

Life Insurance and Retirement Beneficiaries – Have It Your Way

For many individuals and families, a large portion of the financial estate is in retirement accounts and life insurance. An essential but often overlooked aspect of estate planning is the designation of beneficiaries for life insurance or retirement accounts. Since these benefits will pass to the named beneficiaries and not under the terms of any will or probate estate, it is crucial to make sure the insurance and retirement proceeds will pass to the persons and in the manner that you desire.

As second marriages become more and more common, beneficiary designations for life insurance and retirement accounts become more complicated. If you are remarried, choosing a beneficiary for your life insurance policy may not be “simple” – especially if you have children from a previous marriage. When it comes to life insurance, how do you make sure your spouse is provided for without forgetting your children?

If you already have life insurance with your first spouse as the beneficiary, you need to make sure you can change the beneficiary if you no longer want that former spouse to receive the benefits. If you are divorced and the divorce decree requires you to maintain life insurance to fund child support or spousal support, you may not be able to change the beneficiary designation. Bring your divorce decree to us so we can make sure you do not violate the decree. If you can't change your beneficiary, you may want to buy additional life insurance or retirement plans that will include your new spouse.

The next question is who should be the beneficiary of the policy? If you name your new spouse, your children are not guaranteed to receive any of the money. If you name your children, your spouse will not get anything. The solution may be to create a trust and name the trust as the beneficiary of the life insurance policy. When you die, your life insurance policy will fund the trust. You can set up the trust to provide for your current spouse and children however you like (including a special needs trust for a disabled child). For example, you could allow the trustee to provide for your spouse while he or she is alive and have the remainder go to your children after your spouse dies.

Beneficiary designation forms often seem to allow only limited methods of naming beneficiaries. However, beneficiary designations are not “one-size-fits-all” documents. You may draft customized designations that will control the distribution of the life insurance or retirement funds based on your desired plan. And since careless beneficiary designations on retirement accounts can require accelerated payout of the funds and payment of all the income tax on such benefits, careful drafting of such designations is imperative. We can help you with such personalized designations.

For help in choosing the best beneficiary option and drafting the appropriate designation for a life insurance policy or retirement account, contact us at 866-ELDERLAW or online at www.elderlawms.com.