volume 27, number 5

financial monitor

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in this issue:

Understanding Life Insurance Beneficiary Designations

In the language of life insurance, a **beneficiary** is the recipient of the proceeds of a policy when the named insured dies. The owner of a life insurance policy has a great deal of flexibility in naming beneficiaries and can generally name anyone he or she chooses. When making beneficiary decisions, it is important to ensure that the wishes of the policyowner are fulfilled and that legal complications are avoided.

Types of Beneficiaries

Beneficiaries are typically categorized as either **primary** or **contingent**. A *primary* beneficiary is entitled to the benefits of the policy upon the death of the insured, but such rights expire if he or she dies before the insured. A *contingent* (or secondary) beneficiary is entitled to the policy benefits if the primary beneficiary has predeceased the insured. One fairly common arrangement stipulates that, if a primary beneficiary dies before the insured, then the amount would be payable to the contingent beneficiary. It may be desirable to have several contingent beneficiaries.

A beneficiary can be designated as a **specific** beneficiary (a person identified by name and relationship) or a **class** beneficiary (a group of individuals such as "children of the insured"). While the naming of specific beneficiaries is usually clear, unintended complications can arise when designating *classes* of beneficiaries.

For example, if you plan to name your children as beneficiaries, you must clarify if you intend to include adopted children or children by a former spouse. If your children are minors, it is important to determine if the insurance company will pay the benefits to a minor beneficiary. Generally, insurers pay benefits to a legal guardian rather than to a minor.

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Take Time for a Credit Checkup

The Fair Credit Reporting Act of 1970 has stood the test of time, and the Consumer Credit Reporting Reform Act has provided additional protection to the American consumer. If you take some time to understand the credit reporting system and monitor the "health" of your own credit profile, it will be time well spent.

Credit bureaus collect objective financial data for use by bankers, retailers, credit card issuers, and landlords. In a typical file, data is provided by creditors and gathered from public records. It includes tax liens, bankruptcy information, outstanding loans, and details of credit card history, including the credit limit on each card, purchases, balances, and payment record.

Most people are not aware of the financial paperwork and personal information accumulating in the files of consumer reporting agencies. The Fair Credit Reporting Act of 1970 provides some control over the harm third-party reports can do. Specifically, consumers have the right to request and to be told what is in their files, and inaccurate information must then be corrected or deleted.

Many consumers strive to live within their means and take great pride in paying their bills on time. When they apply for credit, such as a mortgage, however, they may discover some shocking news: Their credit report contains errors that prohibit them from obtaining the credit they need. Typical errors that can appear in a credit report include the following:

- Mistakes involving your name and a similar name
- Inclusion of someone else's credit problems in your file
- Incorrect balances on current credit accounts
- Closed accounts listed as current
- Accounts of ex-spouses still listed with yours
- An inaccurate Social Security number

Those who question the reliability of such evidence are allowed by Federal law to obtain one free credit report per year from each of the three major credit reporting companies: TransUnion, Equifax, and Experian. Further, the major credit reporting bureaus offer programs that provide the most active credit-seeking consumers with ongoing access to their files for a small fee.

For your convenience, the three consumer reporting companies have set up a central website and a toll-free telephone number through which you can order your free annual report from each company. To order, visit annualcreditreport.com or call 1-877-322-8228.

If you discover that your credit report jeopardized credit or loan approval, you have the right to know the "nature and substance" of the information at no cost. The denying creditor must disclose which company prepared the report, including its address. Should there be incorrect information, the agency must re-investigate and then confirm, correct, or delete the information accordingly. If the re-investigation proves the information is accurate, brief explanations of extenuating circumstances can be added. Lists of those who have received files within the past six months or the past two years, if for employment purposes, are also available to the consumer.

Should corrections be necessary, all of the requesting parties can be sent an updated version by the reporting agency. It is important to note that if you find a discrepancy in your report with one bureau, making the correction with that one does not correct them all, since each agency has its own independent database.

Protecting your credit history is a necessity since a good record can help you secure the money you need to meet your financial goals. With identity theft on the rise, it is more important than ever to remain vigilant about your personal credit report. Taking the time for periodic checkups can go a long way toward helping to protect your good name.

Dividing Your Estate: A Practical Approach

When planning the division of your assets, you may believe in a policy of "share and share alike." This is perhaps the easiest method to avoid conflicts or complaints of favoritism. But does *equality* necessarily equate with *fairness*? Especially when you consider such factors as age, talents, skills, interests, needs, and degrees of material success.

An alternate approach to estate equalization is a division of assets that recognizes and supports the uniqueness and differences in the abilities and needs of your children, even at the risk of creating conflict. Through your estate plan, you have a chance to provide a degree of thoughtful and calculated support that your children may not otherwise experience.

Let's consider the following scenarios:

1. Disparity in Age: Assume you have two children, ages 22 and 14. Should you split your estate in half, even though your 22-year-old son has a private school education and college degree, while your 14-year-old son has just started high school?

