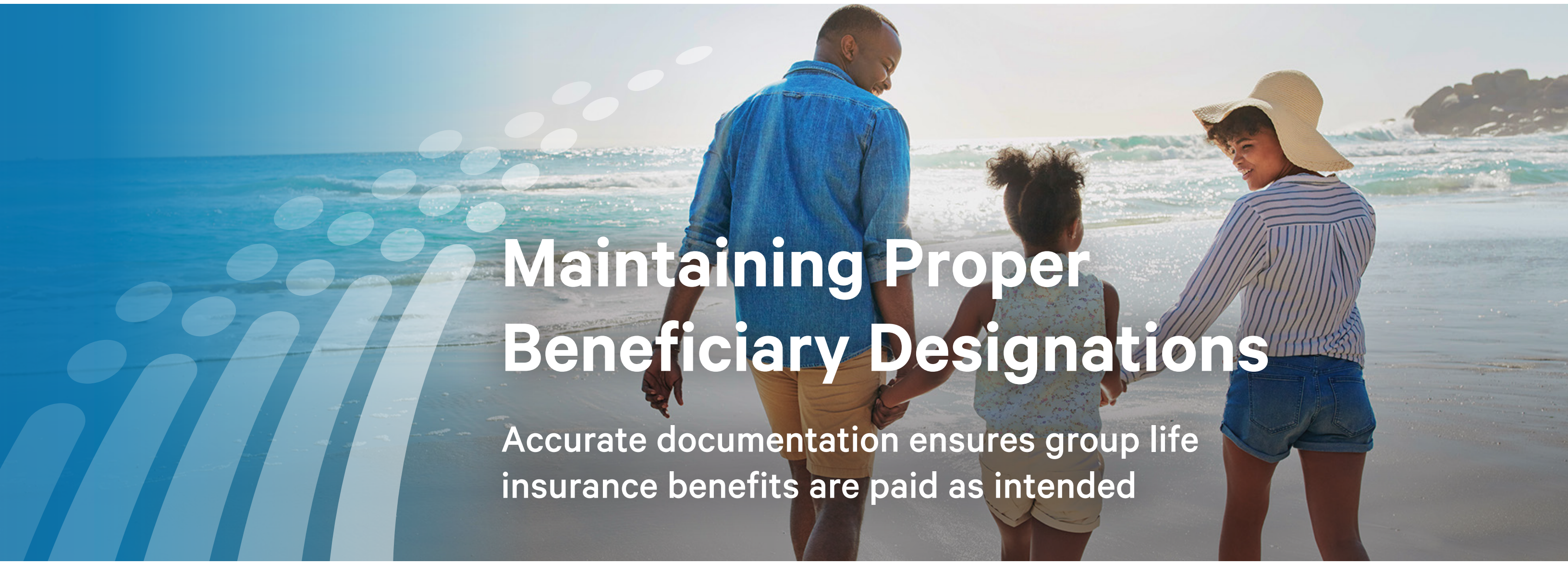

Maintaining Proper Beneficiary Designations

Accurate documentation ensures group life insurance benefits are paid as intended

Like many financial products, life insurance can be tailored to fit a wide array of needs. But for most consumers, including employees with group life insurance, the ultimate goal of life insurance is simple: passing along a death benefit to selected beneficiaries in the event of the insured's death. While this goal may be straightforward, designating beneficiaries and ensuring that the policy pays according to an insured's wishes is not a step to take lightly.

Missteps in the beneficiary designation process can lead to lengthy delays in payouts or benefits not being paid out as intended. Taking time to understand and carefully designate beneficiaries can help avoid any lack of clarity or extended delay at the time of death.

What disqualifies a named beneficiary?

A person who is involved in a criminal act against the insured may be disqualified from receiving group life insurance benefits.

In certain situations, a divorce decree may nullify the beneficiary designation, but the decree generally has to be a qualified domestic relations order. The outcome depends on the unique facts and circumstances in each situation.

Understanding beneficiary designations

Employees can name any person or entity (except their own employer) as a beneficiary, including family members, friends, trusts or charities. Beneficiary designations fall into two categories:

Primary beneficiaries: A primary beneficiary is the first person or entity insureds choose to receive life insurance benefits. If more than one primary beneficiary is named, insureds must specify the percentage of the benefit (not a dollar amount) they want paid to each. In the event that a primary beneficiary is disqualified or dies before the insured, his/her percentage of the benefit will be paid to the remaining primary beneficiaries.

Contingent (or secondary) beneficiaries: A contingent beneficiary is the person or entity insureds choose to receive benefits if no primary beneficiaries are qualified or alive at the time the insured dies. If more than one is named, insureds specify the percentage of the benefit they want paid to each. In the event that a contingent beneficiary is disqualified or dies before the insured, his/her percentage of the benefit will be paid to the remaining contingents.

