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HERE'S THE SCOOP ON BENEFICIARY DESIGNATIONS

PARTICIPANT BENEFICIARY DESIGNATIONS FOR YOUR QUALIFIED PLAN

Every participant with a balance in a retirement plan should make a beneficiary designation. The designation must be made on a plan-approved form or through an electronic method established for that plan. Other agreements such as wills, trusts, divorce decrees, or designations made for other accounts/benefits have no bearing, by law, on the participant's plan account. A specific beneficiary designation must be made for the plan account. If a participant has accounts in multiple retirement plans, separate beneficiary designations must be made for each plan. The only way for participants to ensure that, in the event of their deaths, their benefits are paid in the manner they wish, is for them to submit valid beneficiary designations for each qualified plan account. Missing or invalid designations may result in legal fights over the benefit and delay payment to the participant's loved ones.

Ideally participants should designate both primary and secondary beneficiaries. The designated primary beneficiary(ies) will be entitled to the participant's benefit after the participant dies. If all designated primary beneficiaries pre-decease the participant or disclaim their right to the benefit, the designated secondary beneficiary(ies) will be entitled to the benefit. The secondary beneficiary serves as a backup if for any reason a deceased participant's benefit cannot be paid to the primary beneficiary.

WHAT NEEDS TO BE INCLUDED FOR A BENEFICIARY DESIGNATION TO BE VALID?

***The designation form should be fully completed**

The participant should provide all requested information about his/her identifying information as well as that of the designated beneficiaries. If the participant designates a trust as beneficiary, you should be provided with a copy of the trust, and updated copies if changes are made to the trust. The participant must sign the designation or give authorization electronically if that method is available.

***If married, the participant's spouse must consent to any other primary beneficiaries**

If the participant is married, his/her spouse must be the 100% sole primary beneficiary of the plan account, unless the spouse provides written consent to another designation. Please remember that spousal consent is required for same-gender couples who were legally married in a state, the District of Columbia, a U.S. territory, or a foreign country that recognizes same-gender marriage; this applies regardless of where the married couple resides or where the plan sponsor is located.

***The entire benefit must be designated**

The designation must assign 100% of the benefit. For example, a sole primary beneficiary can be designated to receive 100% of the benefit; multiple primary beneficiaries must have percentages assigned that total 100% of the benefit (i.e. 50% each for two beneficiaries; 20% each to five beneficiaries, etc.). The same applies for a secondary beneficiary designation.

YOU NEED BENEFICIARY DESIGNATIONS ON RECORD FOR ALL PLAN PARTICIPANTS

--The Plan Administrator (often the employer), is responsible for determining how a deceased participant's benefit must be paid. A valid designation will make this determination much simpler and may make it easier to close out the deceased participant's account more quickly.

This article is only intended to provide general information. It does not offer legal or tax advice, or profess to treat all of the issues surrounding any one topic.



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--A valid beneficiary designation can help to eliminate disputes over who is entitled to a deceased participant's benefit. The plan is required to issue payment based on a valid beneficiary designation, if one exists. Having a valid designation in place helps to limit the Plan Administrator's (Employer's) involvement in arguments between family members or other interested parties, and potentially even lawsuits.

--A complete beneficiary designation can help the Plan Administrator contact the designated parties and ease the administrative burden of tracking them down in order to distribute a deceased participant's account. You are required to locate beneficiaries of deceased participants and, until the benefit is paid, provide them with the same disclosures/notices that you provide to participants. If there is no designation or the beneficiary's contact information is missing/incomplete, you must take steps to find them.

--The IRS and your plan document have specific rules about when a deceased participant's benefit must be paid. Having valid designations on file for your participants will make it easier for you to comply.

SUGGESTED PROCEDURES

--Use a beneficiary designation form that gives the participants room to provide identifying information about each beneficiary. This should include at a minimum: name, SSN, date of birth, and address.

--Request that participants submit updated beneficiary designations annually. Pick a time during the year, perhaps the end or beginning of each calendar year and request new designations annually.

--Follow up with new participants to submit beneficiary designations even if they choose not to contribute 401(k) deferrals. If there are any employer contributions or rollover contributions made to a participant's account a beneficiary designation is necessary.

--Carefully review every beneficiary designation that is submitted. Immediately look over a designation to ensure that all information is completed clearly and legibly. Make sure the participant signed the designation. If spousal consent is needed, make sure the spouse signed and it is a notarized signature. Be especially careful if your plan allows for electronic designations; paper forms may be required for spousal consent. Confirming the information and the participant's intentions now can alleviate confusion/disputes later.

--Participants often forget to update their designations when changes take place such as marriage, divorce, birth of a child or grandchild. Send out reminders to participants about these types of events. If you request annual updates, that will help to catch these types of changes each year.

--Notify participants about the new rules regarding same-gender marriages. Please remember to treat all marriages in the same manner; no additional criteria or proof should be requested of same-gender marriages than is requested of opposite-gender marriages.

The IRS and your plan document dictate how you must proceed with regard to a deceased participant's benefit. Death distributions are very complex and having valid beneficiary designations in place will make it easier for you to follow the rules if one of your participants passes away. Please contact QPPI at 630-469-3581 with any questions or to request additional information.

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