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## DECIDING WHAT TO DO WITH INSURANCE BENEFITS

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They're not the kinds of decisions you want to make-figuring out what to do with the death benefits from a loved one's life insurance policy, or what you want the beneficiaries of your policy to do with the benefits when you die. But it's a reality you must deal with. And your decisions can make a substantial financial difference.

For the moment, let's assume you are a beneficiary. Before deciding how to handle the death benefits, there are several questions you will need to answer. First, have you located all the policies? You may have to do some digging if the owner kept poor records.

Second, were the policies in force, or legally binding, at the time the person died? Were the premiums paid up? If it's a permanent policy that's lapsed, is it still in force as "extended term" or as "reduced paid up?"

Who is the beneficiary? Are you? Or do the proceeds go into a trust in which you are the beneficiary? Is the policy part of a buy-sell agreement, in which business partners might receive the benefits in order to buy from you the deceased's share of the business?

Do you want to accept the policy benefits? That may seem a silly question, but if you have no estate plan or a poorly designed estate plan, it may be better for tax reasons to "disclaim" the proceeds. Disclaiming means you refuse to take them as the beneficiary. If there are contingent beneficiaries, they would then inherit the proceeds. Otherwise, the courts will determine who is next in line to receive the money. Obviously, this decision should not be made until you've consulted an attorney.

Instead of being the beneficiary, perhaps you are the owner

of an insurance policy, in which case you may want to choose a specific settlement option for your beneficiaries. You also may select an option but give your heirs some flexibility in changing the options if appropriate. Or you may leave the settlement decision entirely up to the beneficiaries.

The first and simplest option is to pay out the entire death benefits of the policy (assuming there are no policy loans to be paid back). For small amounts, this is typically the best option. The proceeds will likely be needed to pay for funeral and other associated expenses. According to the life insurance research organization, LIMRA International, 58 percent of beneficiaries use the proceeds to pay bills and loans, including paying off their mortgage (though that may not always be the best decision). [Best's Review, 1/99 Postmordem file]

The decision gets more difficult the larger the policy-the average policy payout, according to LIMRA, is \$162,000 to female beneficiaries and \$73,100 to male beneficiaries. A beneficiary who can confidently invest the proceeds, either on their own or with professional help, may want to take the lump-sum cash settlement. If creditors are waiting in the wings, however, it may be better to postpone taking the cash until all options are explored.[Your Life Insurance Options, p. 194]

Making these kinds of decisions can be very stressful so soon after a death, so another option may be to leave the money with the insurer for a while. The insurer will pay interest to the beneficiary and the principal can be taken out later. The biggest problems here would be if you had concern about the solvency of the insurer and/or the realization that the payout may be a very low interest rate.

Another option is to have the insurer pay periodic installments of the principal and interest over a period of time until the benefits are paid out. Again, the question is, would the beneficiary do better with the money by taking it all at one time and investing it?

Insurers often encourage beneficiaries to annuitize the payouts, either for the life of the beneficiary or for a certain period of time. Some may even encourage taking the lump sum and buying an entirely separate annuity. Annuitization is not right for everyone, so you will want to thoroughly review this option with a financial advisor before signing such a contract.

The annuity option illustrates the importance of taking your time in coming to a decision. Do not rush into a decision about which payout option to take until you've spoken with a



financial advisor and explored all the options in light of your particular financial situation.

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