

Beneficiary Designation Forms- Best Practices

2025

Each year, Penflex Actuarial Services, LLC clients receive reminders about missing beneficiary designation forms included in the year-end data request package, as well as in the Executive Summary of the Annual Report. Often, our clients wonder what obligation they have in tracking down individuals for this information and find it frustrating to be notified about missing forms for the same participants year after year.

To help avoid this issue, we recommend that LOSAP sponsors implement two practices:

1. Include the Beneficiary Designation Form as part of your volunteer application and require new recruits to complete this form before the individual is sworn in as an active member. This will ensure that you have the documentation up front. If strictly enforced, this procedure will prevent future instances of missing forms.
2. Be diligent and consistent in mailing (or otherwise distributing) the annual Participant Statements, which contain the volunteer's most recent beneficiary designation. We encourage sponsors to include a blank beneficiary form along with the statement. These procedures will help keep beneficiary designations current, as well as the participant's latest address.

In the event there is a dispute regarding the beneficiary owed a death benefit, it would be hard to criticize a LOSAP sponsor for not collecting a beneficiary designation form or notifying a participant regarding the current elections (or lack thereof) if these two steps are implemented.

It is important that the municipal sponsor and volunteer organization recognize that once the LOSAP is established, a fiduciary relationship is created. Therefore, the municipal and department officials have an increased role and responsibility toward the volunteers. Both the fire department and ambulance squad statutes in New York State define a fiduciary as “any person who exercises discretionary authority or control with respect to the administration of the program or the management or disposition of program assets or who renders investment advice for a fee to the program.” While this statute is specific to New York State, it amply sets forth the responsibility a LOSAP sponsor bears.

A useful reference that still holds true today on this topic is the study completed by the ERISA Advisor Council titled “Current Challenges and Best Practices Concerning Beneficiary Designation in Retirement and Life Insurance Plans.” A link to the report can be found at the end of this article.

ERISA is an acronym for the federal law that sets minimum standards for qualified pension plans. Although a LOSAP is not governed by ERISA, these types of studies can help develop best practices for LOSAP administration.

This report detailed some of the unique administrative challenges regarding beneficiary designations. Beneficiary designations are still primarily kept as paper records even in these days of electronic files, forms can stay on file for a long period of time without being reviewed or updated, and beneficiary forms can be misplaced over time. These are all challenges that LOSAP sponsors face and are not unique to ERISA plans.

In accordance with the Advisory Council's report, the following practices would result in more effective management of beneficiary designations:

- There should be no obligation or requirement to notify participants to update their beneficiary designations (not a practice, but an important standard).

- It would be beneficial to provide educational information and reminders to participants regarding the importance of completing and updating their beneficiary elections.
- Include beneficiary information (or notice if no designation has been made) on benefit statements and other plan communications.
- Sponsors and officials should conduct periodic re-solicitation of beneficiary forms.

Although Penflex is hired to assist in the program administration, the sponsoring municipality ultimately bears the responsibility in acquiring and maintaining these forms (with assistance from the volunteer organization in some cases). However, Penflex has implemented several procedures over the years to assist our clients, many of which already assist with these practices:

- Penflex requests photocopies of the beneficiary forms and maintains the information on the client database.
- Except in certain cases when Penflex agrees to keep the original forms, a photocopy of an original form is made and kept on file. Any originals submitted are returned to the sponsor to ensure that our records match. This way, if there ever was a change in vendors, the sponsor would have the original beneficiary designation forms to share with the new vendor.
- Penflex includes the beneficiary information on the annual Participant Statements or indicates that no beneficiary designation has been made. The current address of the participant is also provided so the sponsor can mail the statement if the participant is no longer an active member.
- A listing is sent semiannually to the sponsor and/or department indicating which participants have yet to make a beneficiary election.
- When a participant receives a notice from Penflex regarding their payment eligibility, he/she is also provided a blank Beneficiary Designation Form to update his/her elections.

When a sponsor receives a new beneficiary designation form, we suggest emailing us a scanned copy through our secure email system or better yet utilizing Penflex's secure client sharing portal. This will prevent originals from being lost in the mail and provide a record that the form was transmitted to us.

If you have any questions about maintaining beneficiary designation information or the role of the organization tasked with keeping these records, please contact Penflex directly.

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The ERISA Advisory Council report can be found at:
<https://tinyurl.com/yzp7xa2b>