



BENEFICIARY DESIGNATIONS

June 27, 2024

Ensuring that there is a valid up-to-date beneficiary designation on file for a retirement plan participant is vital to a smooth distribution process following a participant's death. In this newsletter, we will describe best practices for administering beneficiary designations under retirement plans.

The retirement plan document sets forth the rules for determining participants' beneficiaries. Most plan documents are designed to allow participants to name their beneficiary(ies), via a beneficiary designation, with a backup procedure setting forth the order of default beneficiaries in the absence of a valid beneficiary designation or in a situation where the participant's named beneficiaries all predecease the participant. Plan administrators should familiarize themselves with their plan's provisions and should contact their plan document provider if anything is unclear.

Once a plan administrator understands its beneficiary designation practices, steps should be taken to ensure that participants make valid designations and keep those designations current. This will best serve the participants and make the plan administrator's job easier if the time comes to pay a death benefit from the plan. Here are some guidelines to consider regarding the beneficiary designation process:

1. Initial On-boarding: The beneficiary designation instructions should be part of the new participant on-boarding process.
2. Annual Reminder: It is also important that the plan administrator remind plan participants on at least an annual basis to complete a beneficiary designation, if the participant has not already done so, and to keep their beneficiary designations up to date to reflect any life changes such as a birth, adoption, death, or divorce.
3. Review of Beneficiary Designations: The plan administrator should review all beneficiary designations submitted by participants to ensure that the designation is valid and has been completed fully and correctly. This step may seem tedious, but can serve to avoid headaches involving invalid or incomplete beneficiary designations at the time of death benefit payments.
4. Divorce: Some plan documents will provide for an automatic revocation of a spousal beneficiary designation upon divorce of such spouse. The plan administrator should be aware of what the plan document specifies and act accordingly in the case of a divorce involving a spouse beneficiary named as a beneficiary by the participant via a

beneficiary designation under the plan. If the plan document does not provide for automatic revocation of a designation on divorce, the plan administrator should remind participants in their beneficiary designation instructions and annual reminder that the participant is responsible for changing their designation of a spouse as beneficiary in the case of a divorce from such spouse. Failing to remove a former spouse as beneficiary can lead to contentious proceedings following the participant's death.

Regardless of a plan administrator's practices, there will likely be an instance where a participant dies without properly naming a beneficiary. As noted above, plan documents will generally provide for an ordering of potential default beneficiaries which is to be applied in this case. For example, a plan could provide that a participant's surviving spouse will be their default beneficiary, and, if there is no surviving spouse, then the default beneficiary will be the participant's surviving children, or, if none, the participant's estate. The default beneficiary ordering will vary depending on the plan document.

While default beneficiary provisions can provide clarity in the absence of a beneficiary designation, determining the proper default beneficiary can require additional work for the plan administrator, and the ultimate beneficiary required by the plan terms may not reflect the wishes of the deceased participant. Therefore, a plan administrator should not simply rely on these provisions and should consider implementing some or all of the best practices discussed above to limit the number of participants without current, valid beneficiary designations.

If you have any questions or would like additional information, please contact a member of our Employee Benefits & Executive Compensation Practice Group.



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