

Are All Beneficiaries Alike?

What Is A Beneficiary?

In the world of life insurance, beneficiary is an important, common term. It refers to a person or entity who is named by the life insurance policy to receive the policy's benefits. The benefits (or proceeds) received after a policyholder dies are generally cash, but sometimes benefits are in the form of services or other types of awards. Entities are included because, besides people, business partnerships, corporations, trusts, churches, schools/colleges/universities, or charities may all be selected as beneficiaries.

Beneficiary Types

Beneficiaries are not all alike. Life insurance policies are designed to protect persons/entities that are important to the life insurance policyholder. These policies may use different types of beneficiaries to fit a policyholder's preferences and/or to comply with legal or tax issues. The types of beneficiaries also have a LOT to do with the control of the proceeds and the beneficiary's rights. Here are the most common types of beneficiaries:

- **Absolute Beneficiary** - please refer to Irrevocable Beneficiary.
- **Contingent Beneficiary** - the party named to receive policy benefits, but only in the case of death of the primary beneficiary. Contingent Beneficiaries are often called secondary beneficiaries.
- **Irrevocable Beneficiary** - a beneficiary whose right to receive the insurance proceeds may not be changed UNLESS that beneficiary gives the policyholder his written consent to do so. Also known as an absolute beneficiary.
- **Primary Beneficiary** - typically, the party named to be first to receive the policy benefits and proceeds. If any others should be listed, they are considered contingent or secondary beneficiaries.
- **Revocable Beneficiary** - any beneficiary for which the policyholder retains the right to change. These beneficiaries exist at the whim of the policyholder.
- **Secondary Beneficiary** - please refer to Contingent Beneficiary.

Note that several of these beneficiaries can be combined, i.e. Revocable, Primary Beneficiary or Absolute, Secondary Beneficiary.

Other Methods For Designating Beneficiaries

Class Designation - refers to when a group is chosen to share equally in a policy's proceeds. The class designation has an advantage of providing equal benefits to a group that may change between the time the designation is made and when the proceeds are paid. Commonly a policyholder's children, grandchildren, or siblings are selected as a class.

Specific Designation - typically means that a beneficiary selected by his or her name and relationship to the policyholder, such as Gwenna Mygirl, daughter of the insured.

Per Capita Designation - this method of designation permits greater flexibility than a straight class designation. For instance, a policyowner can name his children to share the proceeds equally and, in the case of a child's death; the deceased beneficiary's children

may receive in EQUAL (per capita) shares with the surviving policyowner's children. Example: Joe designates his children, Bill, Trudy and Stan, to equally share \$3 million in policy proceeds on a per capita basis with any children who survive them. Joe dies in a car accident and Bill dies in the same tragedy. Therefore, Bill's children, Gary, Paulie and Pam become equal participants in the proceeds (\$600,000 apiece). If only Joe had died in the accident, Joe's children would have received \$1 million apiece.

Per Stirpes Designation - this method is the ultimate contingency plan. It allows the policyowner to pass the proceeds equally to his direct heirs and, in the event of any person's death, that particular share is passed on to any descendants. Example: Joe designates his children, Bill, Trudy and Stan, to equally share \$3 million in policy proceeds (\$1 million a piece). Joe dies in a car accident and Bill dies in the same tragedy. Therefore, Bill's children, Gary, Paulie and Pam become equal participants in Bill's share of the proceeds. In this instance, Joe's surviving children each get \$1 million while Bill's children share the amount that Bill would have received (roughly \$333,000 apiece). If you need to discuss your plans on providing for your loved ones, an insurance professional is a great place to start.

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