Common Life Insurance Mistakes (and how to avoid them)
By Gary Case

This column is devoted to your personal and business life insurance. Each mistake has two things in common: first, potentially serious consequences in terms of both expense and aggravation; and second, each can be avoided or corrected quickly and inexpensively if found in time. The IRS does not care if you make these mistakes, but those who must make do with less or with nothing care deeply about them.

If you name your estate as beneficiary of your life insurance policy, you are making sure that your creditors have full access to your life insurance proceeds even though state law provides significant protection from claims of creditors for life insurance payable to named beneficiaries such as a spouse or children (or a trust). By naming your estate as your beneficiary, you guarantee that the precious dollars you wanted to go to a loved one will be subjected to the expense and potential aggravation and delay of probate. Review your beneficiaries to determine that the people you want to receive it will indeed do so.

Speaking of beneficiaries, name at least two "backup" beneficiaries. If the beneficiary you named dies before you do (even if only minutes before you), and you hadn't named other beneficiaries, the proceeds will be paid to your estate. This needlessly subjects it to all the problems outlined in the preceding paragraph just as if you had named your estate as your life insurance beneficiary. Employ the "Rule of Two." Name two backups for every person named in your life insurance policy as a beneficiary. (The Rule of Two is a good practice for all your dispositive documents and contracts. For instance, provide in your will, your trust, your pension or profit sharing plan, and your IRA two backup beneficiaries and two backup guardians for your children. Provide two backup executors and/or trustees in case those you've named for some reason fail to qualify or cease to act.)

Don't fail to check your policies at least every four years (I use presidential election years as a reminder). Many policies are payable to former spouses or others whom the insureds would not have wanted to receive the proceeds. Children born after a policy was purchased are often inadvertently omitted. This occurs because it's easy to forget whom you named as the beneficiary of your life insurance five or 10 years ago. Forgoing a once-every-four-years checkup also makes it likely that you may not have the best possible type of policy to meet your present needs. Have your insurance company confirm — in writing — that the policies are in force, whom your beneficiaries are and that your waiver of premium (a contractual provision that assures your policy is kept in force and continues coverage even if you can't pay the premiums because of disability) is effective. Check to see if the beneficiaries named are the people you want now as your beneficiaries and that the policy proceeds are payable to them in the manner that best meets their needs, abilities and circumstances.

I'll discuss additional mistakes in future columns.

Gary Case, CFP®, Cornerstone Financial Planning, 917 2nd Street South, Nampa, 466-1971, is a Registered Representative of Cambridge Investment Research, a Broker/Dealer (Member FINRA/SIPC) and Investment Advisor Representative of Cambridge Investment Research Advisors, Inc., a Registered Investment Advisor. Cambridge and Cornerstone are not affiliated. This column is for informational purposes only and should not be used as the primary basis for an investment decision. Consult an advisor for your personal situation.