



ENSURING LIFE INSURANCE BENEFITS GO WHERE YOU INTEND

Directing life insurance benefits

One of the most important, yet often overlooked, considerations when putting life insurance plans in place is to ensure that in the event of any claim, benefits:

- end up with the person(s) you intend; and
- are paid as quickly as possible.

Ensure benefits go to the intended person

Typically parents will put life insurance in place to help protect the lifestyles of their surviving partner and children. The expectation would be that in the event of the death of the life insured, any benefits would quickly and simply find their way into the hands of their surviving spouse and/or children.

However, if steps haven't been taken to place some legal certainty around the direction of these payments, then in cases where the life insured is the sole policy owner, it is likely that the benefits would be paid to the estate of the life insured, to be distributed by the executor. This can be problematic for a number of reasons:

- where the life insurance benefit forms part of the life insured's estate it may be used to pay off any debts of the estate, prior to the estate being distributed;
- the distribution of the estate may not be done in the way the life insured intended. This can be especially complex where the life insured has been married more than once, or has children from different relationships; and
- even where the distribution of the estate is straightforward, finalisation of such matters may drag on for a long time, which can cause financial stress and uncertainty for your loved ones, particularly if they do not currently earn an income.



How to direct claim payments from life insurance policies

One way to help address this uncertainty is to have an up-to-date will as part of an overall estate plan. A will covers the distribution of all your assets, including any life insurance benefits. Fortunately, many life insurance policies also have inbuilt mechanisms which allow you to direct the payment of any benefits with much greater speed and certainty. These mechanisms are:

- ownership of the policy; and
- nomination of beneficiaries.

Policy ownership

If the life insured dies and a benefit is payable under the terms of the policy, the benefit would be payable to the owner of the policy. In the event that the life insured is also the sole policy owner, the benefits are likely to be paid to the life insured's estate. For this reason, it can be beneficial to make the owner of a policy the person who it is intended will actually benefit from the proceeds. This could be done as single owners – eg a husband owns the policy on his wife's life and vice versa – or as joint owners – eg the husband is life insured and joint owner with his wife.

Policy ownership has implications in that only the policy owner can request changes to a policy, so you should consider this carefully. In a case where the life insured is not the policy owner this may become problematic in the case of a breakdown of a marriage, for instance, as it means the life insured has no control over the policy on their life, and depending on their age and health may have difficulties in taking out a new policy.



Beneficiary nomination

The other option offered in relation to many policies is for the policy owner(s) to nominate a beneficiary(ies). The owner(s) of the policy can nominate a number of beneficiaries that any benefit will be paid to, and in what proportions (must be 100% in total). Nominations remain current until the policy owner notifies the insurer of a change. The advantage of this approach is that it ensures a person can always retain control of a policy on their own life, yet still be able to direct the proceeds of any claim.

Estate planning and making wills

The options described above can only assist with the direction of life insurance benefits. To direct the other assets that may make up your estate, you should consider a will and ensure that will is kept up to date, as part of an overall estate plan. As well as an up-to-date will, a comprehensive estate plan will also address issues such as power of attorney, where you assign the power to make decisions on your behalf (financial and otherwise), in the event that you are no longer able to.

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For more help

For more help with life insurance, call us on 134 135. For more information on the issues relating to estate planning and the making of a will please contact a ClearView Financial Planner on 132 976.

