Naming a beneficiary: What you need to know

Choosing who will receive your assets or the payout (called a “death benefit”) from your life insurance policies is a decision you should consider carefully, because a beneficiary designation can’t be changed or corrected after you’re gone.

It's important to keep your beneficiary designations up to date as your life changes (marriage, children, divorce, etc.). Here is some basic beneficiary information that may help.

What is a beneficiary?

A life insurance beneficiary is the person or entity that will receive the money from your policy's death benefit when you pass away.

There are two main types of life insurance beneficiaries:

Primary beneficiary: A primary beneficiary is the person who is first in line to receive the death benefit payout after your passing. You can name more than one primary beneficiary.

For example, you have a Voluntary Life policy on yourself, you elect your spouse as your primary beneficiary – meaning the death benefit will go to your spouse.

Contingent beneficiary: A contingent beneficiary is a backup beneficiary who will receive the death benefit payout if the primary beneficiary passes away or can’t be found. You can also name multiple contingent beneficiaries.

Using the example above, you have a Voluntary Life policy on yourself and name your spouse as primary and your child(ren) as contingent. In the event you and your spouse die the death benefit goes to your child(ren).

Why do I need to name a beneficiary?

If you die without a naming a beneficiary, the cash payout from your policy automatically becomes part of your “estate” (all the money, property and belongings you leave behind). Any money paid to your estate has to go through probate, a legal process that costs money and slows down how quickly the money gets to loved ones. Because of this it’s always a smart idea to name a beneficiary.

Can anyone be named as a beneficiary?

Almost any person can be named as a beneficiary, although your state of residence or the provider of your benefits may restrict who you can name as a beneficiary.

Make sure you research your state's laws before naming your beneficiary. If you are a resident of certain states, you may be required to list your spouse as your primary beneficiary and designate him or her to receive at least 50 percent of the benefit. In some states, you can name someone else with your spouse's written permission.

Naming minors as beneficiaries

Children under age 18 can be named as a primary or contingent beneficiary. However, if you were to die while they are still minors, the proceeds may be sent in their name to the legal guardian of the minor child's estate.

Another common solution to make accommodations for children is through the creation of a trust. In that case, you can name the trust as the beneficiary.

Whatever arrangement you choose, minor children may not be able to access your assets or life insurance proceeds until they reach the legal age of consent — so if you want the payout used for their benefit while they are still children, you may want to set up a trust or custodial arrangement. Talk with an attorney for help in setting up the best vehicle for your situation.

When to update your beneficiaries

Beneficiary changes are often overlooked following divorce, remarriage or after the death of a loved one who may be listed as one of your beneficiaries.

Divorce may revoke a designated spouse's right to receive a benefit in some jurisdictions, so you may need to re-designate with an updated relationship (from "spouse" to "ex-spouse") if you would like the designation to remain in effect.

An easy way to remember to keep your beneficiaries up to date is to use your employer's annual benefits enrollment to revisit the details of your accounts and insurance policies.

If you don't have benefits through your employer, set a date that you will remember each year — May Day, Labor Day, your birthday — and spend ten minutes checking your accounts and policies.

Can the wrong person receive your benefits?

If you fail to keep your beneficiaries up to date or make a mistake in documenting them, someone other than who you intended may receive your assets or policy proceeds. This is why carefully designating and remembering to update beneficiaries is so important.

If you are worried about making a mistake when naming your beneficiaries, consult a financial professional or attorney to ensure your intentions will be carried out the way you wish.