Beneficiary Planning

Many people associate beneficiaries with life insurance policies, but a life insurance policy isn't the only place where you will need to designate one or more beneficiaries. In fact, when you get into estate planning, there are many different contracts and accounts that allow you – or even require you – to designate a beneficiary. Consider the following:

Life Insurance

A life insurance policy's beneficiary is the person or legal entity that receives the death benefit from an active policy when the insured passes away. The owner of the policy, who may also be the insured, names the beneficiary. This is true regardless of what the insured's Last Will and Testament states, meaning that the policy beneficiary designation takes precedence over a will when determining who receives the insurance benefit.

Typically, individuals name the person(s) who would be most financially impacted by the insured's death – often a spouse or child(ren). However, a policy owner could also name a parent, a business partner, or just about anyone who has a financial interest in the insured's life. In fact, beneficiaries do not have to be individuals; a policy owner could designate a business, charity, or legal entity, like a trust, to receive the death benefit.

> **Note:** Military members' Servicemembers' Group Life Insurance (SGLI) beneficiary designations are independent of their military death gratuity beneficiary designations and independent of their Thrift Savings Plan beneficiary designations.

Annuities

An annuity's beneficiary is the person or legal entity that receives any annuity payments that remain on the contract after the owner's death.

With a tax-deferred annuity, beneficiary selection involves determining who may need the replacement income from the annuity while considering their tax situation. Income from an inherited annuity is taxable, though the amount of immediate tax liability depends on how the annuity is paid to the beneficiary (e.g., as a lump-sum payment, paid out within five years, or paid out over the beneficiary's life). Understanding IRS rules related to distribution requirements may help you and the beneficiary keep more of the settlement proceeds after taxes are paid.

Survivor Benefit Plan (SBP)

In exchange for premium payments, the Survivor Benefit Plan allows retired servicemembers to preserve a portion of their military retirement income for a beneficiary after their death. (All active duty servicemembers are opted in to the program free of charge.) The beneficiary or beneficiaries will receive annuity payments after the servicemember's or retiree's death. There are only a few beneficiary options to choose from:

- Spouse, in which annuity payments are made only to the retiree's spouse and stop at the spouse's death or upon their remarriage (if prior to age 55).
- Child(ren), in which annuity payments are made only to the retiree's children until each child reaches age 18 (or 22 if a full-time student); qualified disabled children may be eligible to receive benefits for life.
- Spouse and child(ren), in which annuity payments are made first to the retiree's spouse, and, in the case of the spouse's death, to the retiree's children if they are still eligible.
- Former spouse, in which annuity payments are made to the retiree's former spouse and stop at the former spouse's death or upon their remarriage (if prior to age 55).
- Former spouse and child(ren), in which annuity payments are made first to the retiree's former spouse, and, in the case of the former spouse's death, to the retiree's children with said spouse if they are still eligible.
- Insurable interest, in which annuity payments are made to a family member closer than a cousin or to someone reliant on the servicemember's income *in the absence of a spouse and children.*

Beneficiary elections must be made upon opting in to the Survivor Benefit Plan prior to retirement and cannot be changed except in very specific circumstances. Read more about changing SBP coverage.

Bank, Investment, and Retirement Accounts

Certain bank, investment, and retirement accounts are designated as "payable-on-death" or "transfer-on-death" accounts and allow for beneficiary designations. These designations are made through the bank or investment company that manages your accounts. Bank accounts that are not jointly owned (including checking accounts, savings accounts, and CDs) are paid to the listed beneficiary upon the account owner's death. Stocks, bonds, and retirement accounts transfer ownership to the beneficiary when the owner passes away. If you and your partner, child, or other loved one have joint accounts, the survivor generally retains ownership.

Note that if you are married, you are normally required to name your spouse as the beneficiary of your retirement account(s) unless your spouse waives beneficiary rights in writing and with a notary witness. If you are unmarried, your beneficiary choice is not similarly limited.

Real Estate

Real estate can be owned in various ways; some of them automatically establishing a beneficiary and others allowing owners to choose their beneficiaries.

- **Sole ownership:** A single person wholly owns a property without anyone else being listed on the title. Sole owners have the right to bequeath ownership of their property to any beneficiaries of their choice through a Last Will and Testament.
- **Joint tenancy with right of survivorship:** Two individuals own a property together. When one owner passes away, full ownership conveys to the survivor.
- **Tenants by entirety:** A married couple owns a property together, but for the purposes of the title, are listed as a single person. Upon the death of one, full ownership of the property conveys to the survivor.
- **Community property:** Nine states (Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington, and Wisconsin) currently treat property that is acquired by a couple during their marriage as being jointly owned. Each individual has the right to bequeath ownership of their half of the property to the beneficiaries of their choice through a Last Will and Testament.
- **Tenancy in common:** A property can have multiple owners with varying percentages of ownership in the property. Each owner holds a title to their portion of the property and the right to bequeath their portion to their chosen beneficiaries through a Last Will and Testament. Upon the death of one owner, the portion of the property's ownership retained by the other owners does not change, and the deceased owner's portion transfers to their beneficiaries.

Last Will and Testament

If you have property that cannot be transferred automatically to a designated beneficiary when you pass away, you can specify to whom you would like ownership to pass in your Last Will and Testament. Within your will, you can specify who gets what property and state what percentage of your assets you want to go to each of your beneficiaries. You can also state that you wish to donate belongings or assets to charity or to an individual who may not be a member of your immediate family.

If you pass away without a will, the court system in your state decides how to distribute your belongings. Typically, the court determines that your assets and belongings will be distributed amongst your immediate family members: your spouse and children. If you have grandchildren, living parents, or siblings – but your spouse or children are still alive – they may not stand to inherit anything. If you pass away with no living relatives, your property could go to the state instead of a friend, another unrelated individual, or your favorite charity.

> **Note:** A beneficiary designation in a Last Will and Testament *does not* override the beneficiary designation on a life insurance policy, bank account, retirement account, or – depending on how it is owned – the deed to real estate. Any individual listed as the beneficiary of a life insurance policy (including SGLI and VGLI), Thrift Savings Plan or other retirement account, or bank account receives the associated proceeds regardless of contrary wishes expressed in the owner's will.

When it comes to estate planning, there isn't a one-size-fits-all solution. Think about who you want to receive your assets and belongings after your death. When it comes to monetary assets, beneficiaries can be designated through the bank or investment company that manages your funds. Life insurance and annuity beneficiaries can be updated with your life insurance company. For everything else, consider writing a will and having it signed and notarized – then enjoy the peace of mind that comes with knowing you have documented your wishes. You may also keep an informal record in the Navy Mutual Personal Log.

> To update your Navy Mutual life insurance or annuity beneficiaries, contact our customer service team at 800-628-6011. If you would like to speak with a representative who can help you evaluate your life insurance or annuity needs, you can schedule an appointment here.