

A GUIDE TO
**Managing Your
Beneficiary
Designations**



The Importance of Beneficiary Designations



A beneficiary designation determines the settlement of your MNDCP account assets in the event of your death. If you do not have a designated beneficiary on file, the money in your MNDCP account may not be distributed according to your wishes. It's important to make sure your beneficiary designation is on file and is updated when needed. Your MNDCP beneficiary designation can be found on your quarterly statement or on your online account.

Benefits

You Get to Choose

Having beneficiaries on file allows you decide who will get the money in your account after your death. When you don't designate beneficiaries on your account, someone other than you will make the decision on who your account assets will be distributed to.

No Probate

As long as you have named beneficiaries, your account assets will pass directly to whomever you have selected and will bypass the probate process.

This guide is a general introductory overview regarding beneficiary designations and is not meant to replace legal counsel. To ensure that your beneficiary designations meet your specific needs and address any requirements of your state law, please obtain guidance from your attorney or estate planning professional when deciding on the appropriate designations.

When is the best time to designate a beneficiary?

- ▶ When you first enroll to participate in the MNDCP.
- ▶ After a significant change in your life such as marriage, divorce, death of a spouse or birth of a child that could change your original decision about whom you would want to inherit the money in your MNDCP account.

Beneficiary Considerations

Naming Beneficiaries

Who do you want to receive your money after you die? It can be any individual or an entity such as your trust or a charity. Your beneficiary designation can be singular or your money can be divided among multiple beneficiaries.

No Named Beneficiaries

If you do not designate a beneficiary or no named beneficiaries survive you, your account balance will automatically default to your current spouse as your sole primary beneficiary. If you do not have a current living spouse, a lump sum payment will be made to your estate.

Valid Designations

A valid beneficiary designation for your MNDCP account must be on file with MSRS prior to your death. You may change or revoke beneficiary designations at any time by sending a new *Beneficiary Designation* form to MSRS or updating your designation online. A beneficiary designation becomes effective once received by MSRS in good order. Any newly submitted beneficiary designation supersedes any prior designations on file.

Divorce

If you divorce, MSRS is required by Minnesota Statute 524.2-804 to remove a beneficiary designation naming your former spouse and by the MNDCP Plan document to remove all other named beneficiaries. To re-designate a former spouse or name new beneficiaries after a divorce, complete and return the *Beneficiary Designation* form. Keep in mind, the court may require you to reinstate your former spouse as a beneficiary.

Distribution Options

Upon your death, your account assets pass to your designated beneficiaries. There are different distribution rules and rollover choices available for your beneficiary. The date they must begin to receive distributions and the maximum period over which they must receive distribution payments depends on the following:

- Your age at the time of your death
- Whether your beneficiary is your spouse, another individual or the representative of a non-individual (charity, trust or estate).

To learn more about beneficiary distribution options after your death, contact MSRS and request the *Guide to Managing Your Inherited Account* brochure or obtain guidance from an attorney or estate planning professional.



Types of Beneficiaries

It's a good practice to name both primary and contingent or "back-up" beneficiaries in case the primary beneficiary(ies) predeceases you. A beneficiary must be a natural person or qualified trust and can be more than one person or entity. Here are some general guidelines to help you make your designations.

Primary Beneficiaries

Primary beneficiaries are entitled to first receive your account assets following your death. They share equally unless you specify percentages. If a primary beneficiary predeceases you, their share is distributed proportionately to any remaining primary beneficiaries or to any contingent beneficiaries.

Contingent Beneficiaries

Contingent beneficiaries will inherit your account assets in the event that all your primary beneficiaries die before you. By designating contingent beneficiaries, you know that if your first choice is not living at the time of your death, you have a second choice in place to receive the money in your account.

EXAMPLES

One Primary Beneficiary	• Mary M. Doe (spouse)	= 100%
Two Primary Beneficiaries	• Jane J. Doe (mother) • John J. Doe (father)	= 50% = 50%
One Primary Beneficiary One Contingent Beneficiary	• Mary M. Doe (spouse) • Larry R. Doe (son)	= 100% = 100%
One Primary Beneficiary Multiple Contingent Beneficiaries	• Mary M. Doe (spouse) • Larry R. Doe (son) • Sue A. Deer (daughter) • Lisa D. Deer (daughter)	= 100% = 34% = 33% = 33%

Primary Beneficiary Distinctions

Understanding the distinction between **per capita** versus **per stirpes** primary beneficiary designations is important in the event that a named primary beneficiary predeceases you.

Per Capita

If a primary beneficiary predeceases you, their share is divided among the surviving named primary beneficiaries. MNDGP beneficiaries are **per capita** designations unless stated as per stirpes.

Per Stirpes

If a primary **per stirpes** beneficiary predeceases you, their inheritance will pass directly to their heirs.

For example, if you name your two children as primary per stirpes beneficiaries and one child predeceases you, then their surviving children (your grandchildren) will inherit their portion.

