

Benefit Facts Article - October 1, 2009

The Importance of Beneficiary Designations

For many benefit plan participants, naming a beneficiary for the life insurance portion of their firm's group insurance plan is something that's done at the time of enrollment and then it's pretty much forgotten.

Not only is it quite important to designate a beneficiary, it's something that should be reviewed from time to time, as it could provide protection to the insurance funds as well as to the assets of the insured person's family.

When a person dies, having a designated beneficiary will ensure that the life insurance funds are paid directly to the beneficiary, whether it's an individual, a number of people or an organization. It provides quick access to funds that might be needed for funeral costs and other important immediate financial needs.

Some people simply name their Estate as their beneficiary as they don't feel it's of much importance or they think it's the right thing to do. And when there is no signed and dated beneficiary designation, the insurance settlement is usually made to a person's Estate. The Estate's assets normally cannot be distributed until the proper process has been followed. This usually means that the Will (if there is a Will) may need to be probated (which involves legal fees) and final tax returns may need to be prepared for the deceased as well.

When a life insurance settlement is paid to a named beneficiary rather than to the Estate, the insurance money is protected from seizure by any creditors the deceased may have had.

Plan sponsors and administrators should remind their employees about the importance of designating a beneficiary and to inform the insurer if and when their wishes change. A change in marital status, for example, is a time to reconsider one's beneficiary designation. I am quite sure that there are thousands of separated and divorced people in Canada who have overlooked changing their beneficiaries; Talk about having an unexpected surprise.

People need to put some time and thought into their choice of beneficiaries. Although it may seem like a nice thing to do naming a girlfriend or nephew as a beneficiary, it is neither practical nor fair if the people who would be responsible to pay for a deceased family member's final expenses weren't left any money to pay the bills.

Finally, a person can designate a beneficiary Revocable or Irrevocable on some group benefit plans. A revocable beneficiary allows the insured person to change their beneficiary anytime they wish providing they submit a request in writing to the insurer. If however an irrevocable beneficiary is designated, the insured person will require a written consent from the irrevocable beneficiary in order to make a change. And if a minor is named irrevocable their consent may be impossible to obtain. You can bet that that holds true for many ex-spouses too.

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