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Additional beneficiary designations are available; however, insureds are strongly encouraged to seek professional advice before proceeding. These designations include:

Minor beneficiaries: If the beneficiary(ies) is a minor, the carrier cannot pay directly to the beneficiary(ies) as they normally would. Instead, there may be options for payment that may vary according to the state where the beneficiary(ies) lives, including:

1. Uniform Transfer to Minors Act (UTMA) – Most states have passed UTMA legislation, which allows carriers to make payment to the custodian of the minor beneficiary if the benefit is under a certain statutory amount. The custodian is normally a parent, grandparent, adult relative, or court appointed representative. The beneficiary may select the custodian, provided no court has already done so. If the beneficiary has a court-appointed guardian, this option will not apply. If this option is selected, a check will be made payable to the custodian on behalf of the minor beneficiary.
2. Payment to Court Appointed Guardian – Another option is for the carrier to pay the life insurance benefit to a court appointed guardian of the minor's estate. In most states, the surviving parent does not automatically have the right to receive or control any part of the estate or assets of the minor beneficiary. In order to receive or control the estate or assets of the minor beneficiary, the surviving parent (or other guardian of the minor child as a person) must be specifically named as guardian of the minor's estate. Court costs are involved in obtaining guardianship papers and states vary in what is required and who may apply for guardianship.
3. Interest Bearing Account until the age of Majority – In this option, the carrier places the proceeds in an account with a guaranteed rate of interest maintained by the carrier until the minor beneficiary attains the age of majority. At that time, the proceeds are paid directly to the beneficiary. If during this time a guardian of the minor beneficiary's estate is appointed, the proceeds will be payable to the guardian of the estate. If the minor beneficiary does not survive to the age of majority, proceeds will be paid to the minor beneficiary's estate.

Trusts: Insureds may elect to designate trusts as beneficiaries. Benefits will be released to the trustee for distribution according to the trust's guidelines when the exact name of the trust, along with the accompanying Tax ID number, is listed as the beneficiary.

Estates: When an estate is named as beneficiary, the insurer will release benefits to the court-appointed representative of the estate, such as an executor or administrator.

Absolute assignments: An "absolute assignment" transfers all rights, title and interest of a life insurance policy from the insured to an assigned individual or entity. After the assignment, the insured may no longer exercise any options on the policy, including changing amounts or beneficiaries or voluntarily canceling the insurance. This is typically done for estate planning purposes or to fulfill obligations under a divorce or settlement.

If an employee does not have a valid beneficiary designation, the group policy provisions will determine how benefits are paid.

Maintaining designations

Without proper beneficiary designations, an employee's death benefit can sometimes be left to chance. If there is no beneficiary on file, death benefits are typically paid according to the group policy provisions. In these cases, the beneficiaries may or may not be who the employee had in mind.

As the group policyholder, the employer should help ensure that employee beneficiary designations are complete and reflect their intentions. Use the following guidelines to help employees make clear and accurate designations.

1. **Review beneficiary designations with employees as they are completed**. Before accepting the beneficiary paperwork, make sure that designations are complete, signed and dated. The beneficiary percentages must add up to 100%.

2. **Request dates of birth and addresses for beneficiaries**. While insurers have resources to help identify and locate beneficiaries, an accurate account record including dates of birth, relationship to insured, addresses and even Social Security numbers can speed up processing and avoid escheatment of funds to the state.

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3. **Confirm beneficiaries annually**. During open enrollment or other designated periods, remind employees to review and update their beneficiaries. When children are born and couples are married or divorced, it is important that beneficiary designations change as well to avoid competing beneficiary claims. Because competing beneficiary claims can arise in a variety of ways, they raise different legal and administrative issues. The outcome depends on the unique facts and circumstances of each situation. For example, although many states have enacted laws stating that a former spouse automatically loses his/her designation as a beneficiary on life insurance policies and other instruments, these laws will not apply if the group life insurance policy is governed by the Employee Retirement Income Security Act of 1974 (ERISA).

4. **Maintenance of the beneficiary designation record is the responsibility of the group policyholder**. Retain records of the original designation and any changes made by the employee. Encourage employees to keep a copy with other important documents. When questions arise, easy access to beneficiary information will provide clarity and peace of mind.

If there are inaccuracies in beneficiary designations, or in the absence of one, insurers may rely on affidavits from family members in order to avoid court action. This typically involves asking family members to agree upon the appropriate beneficiaries and signing an affidavit that identifies the names and addresses of those listed.

Make it count

While simple in theory, life insurance benefits can quickly become complex when beneficiary designations are incomplete, inaccurate or out of date. As an employee benefit, group life insurance is intended to help employees protect the financial futures of their family members, individuals or organizations they care about. Without careful beneficiary planning, intended recipients may face long delays in receiving benefits—or miss out completely. Talk with your benefits representative to ensure that your group life insurance policy is serving the needs of your employees and their loved ones.

For more information about beneficiary designations, talk with your group benefits representative.

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