EXAMPLES

Per Capita with Multiple Primary Beneficiaries	• Larry R. Doe (son) • Sue A. Deer (daughter)	= 50% = 50%
Per Stirpes with Multiple Primary Beneficiaries	• Larry R. Doe per stirpes (son) • Sue A. Deer per stirpes (daughter)	= 50% = 50%

Trusts

A trust simply transfers the legal rights of your account assets to trustees who manage and distribute the assets to the beneficiaries named in your trust. Naming a trust can give you more control over your account assets after your death. Trusts tend to be attractive for families with large estates, complicated bequests, minor children or to support family members who are unable to manage their own financial matters. A trust must be set up before naming the trust as beneficiary. Although trusts have many benefits, they are also generally more complicated and costly to set up. It is important that you consult with a qualified financial advisor or attorney when drafting a trust.

EXAMPLES

Existing Trust

- (Trustee Name) as Trustee of the (Name of Trust) established (Date of Trust) = 100%
- Note: Copies of the Signature & Title pages of the Trust Document are required.**

Testamentary Trust (Trust established within your will)

- (Trustee Name) as Trustee of the Trust = 100%
- created under the last will and Testament of (your name) or any successor or alternate trustee appointed by the court having jurisdiction over said will
- Note: A certified copy of the will is required.**



Use of Trusts

When considering the use of trusts, the terms of a trust must be stated in a written document or in the terms of your will (testamentary trust).



Minors

Keep in mind that minors typically cannot inherit property directly. If you want to name a minor as your beneficiary, name a custodian.

If you name a minor as your beneficiary without also naming a custodian, MSRS will require that the court appoint a guardian to manage your child's money until they reach the age of majority. The custodian the state appoints could end up being someone you wouldn't have chosen.

Setting up a trust to hold the assets until your child(ren) becomes of legal age is another option. A trust allows you to select a trustee to manage the account until the assets can be distributed to the beneficiary. Trusts can provide flexibility in the timing of the distribution of your assets.

The Use of UGMAs or UTMAs

Another option is to name a minor beneficiary using the Uniform Gifts to Minors Act (UGMA) or the Uniform Transfers to Minors Act (UTMA), whichever is in effect in your state (Minnesota follows UTMA laws). Under the terms of an UGMA/UTMA, account assets are contributed or transferred to a custodial account that is held in the name of a designated adult custodian for the benefit of the minor child. Legal title of the assets remains with the custodian to a certain age (typically 18 or 21). In Minnesota, the age limit is 21, which means that the custodian of an UTMA account established in Minnesota must transfer the custodial property to the minor when they reach age 21. At that time, they have full financial control of their inherited assets.

The custodian of an UGMA/UTMA account has the right to control, collect, hold, manage, invest and reinvest a minor's property. They must act honestly and prudently and they don't need a court's approval. The money in an UGMA/UTMA account, which can be opened at a bank or a brokerage company, must be kept separate from other property and can be paid to the minor or used to pay for things the minor may need. The custodian must keep records of all transactions with respect to custodial property.

You may wish to avoid UGMA/UTMA designations if you are concerned about leaving a large sum of money to children when they reach the age of majority. Instead, consider creating a trust to distribute inheritances gradually. For example, distribute one-third at age 25, half of the remainder at 40 and so on.

EXAMPLE

Minor Beneficiary UTMA/UGMA

- (Your name) hereby transfer to (name of custodian), as custodian for (name of minor beneficiary) under the (State) Uniform (Gift or Transfers) to Minors Act, the following: (insert description of the property, e.g., MNDCP account). = 100%



Seek Advice

Consult an estate planning professional or an attorney to determine the best strategy for your situation.



Your Estate

Naming an estate as the beneficiary is generally not prudent. An estate named as the beneficiary is subject to probate rules. Probate is typically a time-consuming and costly legal process of settling an estate during which a determination of heirship is made and a personal representative/executor is appointed. The state court directs the distribution of the estate according to your will. If you do not have a will, state law determines who receives your account assets. Heirs or creditors may contest the division of property, further delaying its distribution. Retirement plan accounts, like the MNDCP, are not subject to probate if you designate a beneficiary(ies). This allows your account assets to become your beneficiary's property immediately upon your death.

EXAMPLE

Estate • (Estate or Representative of my Estate) = 100%

Charities

Generally, your pre-tax MNDCP account is subject to tax on all distributions. However, an exception usually applies to direct distributions to qualified charities. Care must be taken that the charity is clearly identified by its proper name. "To my church" or "To the Humane Society" is not a proper designation because it does not specify the name of the church or the chapter of the Society, nor the city. Be sure to check periodically that the charity is still operating as a non-profit organization.

EXAMPLE

Charity • Detailed name of organization & full address = 100%



Terms of Estates

Beneficiary designations in your retirement plan account take precedence over the terms of your will.

Questions?



Contact the MSRS Service Center:
1.800.657.5757 or 651.296.2761



Go online:
www.msrs.state.mn.us



Email us:
info@msrs.us



Make an appointment to speak with a retirement representative at one of our offices.

Locations

St. Paul - Main Office

60 Empire Drive, Suite 300
St. Paul, MN 55103
Monday – Friday 8 a.m. - 4:30 p.m.

Additional Offices

Addresses and hours of operation available online.

- Duluth
- Mankato
- St. Cloud
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