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Preretirement Death — Who Should Receive the Death Benefit?

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Do you know what your retirement plan says or doesn't say about distributions to beneficiaries?

Retirement plan documents are the rulebooks for determining the amount, form, and timing of benefits for plan participants and their beneficiaries. Even with well-written documents, there are still situations that may cause a plan administrator to trip and fall if not careful.

Paying Beneficiaries

When an employee or former employee dies prior to retirement, do you know who should receive the death benefit, if any?

It sounds simple, pay the benefit to the beneficiary (ies) specifically designated by the employee prior to death. This may be the answer unless the plan provides for an automatic survivor benefit for employees married at the time of death. In this situation, a beneficiary designation that was completed prior to the marriage is invalid, and the employee may not designate another beneficiary without the spouse's written consent. Therefore, even if the employee designated another person as his/her beneficiary prior to marriage, the spouse will be the benefactor of the employee's survivor retirement benefit. One should always refer to the plan document for the definition of "spouse." Defined benefit plans often require that a couple be married for one year, and both defined benefit and defined contribution plans may have other stipulations before someone can be considered a "spouse."

What if the employee is divorced at the time of his or her death, elected his former spouse as the beneficiary prior to the divorce, and the beneficiary election was never changed?

The plan document may provide for the beneficiary designation to become null and void immediately and automatically upon divorce. If, however, the plan does not provide that the beneficiary election become null and void upon divorce (and a Qualified Domestic Relations Order does not provide otherwise), a plan administrator may be obligated to pay the death benefit to the former spouse — even if the divorce decree or the participant's last will and testament specifically say otherwise.

The plan document may provide for a child or children of the participant to receive the death benefit in the event the participant is not married. Does the plan document provide a definition of a "child?" Is a step-child considered a child? Is there an age requirement to be considered a child?

These are questions that a plan administrator must consider before paying a preretirement death benefit to children. If the plan is not clear, then plan administrators should consult with their legal counsel to ensure the benefits are paid appropriately.

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