

How Important are Beneficiary Forms?



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When hiring a new employee, one of the initial tasks given to that employee is completing various beneficiary forms for the company's benefit plans. Most people will fill it out and not think about that initial election ever again. Some employees may not fill one out at all. So, why is it a big deal?

Failure of an employee to complete a beneficiary election form can cause hardship not only on the plan sponsor but also on the family of the deceased participant because their retirement plan account is generally one of their largest plan assets outside of a home. Designating a beneficiary for an employee's retirement plan assets is one of the most important financial decisions a participant will ever make. It is important to note that each benefit plan requires its own beneficiary election form so the beneficiary form for their 401(k) account only applies to the 401(k) plan listed on the election form.

Ensuring that all participants have a beneficiary form on file is especially important in plans that have automatic enrollment. Participants who are auto-enrolled into the company's 401(k) plan may miss declaring a beneficiary since they do not really enroll themselves into the plan. Plan sponsors who auto-enroll their participants should request workers to complete a beneficiary designation form as part of the auto enrollment process. Normally, the forms state who the beneficiary(s) will be, the amount that each beneficiary should receive and the relationship between a beneficiary and participant. The forms will also ask for a beneficiary's Social Security or taxpayer identification number for tax purposes. Estate planning documents including wills and pre-nuptial agreements are subject to state laws while retirement plan documentation is subject to federal laws, and as such may not look at the estate documents at all.

If a participant does not make a beneficiary election, the Plan Document will specify a default beneficiary. Normally the surviving spouse is the default beneficiary, which makes it easy if the participant is married at the time of death. But if there is no surviving spouse, the plan document will list who is next in line to be designated as the beneficiary. It's not uncommon for plans to designate the estate of the deceased participant as a last resort beneficiary if there is no election on file and there was no surviving spouse.

The clear establishment of a beneficiary direction will also ensure that benefits can be paid in a timely manner after death. Each plan document is required to have specific rules regarding the timing of benefit payment to a beneficiary. The rules for qualified retirement plan generally require

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a plan sponsor to offer a distribution to the beneficiary of a deceased employee no later than the plan year following the plan year in which the participant passed away.

Keeping the beneficiary forms up to date is extremely important when marital status changes or additional children are born. For example, an employee divorces their spouse and then re-marries but never updates the beneficiary form. Depending upon the plan terms, the funds in their account could end up going to their ex-spouse! As a plan sponsor you never want to be in the middle of that situation. What if an employee wants to name someone other than their spouse as beneficiary? For example, if an employee re-marries and has children from a prior marriage that they want to designate as the beneficiaries, the new spouse has to consent to that election.

As you can see, it is important to have a beneficiary form on file for each participant. Failure to have completed beneficiary forms can cause confusion and possible hardship for the plan sponsor and the family of the deceased employee. It is important to remind participants to make any beneficiary election changes when significant changes in life events happen. Consider an annual review of your employees forms to make sure everyone's form is complete and updated. This can be done at the beginning of the new plan year or at the time of annual distribution of participant statements and notices. Keeping everyone's election up to date will ensure a smooth process for all.



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