

YOUR GUIDE TO Beneficiary Designations



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This guide is meant to provide a basic overview of MNDCP beneficiary designations and is not intended to replace the expert advice of a competent attorney or tax professional.

Introduction

Beneficiary designations may seem straightforward but they can be complicated and present the beneficiary with estate and income tax consequences, as well as benefits. Understanding the implications of beneficiary designations is critical. An improper beneficiary designation may produce some unforeseen surprises, like probate and tax liability. With so much at stake, you simply can't afford to guess – find out the facts!

Designating a Beneficiary

When you name a beneficiary (other than your estate) on your MNDCP account and certain other accounts such as retirement, insurance or annuity contracts etc., the beneficiary designations that you made on these accounts generally supersede your will in determining to whom assets in these accounts are transferred. Upon your death, these beneficiary designations override bequests you made in your will or trust and the assets transfer directly to your designated beneficiary(ies).

Designating a MNDCP Account Beneficiary

A valid beneficiary designation for your MNDCP account must be on file with MNDCP prior to your death. You may change or revoke beneficiary designations at any time by sending a new *Beneficiary Designation* form to MNDCP. A beneficiary designation becomes effective once MNDCP receives a *Beneficiary Designation* form at the address on the form. A newly submitted *Beneficiary Designation* form supersedes any prior requests.

Beneficiary Priority

Primary Beneficiary

- ◆ The person(s) or legal entity designated to receive your account assets upon your death.
- ◆ May be more than one person or entity.
- ◆ Must be a natural person or qualifying trust.
- ◆ If a primary beneficiary predeceases you, their share is distributed to any remaining primary beneficiaries (unless a per stirpes designation is indicated; see page 5 for more details) or to any designated contingent beneficiaries, if all primary beneficiaries predecease you.



Contingent Beneficiary

- ◆ In the event that the primary beneficiary(ies) predecease you, death benefits will pass to any designated contingent beneficiaries.
- ◆ May be more than one person or entity.
- ◆ Must be a natural person or qualifying trust.
- ◆ If there is no contingent beneficiary and there are no living primary beneficiaries, then the beneficiary designation is no longer valid and the assets will be distributed to your spouse or, if none, to your estate.

Divorce

In the event of a dissolution of marriage, your MNDCP beneficiary designation naming your former spouse becomes void unless the divorce decree provides otherwise. You may re-designate your former spouse after the divorce. See Minnesota §524.2-804

Types of Beneficiary Designations

No Beneficiary Designation

If you do not name a beneficiary or no named beneficiary(ies) survive you, your MNDCP account automatically defaults 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.

REMINDER: *MNDCP assets that have a stated beneficiary designation take precedence over your will or trust. When updating your will or trust, be sure to review any existing beneficiary designations too.*

Estate Beneficiary Designation

Your estate is made up of all the things you have spent a lifetime working for such as investments, life insurance, real estate, art collections, collectibles, antiques, jewelry etc., to which title does not automatically pass to another individual upon your death.

Any estate named as the beneficiary is subject to probate rules. Generally, probate is a legal process of settling an estate, during which a determination of heirship is made and a personal representative/executor is appointed. A state court determines the validity of the will, if there is one, and directs the distribution of the estate according to the will. If a decedent does not have a will, the assets are distributed in accordance to the state statutes of intestate succession which determines who are the heirs of your estate.



Spousal Beneficiary Designation

As with any beneficiary designation, there are advantages and disadvantages of naming your current spouse as your beneficiary.

Advantages:

- ◆ Your spouse has immediate access to the money,
- ◆ Your spouse can delay taking distributions until the date you would have reached age 70 ½,
- ◆ Your spouse may name new beneficiaries,
- ◆ Spousal beneficiaries have the option of rolling these assets to another retirement plan account or IRA.

Disadvantages:

- ◆ Your retirement account assets typically become part of your spouse's taxable estate upon his or her death. If estate taxes are a consideration, be sure to consult with your attorney or tax professional.

Non-Spousal Beneficiary Designation

You may leave your retirement account assets to someone other than your spouse. There are considerations to keep in mind when doing so:

- ◆ Non-spouse beneficiaries are generally required to begin taking distributions soon after your death based on their age and paying the associated income taxes.
- ◆ Non-spouse beneficiaries have the option of rolling these assets to an inherited IRA.
- ◆ Your retirement plan assets will be included in the value of your estate for federal estate tax purposes, potentially increasing your estate tax liability.



