

Beneficiary Designations Checklist

The below questions are designed to help the financial advisor identify some of the common issues that may arise with beneficiary designations. This checklist of questions and supporting discussion points can be used when establishing beneficiary designations in the original application as well as when reviewing an existing policy designation.

Are the Beneficiary Designations Clear?

- Is each primary beneficiary clearly identified?
- Will the beneficiary suffer a financial loss at the death of the insured? If no, carriers will not issue due to lack of insurable interest.
- If the death benefit is to be divided other than equally, has the beneficiary's percentage interest been included and do all the beneficial interests add up to 100%?
- If there are multiple individual beneficiaries and one or more of the beneficiaries dies before the insured, does the policy owner want the remaining surviving beneficiaries to divide the proceeds equally? (Interest is joint with right of survivorship).
- If no, has language been used to distribute death proceeds as tenants-in-common?
- Is each contingent beneficiary clearly identified?

Are Any of the Beneficiaries Minors?

- If yes, is the beneficiary designation structured as a minor trust or custodian under UTMA (Uniform Transfer to Minors Account)?
- If no, death benefits will not be paid directly to minors. Instead, payment is made to someone appointed by the court to be the minor's guardian/custodian.

Does the Policy Owner Live in a Community Property State?

- If yes, is the spouse the beneficiary of more than 50% of the policy death benefit?
- If no, has the spouse given written consent or is the premium paid with policy owner's separate property funds?
- If no, the spouse will be considered to have made a gift to the nonspouse beneficiary(ies).

Are Different People/Entities Named as Insured, Policy Owner(s) and Beneficiary(ies)?

- If yes, where the policy owner is an individual at the insured's death s/he will be considered to have made a gift to the beneficiary(ies).
- If yes, where the policy owner is business entity at the insured's death there is a risk that the death proceeds may be taxable as income.



Is a Business a Beneficiary and Policy Owner?

- If yes, is the insured an “appropriate insured” under Internal Revenue Section 101(j)? (An employee at any time during the 12-month period before the insured’s death, or a director, a highly compensated employee, or a highly compensated individual at the time the contract was issued).
- If yes, have the notice and consent requirements been met before policy was issued?
- If no, the death proceed in excess of cumulative premium payment will be subject to income tax.

After the Initial Purchase of the Policy Did the Policy Owner Receive Anything of Value in Exchange for Changing the Beneficiary or Owner?

- If yes, was the transfer to “an exempt transferee” under Internal Revenue Code Section 101(a)(2) (A) and (B)? (Transfer to the insured, a partner of the insured, a partnership in which the insured is a partner, a corporation in which the insured is an officer or shareholder, or a transfer where the transferee’s basis in the policy is determined in whole or part by reference to the basis of the transferor).
- If no, the death benefit will be subject to income tax at the insured’s death unless the policy is retransferred to an except transferee.

Does the Beneficiary Designation Still Accomplish the Owner’s Objectives on an Existing Policy?

- Has the beneficiary designation been reviewed recently?
- Is the reason for purchasing the policy still applicable today?
- Has the number of desired beneficiaries remained the same? (Example: Has the number of children increased since purchasing the policy).
- Is the marital status the same as when the policy was purchased?
- Are the beneficiaries’ abilities to manage their financial affairs the same as when the policy was purchased?
- Has the passage of time or the shifting of circumstance caused the beneficiary designation to become outdated?

