

The Importance of Naming a Beneficiary

One of the benefits of a Registered Retirement Savings Plan (RRSP) is the ability to choose who receives your assets when you pass away. The purpose of this document is to highlight the basics of what a beneficiary is and the importance of always keeping your beneficiary designations up to date.

What is a beneficiary? A beneficiary is someone who receives the proceeds from a contract such as a life insurance policy or RRSP when the policyholder passes away.

What is a contingent beneficiary? A contingent beneficiary is someone who receives the proceeds from a contract should both the policyholder and the beneficiary pass away. For example, if both parents pass away at the same time in an accident, then the policyholder can specify the proceeds be distributed equally to the children.

When do I designate a beneficiary? When purchasing a contract such as a life insurance policy, RRSP, RRIF, LIF, or LRIF, naming a beneficiary is part of the application process. If one is not specified, the proceeds flow into the estate.

What is the difference between a revocable and irrevocable designation? A revocable designation means the policyholder can change the beneficiary without consent or knowledge of the beneficiary. An irrevocable designation means that in order to change the beneficiary, the policyholder must get the written consent of the named beneficiary. For example, irrevocable designations are often used in divorce settlements to insure the financial interests of the former spouse.

How often should I review my beneficiary designation? Beneficiary designations should be reviewed periodically and especially after life changing events such as marriage, divorce, birth of a child, or death.

How do I change my beneficiary? Each insurer or financial institution has its own beneficiary designation form. Complete the form, sign and date it, and send it into the financial institution. To make a change for an irrevocable beneficiary designation, the signature of the beneficiary is required; a phone call or verbal communication is not enough.

Does my will override my beneficiary designations? The answer is it depends. Naming a beneficiary is legally binding. Forgetting to change a beneficiary designation can result in an unintended person, such as a former spouse, receiving your assets after your death.

Naming beneficiaries is an important part of financial planning. Seek the advice of a certified professional to make sure your assets flow in the most efficient way possible. Making sure your beneficiary designations are up to date is the surest way that your assets go to the ones to whom you intended.