Per Stirpes vs. Per Capita Beneficiary Designations

There are two types of beneficiary designations available when you designate multiple primary beneficiaries: per capita and per stirpes. MNDCP defines these designations as follows:

Per Capita

MNDCP automatically distributes your assets **per capita** to the beneficiaries on file. If, for example, you name your two children as primary beneficiaries and one of your children predeceases you, your remaining child would inherit 100 percent of your MNDCP account balance and the children of your deceased child would inherit none of the proceeds.

Example of a per capita designation:

	Name	SSN	Relationship	DOB	% of Balance
Primary:	John Doe	xxx-xx-xxxx	Son	xx-xx-xxxx	50%
Primary:	Jane Doe	xxx-xx-xxxx	Daughter	xx-xx-xxxx	50%

If John predeceases you, Jane would inherit 100 percent of the account balance.

Per Stirpes

If a beneficiary designation is made **per stirpes** and that beneficiary dies leaving children of his/her own, the deceased beneficiary’s share of the death benefit would be paid to his/her living children. If you use a per stirpes designation, you must indicate the words “per stirpes” after the beneficiary(ies) name.

Example of a per stirpes designation:

	Name	SSN	Relationship	DOB	% of Balance
Primary:	John Doe, Per Stirpes	xxx-xx-xxxx	Son	xx-xx-xxxx	50%
Primary:	Jane Doe	xxx-xx-xxxx	Daughter	xx-xx-xxxx	50%

Since John Doe is a per stirpes designation, if he predeceases you, his surviving children (your grandchildren) would inherit his share (50 percent) and Jane would inherit her 50 percent share.



You should discuss charitable gifts or which type of trust best suits your particular situation with a competent attorney or estate planning professional.

Charity Beneficiary Designation

Your estate may receive an estate tax deduction for assets that are gifted to charity. Care must be taken that the charity is clearly identified by its proper name. “To my church” is not a proper beneficiary designation. “To the Humane Society” is also not a proper designation because it does not specify which chapter, city or district of the Humane Society.

Trust Beneficiary Designation

A trust simply transfers the legal rights of your assets to a “trustee(s)” who manages those assets for the beneficiaries named in your trust. Trusts are especially attractive for families with large estates, complicated bequests, minor children, or to support family members who are unable to handle their own financial matters.

There are many different types of trusts which typically fall into two broad categories:

Revocable – A Revocable Living Trust enables you to maintain full control over your assets during your lifetime and when you die, to have them disposed of as you instructed. Your assets remain part of your taxable estate when you die. The trust is “revocable” because you can cancel or change it at any time. It is “living” because it is established and assets are transferred to it while you are alive.

Irrevocable – An Irrevocable Trust can’t be modified or terminated. By transferring assets into the trust, you effectively remove your rights of ownership to the assets that you put into the trust. The primary reason for setting up an irrevocable trust is that it essentially removes all your incidents of ownership, potentially removing the trust’s assets from your taxable estate.

Although trusts have many benefits, they also are generally more complicated and costly to set up than a will and require the expertise of a financial planner or lawyer.



Minor Beneficiary Designation

Naming minor children outright is allowable but not advisable because minors typically lack the legal capacity to exercise account rights, enter into contracts, or sign for the receipt of proceeds. If a minor child (under age 18 in Minnesota) is named as the beneficiary outright, MNDCP will require that a guardian/custodian for the financial estate of the minor be appointed by the court before benefits can be paid.

Rather than naming a minor beneficiary outright, there are more acceptable designations you should consider. The following are just a few of the more common alternatives for naming a minor as beneficiary.

The use of trusts

When minor children are involved, a trust could be named as the beneficiary to receive retirement account proceeds. The advantage is that you establish the trust, select the trustee, and establish the terms under which assets can be used and distributed from the trust. In this way, the proceeds can be used in the manner you specifically selected.

The use of UGMAs or UTMA's

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. Under the terms of an UGMA and 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 under the age of 18 or 21, depending on your state (in Minnesota, custodial accounts last until age 21). You select the custodian who is identified in your will, beneficiary designation, or other trust document.

Under an UTMA/UGMA, legal title of the assets remains with the custodian/trustee until the child's age of majority. At that time, the child is no longer a minor and has full financial control of their account.

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, one-third at age 25, half of the remainder at 40, and so on).

