2. What does “Contingent Beneficiary” mean?**

The contingent beneficiary is the person or persons the insured names to receive the life insurance proceeds in the event the primary beneficiary passes away before, or at the same time as, the insured.

#### **3. What if I am married, live in a Community Property state and want to name someone other than my spouse as primary beneficiary? (Community Property states: CA, NV, AZ, ID, LA, NM, TX, WA, and WI.)**

Community Property states may require spousal consent if the spouse is not named as the primary beneficiary. Typically, the spouse must sign the beneficiary designation form indicating he or she agrees to not be named as primary beneficiary. Carriers often ask that this form be notarized.

#### **4. Can minor children be named as beneficiaries?**

Naming minor children as beneficiaries is not recommended. Generally, insurance companies will not pay death benefits directly to minors. The benefits would likely be held until a court-approved guardian is named, which can take several months and usually requires hiring a lawyer. However, you may consider naming a trustee of a trust for a minor as beneficiary to help ensure competent management of the proceeds. By naming a trustee of a children’s trust as beneficiary the proceeds would be managed by the trustee (person or institution) you choose.

#### **5. Can the insured name his or her estate as beneficiary?**

Naming an estate as beneficiary is sometimes done to help pay estate taxes and other estate settlement costs. After taxes and settlement costs, any remaining proceeds are then distributed to heirs according to the terms of your will. If you don’t have a will, state laws dictate distribution of life insurance proceeds. The disadvantage of naming an estate as the beneficiary is the life insurance proceeds may increase the amount of estate taxes payable and may be subject to probate costs and creditor claims. (Note: When no beneficiary is named, proceeds are generally paid to the estate automatically unless otherwise provided in the insurance policy.)

#### **6. Can a will be named as the beneficiary?**

If a will is named as the beneficiary, the will needs to specifically state the carrier’s named group life policy and how proceeds should be distributed. This is not advisable as your employer may switch group life carriers from time to time. A will also may need to go through probate prior to being validated.

---

### **7. Can an irrevocable trust be named as beneficiary?**

When an irrevocable trust is the named beneficiary, proceeds are paid into the trust rather than your estate. If all applicable estate tax rules are met, this can result in significant estate tax savings for larger estates since the proceeds are not included in the taxable estate. Plus, when you establish the trust, you determine how proceeds are to be used. The disadvantage is that you surrender control over the trust and the policy, including the right to change the beneficiary. Since the trust is irrevocable, once established it cannot be altered.

### **8. Can you name your employer as the beneficiary?**

Most states do not allow an employee to name their employer as the beneficiary of group life insurance proceeds.

### **9. Are group term life insurance proceeds taxable?**

Group life insurance proceeds are generally not taxable to the recipient, regardless of the amount.

#### **Additional information on naming beneficiaries:**

Be aware the decisions you make will have consequences. When naming your life insurance beneficiaries remember to:

- Be as clear and specific as possible to avoid ambiguity and potential conflicts.
- Review and, if necessary, revise your choices regularly; especially at times in your life when circumstances change such as marriage, childbirth, divorce, career change, economic change, etc.
- Talk to your attorney and/or tax advisor to discuss the consequences of your decisions.

#### **For additional information or to speak with a representative:**

Visit [www.LFG.com](http://www.LFG.com) or call (800) 423-2765.

Group insurance products are issued by The Lincoln National Life Insurance Company, **which is not licensed and does not solicit business in New York**. In New York, group insurance products are issued by Lincoln Life & Annuity Company of New York (Home Office: Syracuse, NY). Both are Lincoln Financial Group companies. **Each affiliate is solely responsible for its own obligations.**

© 2007 Lincoln National Corporation