



DESIGNATION CHECKLIST

Beneficiary Designation: Questions & Discussion Points

The below questions are designed to help the financial advisor identify some of the frequently encountered areas where beneficiary designations can create problems. This checklist of questions and supporting discussion points can be used when establishing beneficiary designations in the original applicant as well as when reviewing an existing policy designation.

Are the Beneficiary Designations Clear?

- Is each primary beneficiary clearly identified?
- Will the beneficiary(ies) suffer a financial loss at the death of the insured? If no, carriers will not issue due to lack of insurable interest.
- If the policy owner wants the death benefit 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?
- Are contingent beneficiary(ies) 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)? caused the beneficiary designation to become outdated?
- If no, death benefits will not be paid directly to minors. Instead, payment is made to someone appointed by 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 the policy owner's separate property funds?
- If no, the spouse will be considered to have made a gift to the non-spouse 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 a business entity at the insured's death there is a risk that the death proceeds may be taxable as income.



Is a Business the Beneficiary or 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 the policy was issued?
- If no, the death proceeds in excess of cumulative premium payment will be subject to income tax.

- 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.

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.)

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

- Has the beneficiary designation been reviewed recently?
- Has the number of desired beneficiaries remained the same? (Example: Number of children increased since purchasing the policy.)
- Is the reason for having life insurance the same as when you purchased the policy?
- Is your marital status the same as when you purchased your policy?
- Are your beneficiaries’ abilities to manage their financial affairs the same as when you purchased your policy?
- Has the passage of time or the occurrence of events not anticipated when the policy was purchased caused the beneficiary designation to be outdated?

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