Talk to your attorney or estate planning professional for the best strategy involving your own situation, especially pertaining to minor beneficiary designations.

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).



Sample Beneficiary Designations					
Designation Type	Suggested Wording	Social Security Number	Relationship	Date of Birth	% of Balance
One Primary Beneficiary	Mary M. Doe	xxx-xx-xxxx	Spouse	xx-xx-xxxx	100%
Two Primary Beneficiaries	Jane J. Doe John J. Doe	xxx-xx-xxxx xxx-xx-xxxx	Mother Father	xx-xx-xxxx xx-xx-xxxx	50% 50%
One Primary Beneficiary One Contingent Beneficiary	Mary M. Doe Larry R. Doe	xxx-xx-xxxx xxx-xx-xxxx	Spouse Son	xx-xx-xxxx xx-xx-xxxx	100% 100%
One Primary Beneficiary Multiple Contingent Beneficiaries	Mary M. Doe Larry R. Doe Sue A. Deer Rhonda D. Doe	xxx-xx-xxxx xxx-xx-xxxx xxx-xx-xxxx xxx-xx-xxxx	Spouse Son Daughter Daughter	xx-xx-xxxx xx-xx-xxxx xx-xx-xxxx xx-xx-xxxx	100% 34% 33% 33%
Estate	“Estate” or “Representative of my Estate”				100%
Existing Trust Copies of the Signature & Title pages of the Trust Document are required.	“(Trustee Name) as Trustee of the (Name of Trust) established (Date of Trust)”				1
Testamentary Trust (Trust established within your will)	“(Trustee Name) as Trustee of the Trust 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” A certified copy of the will is required.				100%
Charitable or Non-profit	Detailed name of organization and full address				100%
Per Stirpes Multiple Primary Beneficiaries	Larry R. Doe Sue A. Deer per stirpes	xxx-xx-xxxx xxx-xx-xxxx	Son Daughter	xx-xx-xxxx xx-xx-xxxx	50% 50%
Minor Beneficiary	See <i>Key Points to Remember</i> , Number 5 on page 9 for important information.				

Please Note: As Administrators of the Minnesota Deferred Compensation Plan, we cannot provide advice regarding the legal effects of alternative estate planning or the legal effect of using certain beneficiary designations. We encourage you to seek the expert advice of an attorney or other estate planning professional. We recommend you periodically review all of your beneficiary designations in effect to determine whether they will accomplish what you had intended.

Key Points to Remember

1. Percentage of Balance – You may provide less than 100 percent share to your beneficiaries; however, the total share percentage must equal 100 percent. Shares must be in whole numbers; cannot be fractions (33½). You may break down the shares stated for *Primary Beneficiaries* differently from those stated for *Contingent Beneficiaries*. Designated beneficiaries will share equally if no *Percentage of Account Balance* is stated.
2. In order to be valid, the beneficiary form must be filled out completely, signed, and filed with MNDCP prior to your death.
3. Use given names such as “Mary L. Doe” instead of “Mrs. John Doe.”
4. If no beneficiary designation is on file with MNDCP, your spouse automatically becomes the sole beneficiary. If you have no living spouse, your estate will become the sole beneficiary.
5. If a **minor** is named as beneficiary, any payment will be made to the legally appointed guardian/custodian for the financial estate of the minor, unless otherwise permitted by law. MNDCP encourages you to contact your legal advisor to consider doing so under a Trust or UGMA/UTMA, whichever is in effect in your state.

UGMA/UTMA designation suggested wording:
 I (*name of transfer or/participant*) hereby transfer to (*name of custodian*), as custodian for (*name of minor*) under the (*state*) Uniform (“*Gift*” or “*Transfers*”) to Minors Act, the following: (*insert description of the custodial property sufficient to identify it, i.e., MNDCP account*).

Signature of transfer or/participant:

Dated:

6. If an **estate** is named as beneficiary, a certified copy of the court document appointing the personal representative/administrator/executor must be provided before benefits can be paid.



7. 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). If a **trust** is named as beneficiary, list the name of the trustee and the date that the trust agreement. Copies of the *Signature & Title* pages of the *Trust Agreement* must accompany the *Beneficiary Designation* form.



8. Forms that have been altered cannot be accepted. If you make an error when completing the form, either complete a new form or initial the information that was changed.

9. A new *Beneficiary Designation* form submitted to MNDCP will supersede any prior requests on file.



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