ADVANCED MARKETS

# BENEFICIARY DESIGNATIONS GUIDE

Mutual of Omaha

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As an agent, it's important to help your clients designate a beneficiary that satisfies their intent with respect to how the death benefit will be paid under their insurance policy.

The information in this guide provides helpful information on the beneficiary designation process.

## The Starting Point – Selecting a Beneficiary

A **beneficiary** is a person or entity entitled to receive the death benefits paid under an insurance contract. As easy as this may seem to you, a surprising amount of your clients won't know what the term beneficiary means.

Once your client selects a beneficiary or beneficiaries, there are many other things that need to be considered.

# Drafting a Clear Beneficiary Designation

## Identification Information

Include both the name of the beneficiary and their identifying information. Such as their relationship to the insured, date of birth, address, phone number and Social Security number.

**Example:**

- **John Doe, spouse of insured, DOB 1/1/1951, 123 Main St., Omaha, NE, 68175, Ph: 123-123-1234, SS# 000-00-0000, 100%**

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## Multiple Beneficiaries

When there is more than one beneficiary, define who should receive the benefit and how the benefit is to be split. If unequal shares are requested, only percentages should be used to establish portions, and those percentages should add up to 100%.

**Examples:**

- **John Doe, spouse of the insured, DOB 1/1/1951, 75%**
- **Jane Smith, sister of the insured, DOB 5/5/1970, 25%**

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## Irrevocable Beneficiary

Most beneficiary designations are revocable. Meaning the owner can change the beneficiary at any time. There are situations where an irrevocable beneficiary designation may be required (i.e., due to a divorce decree or property settlement) but otherwise this designation is discouraged. The owner loses control of the policy benefits, and no change of beneficiary, assignment, surrender, loan, etc. can be made without the written consent of all irrevocable beneficiaries.

**Examples:**

- **Jack Doe, Irrevocable Beneficiary, SS# 000-00-0000, 100%**
- **Jane Doe, former spouse, Irrevocable Beneficiary under dissolution of marriage judgement, dated 5/30/09, 100%**

## Goodman Triangle

For most life insurance contracts, you should avoid situations in which the insured, the owner and the beneficiary are all different parties. Having three different parties to the contract may result in gift and/or income tax issues. It is best to have the owner and the insured be the same, or the owner and the beneficiary be the same.

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## Payment

Payment will be made to the beneficiaries in a lump sum unless otherwise stated on the beneficiary designation form or in the contract provisions.

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## Insurable Interest

State law requires the presence of an insurable interest at the time of sale under a life insurance policy. Insurable interest is present if the owner or beneficiary has a greater interest in the insured's continued life than in the insured's death, meaning that one must suffer a financial loss if the insured dies. If financial loss is not apparent, some family members are assumed to have an insurable interest based on love and affection (i.e., spouse, children and parents.).

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## Spousal Waiver

State law may impact whether or not a spouse has a right to claim the death benefit under a life insurance contract, if the insured designated someone other than the spouse as the beneficiary. Community property states may consider life insurance purchased during the marriage to be owned equally by the husband and wife, so some states may require the non-insured spouse to sign a consent form waiving his/her rights to the death benefit under the life insurance contract.

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## Per Stirpes vs. Per Capita

This terminology is common in estate planning, but be careful because as it can easily be misunderstood and used incorrectly.

**Per Stirpes** means the designated portion of a death benefit will pass on to a designated beneficiary's descendants, if that beneficiary predeceases the owner.

**Per Capita** distribution means the death benefit will be dispersed equally among the living beneficiaries of an identified group at the owner's death.

Rather than using terms like per stirpes or per capita, indicate in plain language whether the share of a beneficiary that predeceases the owner should pass to someone different than the other named primary beneficiaries.

**For example:** To my children equally, but if any of them should predecease me, their share to their children equally.

## Primary and Contingent Beneficiaries

A beneficiary may be considered either primary or contingent. It is good to have your client designate both a primary and a contingent beneficiary.

- The **primary beneficiary** will receive the death benefit if the primary beneficiaries are **alive** when the insured dies
- The **contingent beneficiary** will receive the death benefit only if the primary beneficiary is **not alive** when the insured dies
- Under our life insurance contracts, if there is more than one beneficiary listed on the policy and a primary and contingent designation is not included, the beneficiaries would both be treated as primary beneficiaries. They would split the benefit equally (unless stated otherwise) and if one was not alive at the insured's death, the remaining living beneficiary would receive the full benefit

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## UTMA/UGMA Contracts

In most states, minors may not enter into contracts or sign legal documents. Therefore, when a minor is designated to receive a death benefit under a life insurance policy, in most cases we cannot pay the minor directly if the insured dies prior to the minor becoming an adult. If a minor is designated as a beneficiary, and the insured dies, we will pay the court-appointed guardian for the minor. Alternatively, we could pay a trustee if a trust is the beneficiary, or a custodian pursuant to the Uniform Transfer to Minors Act (UTMA) or the Uniform Gift to Minors Act (UGMA) laws.

