



# LIFE INSURANCE QUICK REFERENCE GUIDE

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## Policy Ownership and Beneficiary Designation



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# Life Insurance Policy Ownership and Beneficiary Designation: A Quick Reference

Personal			
Concept	Insured	Owner	Beneficiary
<b>Estate Planning</b> Provides liquidity			
1. Irrevocable Life Insurance Trust (ILIT)	Person leaving an estate	(Name), Trustee of the Irrevocable Life Insurance Trust (indicate name and date of trust)	(Name), Trustee of the Irrevocable Life Insurance Trust (indicate name and date of trust)
2. Natural Third-Party Owner(s)			
a. Individual Ownership	Person leaving an estate	Insured	Designated by owner
b. Multiple Owners (equal ownership interest):			
i. Tenancy in Common	Person leaving an estate	Multiple owners as tenants in common	Designated by multiple owners, equally
ii. Joint Tenancy with Right of Survivorship (JTWROS)	Person leaving an estate	Multiple owners as joint tenants with right of survivorship	Designated by multiple owners, equally
<b>Qualified Retirement Plans</b> Attract, retain, and reward employees			
1. IRC Section 412(e)(3) and/or Traditional Defined Benefit Plan	Plan participant	Plan trustee is owner of whole life policy and annuities	Plan trustee is beneficiary of whole life policy cash value and annuities. Participant designates beneficiary of net amount at risk under life insurance policy.
2. Profit-Sharing and/or 401(k) Plan	Plan participant	Plan trustee	Plan trustee is beneficiary of policy cash value. Participant designates beneficiary of net amount at risk under life insurance policy.
<b>Uniform Transfers/Gift to Minors Act (UTMA/UGMA)</b>			
1. Insurance on Donor	Donor, such as parent or grandparent, or someone else in whom minor has an insurable interest	(Name), custodian for (Name of Minor) under the (Name of Enacting State) Uniform Transfers/Gifts to Minors Act	(Name), custodian for (Name of Minor) under the (Name of Enacting State) Uniform Transfers/Gifts to Minors Act
2. Insurance on Donee (Minor)	Donee (minor)	(Name), custodian for (Name of Minor) under the (Name of Enacting State) Uniform Transfers/Gifts to Minors Act	Insured minor's estate

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Business			
Concept	Insured	Owner	Beneficiary
<b>Key Person Coverage</b> Indemnifies business for loss of key employee	Key person	Business	Business
<b>Buy-Sell Arrangements</b> Facilitate transfer of business interests			
1. Entity Plan/Redemption	Business owner(s)	Business	Business
2. Cross-Purchase	Business owners	Business owners	Business owners
3. Trusteed Plan	Business owners	Independent trustee	Independent trustee
4. One-way Buyout	Business owner(s)	Individual(s) with obligation to purchase—generally key employee(s)	Individual(s) with obligation to purchase—generally key employee(s)
<b>Executive Benefits*</b> Attract, retain, and reward key executives			
1. Section 162 Executive Bonus Plan	Executive	Executive (or third party/trust, to avoid estate inclusion)	Executive's designated beneficiaries or third party/trust
2. Restricted Executive Bonus Arrangement (REBA)	Executive	Executive (or third party/trust, to avoid estate inclusion). REBA endorsement must be submitted with policy.	Executive's designated beneficiaries or third party/trust
3. Split-Dollar Plans**			
a. Loan Regime—Employer's premium payments treated as loans to executives***	Executive	Executive or third party. Owner collaterally assigns to employer an amount equal to employer's interest in policy (typically return of premium).	Executive's designated beneficiaries or third party. Employer has interest in policy to extent of collateral assignment; remainder to beneficiary selected by executive or third-party owner.
b. Economic Benefit Regime/Endorsement Method—Current cost of life insurance treated as taxable economic benefit to executive	Executive	Business/employer. Employer endorses to employee right to name beneficiary of at-risk portion.	Business/employer is beneficiary of cash value. Employee designates beneficiary of at-risk portion.
4. Nonqualified Deferred Compensation or Salary Continuation Plan	Executive	Business (generally C corporation)	Business (generally C corporation)

\*Executive benefits are generally limited to a select group of executives or highly compensated individuals.

\*\*Corporation's interest in a life insurance policy under a split-dollar arrangement is stipulated in split-dollar agreement.

\*\*\*For agreements entered into on or before 9/17/03 that have not been "materially modified," the collateral assignment method generally applies.

# General Principles of Life Insurance Planning

1. If the owner of a life insurance policy is someone other than the insured, the owner and beneficiary should be the same party in order to avoid a taxable gift at the insured's death. For example, if the father is the insured, the mother is the owner, and the children are the beneficiaries, a gift from the mother to the children is made at the father's death.
2. The party with the life insurance need should be the owner of the policy to avoid taxable transfers at or after the insured's death.
3. The owner and applicant of the policy should be the same to avoid or minimize potentially problematic or taxable transfers after policy issue.
4. If the purpose of the life insurance is to provide a death benefit for estate liquidity, the insured should not apply for, or own, the policy; nor should the insured's estate be the beneficiary.
5. Minor children lack the legal capacity to be the outright owners or beneficiaries of life insurance policies. A guardian or trust should be considered.
6. Always name at least two contingent beneficiaries and consider a charity as a final back-up beneficiary.
7. Don't overlook the use of settlement options as an alternative to more sophisticated devices such as a trust when policy proceeds are relatively modest.
8. If a spouse is the policy owner, have the noninsured spouse apply and pay for the policy from his/her own funds to avoid transfers within three years of death.
9. If a spouse is the noninsured policy owner, he/she should apply and pay for the policy from his/her own funds.
10. If an irrevocable trust is named as owner of a survivorship life insurance policy, it may be advisable for the trust to provide no benefits for the surviving spouse if the spouses desire to keep the proceeds out of their estates. Further, neither spouse should be named trustee of an ILIT if estate exclusion is a planning objective.

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If further guidance is required regarding the general principles of life insurance planning, please call Advanced Marketing at 1-877-ADV-MRKT (238-6758) for additional information, or visit our Web site at [www.tatransact.com](http://www.tatransact.com).

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