

Beneficiary Designation Procedures – Have Them

An unclear, missing, or out-of-date beneficiary designation can cause problems for your retirement plan. With an ambiguous designation, your plan will have to spend time and money to determine the proper beneficiary. With any of these issues, your plan could be open to lawsuits contesting a distribution to the named or default beneficiary.

For example, if a deceased participant had designated his or her ex-spouse as the primary beneficiary of a plan account, the plan death benefits may be distributable to the ex-spouse. A 2009 U.S. Supreme Court ruling held that the federal pension law's "plan documents rule" requires plan administrators to determine plan beneficiaries by looking solely at plan documents, not outside information sources. If your plan distributes the benefits to the ex-spouse as directed by the beneficiary designation, a current spouse or other family member might sue the plan to try and prove he or she is lawfully entitled to the plan's benefits – at a cost to your plan.

To avoid these problems, your retirement plan should have written procedures in place to make sure participant's beneficiary designations are clear and up to date. Here are some procedural recommendations:

- Only accept designations made on a form your plan provides.
- Make the instructions for completing the form short and simple to follow
- Review forms as they are received and return them to the participants for correction if necessary
- Give the participant a deadline for returning the form
- Contact the participant if the form isn't received by the deadline
- Consider asking all participants to review their designations and complete a new beneficiary form every five years