

The Right Life Insurance

Death Benefits

Everything you need to know about how life insurance pays — and how to make sure your family gets every dollar they deserve.

What Is a Death Benefit?

A death benefit is the lump-sum amount paid to your named beneficiaries when you pass away — provided the policy is in force and the cause of death is covered. It is generally income-tax-free under federal law (IRC §101), meaning your family receives the full amount without a tax bill attached.

This is the core promise of life insurance: that the people who depend on you financially will not be left to figure it out alone.

Term Life vs. Whole Life — What Gets Paid?

Feature	Term Life	Whole Life
Coverage period	Set term (10, 20, 30 yrs)	Lifetime
Death benefit	Fixed amount if death in term	Guaranteed regardless of when
Premiums	Lower — pure insurance	Higher — includes cash value
Cash value	None	Grows over time
Best for	Income replacement, mortgage	Final expense, estate planning
Cost example	~\$30/mo · \$500K · age 30	~\$200/mo · \$50K · age 30

How Beneficiaries Actually Get Paid

When a policyholder passes, the beneficiary must file a claim with the insurance company. Here is exactly what that process looks like:

- Step 1:** Obtain certified copies of the death certificate (typically 5–10 copies — different institutions require their own).
- Step 2:** Contact the insurance carrier directly or through your agent. Your agent should guide this process and advocate on your behalf.
- Step 3:** Submit the claim form along with the death certificate and policy number. The carrier may also request a cause-of-death statement from the attending physician.

Step 4: The carrier reviews the claim — typically within 30 days. If approved, payment is issued. If contested, you have the right to appeal.

Step 5: Choose your payout option: lump sum (most common), installments, or a retained asset account.

Reasons a Claim Can Be Contested or Delayed

Understanding these now protects your family later:

- The contestability period — most policies can be contested within the first 2 years if material information was misrepresented on the application.
- Cause of death exclusions — suicide in the first 2 years, certain hazardous activities, or acts of war may be excluded depending on the policy.
- Policy lapse — if premiums were not paid and the policy lapsed before death, no benefit is payable.
- Beneficiary disputes — if no beneficiary is named, or the named beneficiary has predeceased the insured, the benefit may go to the estate and face probate.
- Fraud — material misrepresentation at application time gives the carrier grounds to rescind the policy.

Patrick's Perspective: As a former independent claims investigator, I have seen what happens on

Common Questions About Death Benefits

Is the death benefit taxable?

Generally no — life insurance death benefits are income-tax-free under federal law. However, if the benefit is left with the insurer and earns interest, that interest is taxable.

How much life insurance do I need?

A common rule of thumb is 10–12 times your annual income. But the real calculation considers your mortgage balance, dependent expenses, debts, and how long your family needs income replacement.

Can I name multiple beneficiaries?

Yes — you can split the benefit by percentage. You should also name contingent beneficiaries in case your primary beneficiary predeceases you.

What if my beneficiary is a minor?

A minor cannot directly receive a large life insurance payout. Consider naming a trust or a custodian under the Uniform Transfers to Minors Act (UTMA).

Ready to Review Your Coverage?

A 15-minute conversation with Patrick can identify gaps, update your beneficiaries, and make sure your policy is doing what you think it is. Call (847) 637-8890 or visit lakesideinsures.com.