



## Chapter 7 Beneficiaries

**Third-Party Applicant** – Policy owner and insured are two different people

### **Insurable Interest** –

- Policyowner must prove financial loss should insured die
- Everyone has insurable interest in themselves
- Direct blood, (not aunts or uncles or cousins), biz relationships, etc.
- Must be present at inception of the contract, not at time of claim
- Designed to prevent wagering

### **S.T.O.L.I. or I.O.L.I. – Stranger or Investor Originated Life Insurance**

- Stranger loans money to policyowner so policyowner buys life insurance on herself and names stranger/investor as irrevocable beneficiary
- Policyowner receives some type of benefit for doing this
- Most states make this a prohibited practice (ck your law chapter)

### **Beneficiary** –

1. **Primary Beneficiary**, if living; otherwise
2. **Secondary** –
3. **Tertiary** – Third in line; the other two had to die before the insured
  - When paid to any of the above, benefits are tax free, and free from insured's creditors

### **Estates as beneficiary**

- Automatically goes to estate if no beneficiary is named or has died before insured
- Bad idea! Estate goes thru probate, insured's creditors can go after proceeds

### **Minors**

Is allowed, but:

- Might make limited payments to a guardian for the benefit of the minor
- Retain the proceeds with interest and pay when minor becomes of legal age
- Put proceeds in a trust for the benefit of the minor
- Ck your law chapter for state specific details

**Distribution by Descent** – only applies when there are two or more beneficiaries on the same level. Ex. 2 primaries, 3 secondary etc.

- **Per Stirpes** - By blood; If beneficiary dies before the insured, proceeds pass thru the blood to their children
- **Per Capita** – by head; If beneficiary dies before the insured, proceeds pass to the other living named beneficiary

### **Beneficiary**

- **Revocable** – policy owner can change it at any time
- **Irrevocable** – policyowner can not change, borrow money w/o beneficiary's permission; CAN change premium mode w/o permission

### **Simultaneous Death**

- **Uniform Simultaneous Death Act** –
  - applies to all states
  - if insured and beneficiary die from same accident and there is a question as to who died first, the law says the insured died LAST
- **Common Disaster Provision** –
  - If desired, it needs to be added by policyowner, not automatic
  - Same as U.S.D.A but with a time frame added (the beneficiary must survive by a certain amount of days)

### **Spendthrift Trust Clause**

- Proceeds paid into a trust held by insurance company
- Protects the beneficiary from the beneficiary's creditors
- Must be added by the policyowner or beneficiary