

## **Naming a beneficiary: What you need to know<sup>1</sup>**

# **Make sure your benefits go to who you want to receive them**

An important part of owning life insurance and other financial products is designating your beneficiaries — the people or entities who receive the benefits from your policy or accounts when you die.

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 you 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 beneficiary is the person or entity that you legally designate to receive the benefits from your financial products.

For life insurance coverage, that is the death benefit your policy will pay if you die. For retirement or investment accounts, that is the balance of your assets in those accounts.

## **Primary and contingent beneficiaries**

There are two types of beneficiaries: primary and contingent.

A primary beneficiary is the person (or persons) first in line to receive the death benefit from your life insurance policy — typically your spouse, children or other family members.

In the event your primary beneficiary dies before or at the same time as you, most policies also allow you to name at least one backup beneficiary, called a “secondary” or “contingent” beneficiary. If the primary beneficiaries are all deceased, the secondary beneficiaries receive the death benefit.

## **Why do I need to name a beneficiary?**

Many financial products — including life insurance benefits — are generally not governed by your will, so the only way to make sure your policy's benefits are distributed how you intend is to make sure you've named a beneficiary for all of your policies and accounts.

Although it is not mandatory that you name a beneficiary, it is usually the reason people buy life insurance in the first place — to provide a benefit to the people they care about. And your other assets can also provide a benefit to the people you care about when you die.

## **What happens if I don't name a beneficiary?**

If you don't designate a beneficiary, it may be unclear who is entitled to the funds, which can delay the benefit payment.

For retirement accounts like a 401(k), if you die without a beneficiary named, your assets will likely be held in probate — a legal process where a court has to sort out your financial situation and determine how to distribute your assets.

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<sup>1</sup> <https://www.securian.com/insights-tools/articles/naming-a-life-insurance-beneficiary.html>

Most life insurance policies have a default order of payment if you do not name a beneficiary. For many individual policies, the death benefit will be paid to the owner of the policy if they are different than the insured person and still alive, otherwise it will be paid to the owner's estate. For group insurance policies, the order typically starts with your spouse, then your children, then your parents, and then your estate.

If there is no default order specified in your policy, the payout may be paid to your estate, or may also be held in probate.

In either case, the probate process can be lengthy and complicated, and it may take years before your loved ones can access your assets — which can be avoided if you designate them as beneficiaries.

## How to name a beneficiary

Most financial services companies provide a form or website for you to designate your beneficiary so they have it on file with your other account or policy information.

If you have life insurance or retirement accounts through your employer, they may keep your beneficiaries on file for all of your employee benefits — life insurance, retirement plan, profit-sharing plan, or other benefits.

If you have investments, retirement accounts or life insurance through a financial professional, check with them to make sure you have beneficiaries on file.

## What information do I need to provide?

When you name your beneficiary, be specific. Most beneficiary designations will require you to provide a person's full legal name and their relationship to you (spouse, child, mother, etc.).

Some beneficiary designations also include information like mailing address, email, phone number, date of birth and Social Security number.

Providing as much information as possible will help the financial services or insurance company verify and locate your beneficiaries, if needed — making it easier and faster for them to pay your benefits.

Your loved ones may need access to those funds immediately for your final expenses — particularly life insurance benefits.

## Can anyone be named as a beneficiary?

Your beneficiary can be a person, a charity, a trust, or your estate.

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.

## Immediate family as beneficiaries

Anyone who will suffer financially by your loss is likely your first choice for a beneficiary. You can usually split the benefit among multiple beneficiaries as long as the total percentage of the proceeds equal 100 percent.

Some people name a trustworthy adult — their spouse, for example — and rely on their judgment to consider giving money to benefit other family members or loved ones.

## 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.

## **Special needs and other lifelong dependents as beneficiaries**

It would seem logical to name someone who will need financial support throughout their lifetime as your beneficiary, but doing so could make them ineligible to receive government assistance — which might mean a significant loss in financial support for them.

Establishing a special needs trust and naming the trust as beneficiary is one way to channel your assets or life insurance death benefit to someone with special needs without triggering laws that may work against them. Consult an attorney who specializes in estate planning to learn more about your options.

## **Naming charities or organizations as beneficiaries**

Many people name charities and other cause-related organizations as beneficiaries.

If you have a nonprofit you feel passionate about, you can name it as a primary or contingent beneficiary to receive all or a percentage of your assets or life insurance payout. Doing so can be an impactful way to leave a legacy.<sup>1</sup>

## **Can you change beneficiaries?**

In most cases, you may change the beneficiaries named on a life insurance policy or other financial account at any time.

Changing beneficiaries is usually easy to do — the challenge is often in remembering to do it. Contact your employer, financial professional or financial services company to learn how.

## **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.

## **Special circumstances for changing beneficiaries**

In some circumstances — like in specific terms of a divorce or if you made what's called an "irrevocable designation" — you may not be able to change or name a new beneficiary without getting your current beneficiary's consent.

Similarly, if you have transferred ownership of an account or life insurance policy to someone else, you are no longer the owner of it — so you cannot change the beneficiary. Generally, you, your financial professional or your attorney will know if any of these cases apply to you.

## **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.

1. Insurance companies may have limits on the amount you are able to designate to a charity based on your past giving history to the organization.

Life insurance products contain fees, such as mortality and expense charges (which may increase over time), and may contain restrictions, such as surrender periods.