The custodian of a UTMA would manage the funds for the minor until the minor reaches age of majority in the applicable state. It is important to note that age of majority for the minor who is owner of a UTMA can be different in each state, and court documentation to verify the named custodian on the account may be required in some states prior to United of Omaha making the payment.

**Examples:**

- One Minor Child with UTMA
  - **John Doe, as custodian for Donna Doe, minor child, pursuant to the (STATE) Uniform Transfer to Minors Act**
- More than one minor child, an account will need to be created for each minor beneficiary, including the percentage of the benefit to be received
  - **50% to John Doe, custodian for Donna Doe, minor child, pursuant to the (STATE) Uniform Transfer to Minors Act and 50% to John Doe, custodian for Joey Doe, minor child, pursuant to the (STATE) Uniform Transfers to Minors Act**

# Annuity Beneficiary Designations

It's important to review the terms of the contract, as the terms may vary in relation to who receives the death benefit or income payments at the owner's death.

- Generally under the **Ultra Income SPIA**, payments are made to the owner(s) under the terms of the contract. If the annuity contract is purchased by joint owners, the surviving joint owner will receive the annuity payments, if payments or a death benefit are to be paid after the owner's death. Any other primary beneficiary designated by the owner will receive annuity payments upon the death of the surviving joint owner. If the annuity contract is purchased by a single owner and a joint and survivor annuity payout option is purchased, the joint annuitant will not continue to receive annuity payments after the annuitant/owner's death, unless the joint annuitant is also designated as the primary beneficiary
- Generally under the **Income Access SPIA**, if the annuity contract is purchased by a single owner and a joint and survivor payout option is selected, at the owner's death, ownership will transfer to the surviving annuitant and the joint annuitant will continue to receive annuity payments after the annuitant/owner's death. After the death of the joint annuitant, the death benefit, if any, will be paid to the beneficiary
- Generally the **Deferred Income Protector** is purchased by a single owner. If the owner wants their spouse to be the joint annuitant and wants the benefit to continue to the spouse if the owner dies prior to the income start date and predeceases the spouse, the spouse must be listed as the primary beneficiary and a joint and survivor payout with refund feature must be selected at the time of purchase

# Other Special Beneficiary Designations

| Beneficiary | How It's Structured |
|---|---|
| **For a living trust** | The John Doe Revocable Living Trust, dated January 1, 2014.<br>Jane Doe, Trustee, or her successors in trust |
| **For a trustee under the Last Will and Testament — trust comes into existence at death of insured** | The trustee, or successor to trustee, created in my Last Will and Testament. However, if no trustee is appointed within one year of my death, payment shall be made to my estate |
| **Note:** For clients who want a trust to also own the contract, make sure the trust is in existence at the time of application so we can identify who has proper authority when it comes to making living benefit decisions under the contract | |
| **To pass to an estate** | Estate of John Doe |
| **For a third party or creditor (if a collateral assignment is not being used)** | ABC Mortgage, creditor, as their interest may appear and balance of the proceeds to Jane Doe, spouse of the insured |
| **For a charity** | To Good Deeds, or its successors or assigns, 1234 Main Street, Omaha, NE 68137 |
| **For a business** | Doe and Smith, Omaha, Nebraska, a partnership<br>Doe and Smith LLC, Omaha, Nebraska, a limited liability company<br>Doe and Smith Inc., Omaha, Nebraska, its successors or assignees |

## Remember: Events Impact Beneficiary Designations

A family birth, death, divorce or other similar life events can be extremely stressful for your clients, but it is typically one of the most important times to review how such events may impact your client's beneficiary designations.

- **Birth or Adoption –** carefully worded beneficiary designations can help alleviate the need to change beneficiaries with each new addition to the family
- **Divorce –** Divorce itself may or may not invalidate a beneficiary designation that named a former spouse as the beneficiary, depending upon the applicable state law. Best practice is to update and complete new beneficiary designations even if the beneficiary remains the same to show your client's intent after the event
- **Death –** Taking time to name a contingent beneficiary can help retain the key benefit of owning a life insurance or annuity contract. If the primary beneficiary dies prior to the insured and they did not name a contingent beneficiary, the death benefit will be paid to the insured's estate

## Changing a Beneficiary

To make a change of beneficiary request, the **Application for Change of Beneficiary Form** must be signed by the person(s) who have the right to change the beneficiary under the terms of the policy. Make sure your client has the correct signatures, date and applicable documentation to complete the change request.

For example, a corporation must have an authorized officer sign the change form, and depending on the officer's position, a board resolution may be necessary.

## Why Mutual of Omaha

Over 50 years of Mutual of Omaha's Wild Kingdom taught us that the animal kingdom and the human kingdom have something in common … an instinct to protect what matters most. Through insurance and financial products, we help people protect their lives, protect their families, protect their kingdoms.

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This is not intended to be a comprehensive guide on all possible beneficiary designations. Other wording for beneficiary designations may be acceptable and there may be times where this suggested wording does not accomplish your client's intent. Please contact United of Omaha if you believe your client's beneficiary designation requires special wording not included in this document.

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