

LIFE INSURANCE DON'TS

Life insurance can play an important part in an individual's overall financial plan. Here are a number of common practical mistakes that could prove costly yet are easily avoided.

- # 1 **Naming the estate as beneficiary** -- This brings the policy proceeds back into the probate estate where it will be subject to fees and expenses, inheritance taxes and creditor claims.

- # 2 **Failing to name backup beneficiaries** – Without backup beneficiaries, if the original named beneficiaries die first, it's back to mistake #1. It might be a good idea to do this with other tools as well such as wills, trusts, and retirement plans.

- # 3 **Failing to do insurance policy check-ups** – It's a pretty solid strategy to review policies every few years or so to look for changes in needs as well as changes in the family.

- # 4 **Mismatching the product with the problem** – Check-ups will often point out situations where there is the wrong type of policy for current needs. New types of policies may address needs better, or the old needs may have changed.

- # 5 **Inadequate coverage for family security** – Family needs change over time. Analysis of survivor needs upon death or disability of a spouse, as well as the spouse's expected lifestyle, could justify policy updating.

- # 6 **Policy payable outright to minors** -- Guardianship or custodian proceedings can be a burden for survivors. Look into a trust or a settlement option with restricted payouts to provide for minor children.

- # 7 **All life insurance owned by the insured** – Where there is a taxable estate, the insured might as well have named the IRS as a partial beneficiary. Getting it out of the estate through outright gifts or through a trust and then donating cash annually that can be used to pay remaining premiums can be a significant wealth preserver.

8 **Not maximizing business-sponsored benefits** -- Where individuals have some control over a small, closely held business, they should look into the cash flow and tax-effectiveness of the business providing the insurance.

9 **Overusing term insurance** – Remember, term insurance runs out eventually while it also becomes more expensive. Re-evaluate needs and see if permanent products can address them better as time passes.

10 **Buying life insurance as though a commodity** – Not all life insurance contracts are alike. The lowest price and the highest return do not necessarily mean it's the best policy. Service and experience of the agent as well as strength of the company are more important.

Of course, the correct uses of life insurance can only be determined by examining the specifics of your particular financial situation. Contact a CERTIFIED FINANCIAL PLANNER™ professional for help developing your financial plan and avoiding these mistakes.