



Are Your Beneficiary Designations Heir Tight?

Insights

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An often-neglected area in the world of benefit plan administration is the beneficiary designation form. Many participants complete their beneficiary designations incorrectly because they don't read the instructions carefully or don't understand the instructions. Beneficiary designation forms are often filed away without review, and mistakes (and headaches for the plan administrator) surface only after the death of the participant. Here are some of the more common beneficiary form mistakes and misconceptions:

Beneficiary-designation form is not signed and dated.

This is important if there is a challenge to the designation or if there are multiple designations and it is impossible to determine which form is the most current.

Percentages do not add up.

Participant designates multiple primary beneficiaries and indicates a percentage allocation to each beneficiary but the percentages do not add up to 100%. Another example – the participant designates two primary beneficiaries, allocating 50% to one and 10% to another and then designates two contingent beneficiaries, allocating 20% to each. It would appear that the intent was to have all four beneficiaries share in the account, but the form was not completed properly.

Participants believe that their wills override all beneficiary designations.

Beneficiary designations and the plan document determine who gets the money, not the will.

Participants believe that a divorce or property settlement automatically voids the former spouse as the beneficiary.

This is not the case unless the plan contains such a provision. A current spouse will always be the beneficiary under a retirement plan regardless of a prior beneficiary designation. Life insurance proceeds will always be payable to the designated beneficiary.

Participant does not update beneficiary designations to reflect life changes.

Life events such as birth, adoption, marriage, divorce, and death should trigger a review of beneficiary designations. A failure to do so has left children disinherited and ex-spouses happily in possession of unintended windfalls.

To avoid the headaches and possible litigation associated with dealing with incorrect or incomplete beneficiary designations, plan administrators should adopt these prudent practices to avoid most problems and possibly attorneys' fees and costly litigation:

- review all beneficiary-designation forms submitted by employees to be sure that they are signed and dated, that they “add up,” – and that they make sense (do not accept a designation naming “Woeful the Cat” as a beneficiary);
- encourage an annual review of beneficiary designations at open enrollment;
- when aware of a change in life circumstances, remind the participant of the possible need to reevaluate beneficiary designations;
- have a specific method of retaining the beneficiary designations – we advise electronic backup; and
- keep the old designations in case there is a challenge to the current one.

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