2. Income and Net Worth: Your daughter becomes a partner in an investment banking firm and quickly builds up significant assets, while your son becomes an artist who is dependent on the sale of his artwork to make a living. Should you leave your estate in equal parts to your son and daughter?

3. Previous Giving: You have given your 24-year-old daughter $100,000 worth of stock in your business as an inducement for her to work with you. You have not, however, given your 18-year-old daughter a similar gift. Should you still divide the assets in your estate equally?

4. Investments Given to Children: You have given one child stock in Company ABC that has risen in value to $300,000, and another child stock in Company XYZ, which has gone bankrupt. How should you then allocate the balance of your assets?

In all of these examples, an equal division of property has the potential to create or perpetuate unequal results. Of course, you may choose to divide your assets equally; however, it's important to be aware of all your options in estate planning.

Listen First

There are ways for you to achieve more equitable results. First, communicate with your children. You may choose to speak with each child individually or hold a family meeting. (You may serve as proxy for your young children.) Help them to express their hopes, dreams, and expectations, as well as their concerns and frustrations. By listening, you may gain the valuable insight needed to divide your estate without causing undue conflict or resentment. The decisions may be difficult, but in the long run, your estate plan may provide a certain degree of thoughtful support for your children.

Taxes and Scholarship Income

Students who receive scholarships or grants need to be aware that some funding they are awarded may be taxable. The portion of a scholarship that is taxable is that which applies to room, board, travel, and other noneducational expenses. On the other hand, scholarship dollars used for tuition, fees, books, supplies, and course-required equipment are nontaxable.

If taxes are due, they are payable by the scholarship recipient. Generally, students do not receive enough yearly income to owe tax, especially if they file independently and can take a personal exemption. However, students claimed on their parents' tax return might not fare as well.

The key is to apply scholarship dollars to tax-free expenses—such as tuition and fees—first. The taxable portion of the scholarship will be essentially what's left over. School bills should detail these items specifically and show the scholarship amounts received.

Teaching grants or project assistantships are nontaxable if they are integral to a student's chosen field of study. However, research assistantships that benefit the academic institution, rather than the student, are taxable.

Receiving a scholarship can be a major education funding boost, but it is equally important that the scholarship recipient remains informed of the sometimes "taxing" issue of scholarship dollars. A review with a qualified tax professional can help alleviate any concerns and keep you on track to meet your overall objectives.

understanding life insurance beneficiary designations

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Consider the following scenario in which the policyowner's intentions appear straightforward, but could become complicated. Jane, age 70, has planned for the benefits of her life insurance policy to be paid to her children (Jason, Suzanne, and Sarah) or her grandchildren. Now, suppose Jason and Suzanne die before their mother. Jason leaves four children, and Suzanne has no children. How will the proceeds of the policy be distributed when Jane dies?

Methods of Distribution

Per stirpes and **per capita** are terms that describe methods of distributing property to family members and heirs. Per stirpes means "branches of the family," and per capita means "by heads." In the example above, under a *per stirpes* distribution, Sarah (one branch) would receive one-half of the proceeds, and Jason's surviving children (the other branch) would divide the remaining half among themselves. Under a *per capita* distribution, Jason's four children, along with Sarah, would *each* receive one-fifth of the proceeds. Remember, if any of Jason's children are still minors when Jane dies and legal guardians have not been appointed, there may be complications.

Revocable vs. Irrevocable

Consequences may also vary according to whether your chosen beneficiary designations are revocable or irrevocable.

If a beneficiary designation is **revocable**, the policyowner reserves the right to change the beneficiary.

A person designated as a revocable beneficiary has only an "expectation" of benefits, since the owner of the policy can exercise any of the policy rights without the consent of the revocable beneficiary.

On the other hand, an **irrevocable** beneficiary designation cannot be changed without the consent of that beneficiary. While this arrangement is sometimes desirable for estate planning purposes, the legal status of an irrevocable beneficiary is uncertain. Some may regard an irrevocable beneficiary as a "co-owner" of the policy; therefore, the beneficiary's consent is needed to exercise any policy rights. On the other hand, others may contend that an irrevocable beneficiary's consent is needed only for exercising a change of beneficiary.

The latter position can create the somewhat puzzling situation of compromising the beneficiary's rights if the policyowner exercises other rights, such as surrendering the policy or permitting it to lapse. Due to the serious implications of an irrevocable designation, it is usually preferable to use revocable beneficiary designations.

A further complication can arise when one's estate is named as a beneficiary of a life insurance policy. The policy benefits may be tied up in the probate process or reduced by the claims of creditors.

Regularly Review Your Policy

The distribution desired by the policyowner must be clearly set forth in the beneficiary designation. A change in family circumstances after a policy is initially written, such as a divorce, could leave unintended beneficiaries, so it is important to review your insurance policies regularly. If you are unsure about your beneficiary designations, check your policies, and take the steps necessary to make the appropriate changes.