

your money

top ten list of insurance planning mistakes – and how to fix them

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hile acknowledging David Letterman as the mas-

ter of the Top Ten List, the following is my own Top Ten List of insurance planning mistakes and how to fix them:

NAMING YOUR ESTATE AS BENEFICIARY

If you name your estate as the beneficiary, the probate court is involved, guaranteeing a time-consuming, public and expensive process. Consider establishing a Revocable Trust and naming the Trust as the primary beneficiary for probate avoidance, privacy, simplicity and potential tax savings.

NAMING AN EX-SPOUSE AS BENEFICIARY

While an obvious mistake, old insurance policies often designate an ex-spouse or other person that no longer has a relationship with the policy owner. In order to rectify this, a review of your current beneficiary arrangement is important. Consider establishing a Trust and maintaining your Trust beneficiaries in a manner that reflects your current wishes.

NAMING A MINOR CHILD AS BENEFICIARY

If you name a minor child (under age 18) as a beneficiary, the insurance company will require a conservator appointed to process the claim and receive the death benefit. A conservatorship is a probate court process that is public, costly and time consuming. There will be annual work (and expense) until your beneficiary attains age 18. Upon attaining age 18, your now adult beneficiary receives the money and is free to spend it as

he sees fit. Consider a Trust to receive the death benefit and design

appropriate payout provisions. Your Successor Trustee would supervise distributions of the insurance proceeds to your beneficiary for education and health needs and distribute the balance to your beneficiary at age 30 (for example).

NAMING A “DISABLED” AS BENEFICIARY

This error could jeopardize government benefits available for your beneficiary. Instead, provide the insurance proceeds to your Trust with appropriate provisions to maintain government benefits for your beneficiary.

OWNING A POLICY ON AN ADULT CHILD

If you own a policy, and someone else is the insured, and you die first, the insurance policy must go through probate to have a new owner on the policy. Consider either transferring the ownership to the adult child, or in the alternative, transfer the ownership of the policy to your Trust.

OWNING A LARGE LIFE INSURANCE POLICY IN YOUR OWN NAME

The death benefit on an insurance policy owned by you will be counted in your gross estate for Federal Estate Tax purposes. If you do not own the policy, then the death benefit is not included in your taxable estate. If necessary, establish an Insurance Trust to own the policy and distribute the proceeds to your heirs at death completely tax free.

CASHING IN A LIFE INSURANCE POLICY WHEN YOU ARE UNINSURABLE

The rule is that you do not cash in a life insurance policy if you cannot get insurance. This simply benefits the insurance company and hurts your family.

CASHING IN A LIFE INSURANCE POLICY WITHOUT CONSIDERING THE TAX CONSEQUENCES

If you cash in a life insurance policy, any gain on the cash value of the policy will be taxed as income to you upon receipt. Consider transferring the cash value into a more cost-effective insurance policy or an annuity.

SURRENDERING A LARGE POLICY WITHOUT CHECKING THE LIFE SETTLEMENT MARKET

Traditionally, a policy owner could only surrender the policy if he no longer wanted to maintain it. Now, if the policy is large enough, a private market exists where a third party might purchase the life insurance policy for a far greater amount than the surrender value. This creates substantial opportunity if you no longer wish to maintain your current insurance program.

FAILING TO REVIEW YOUR LIFE INSURANCE POLICY ON A REGULAR BASIS

Life insurance plays a critical part in your financial and estate planning. Your current life insurance program should reflect your current needs and goals. Review your life insurance regularly with your financial planner and estate planning attorney to accomplish your goals in the most cost-effective and tax efficient manner. ■

NOTE: If you would like to know more about month's topic, please feel free to call: 734 281-6464; or e-mail: morello@morellolawgroup.com.