

# Everyone benefits

An annual beneficiary review is good for your clients,  
their loved ones...and you

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Working with  
your clients to  
regularly update  
their beneficiary  
designations  
may sound like a  
thankless task.

**It isn't.**

There are countless tales of ex-spouses receiving death benefits because the benefactor never did a review. Or assumed that their revised will would handle that. When clients forget to periodically double-check their beneficiary titling, the result may be serious financial and emotional consequences.

## It's about looking out for their best interest

You can prevent a lot of future grief for the loved ones by making sure your client has the right names listed on all their various annuities, life insurance, 401(k) or other accounts.

As an advisor, you're in a unique position to help do even more. Talking through the payout options could help reduce the beneficiary's tax burden. And sometimes this leads to deeper conversations, like whether their current investments are going to lead to the retirement they envisioned. If not, how can you help?

It's not only about updating names. It's also about reviewing payout options. When does a lump-sum payment make sense? When are they better off with an extended payout? How can they minimize their tax burden? You can provide valuable insights to clients when naming beneficiaries, especially if they haven't had advice on their options in the past.

## A cautionary tale



This is a short story about a 40-year-old client who got engaged. He had been married before; this was his wife's first time. Fun wedding. Fantastic honeymoon. But six weeks later, he unexpectedly passed away.

His new bride hadn't even had the chance to write their wedding thank you notes, and now suddenly she had to write obituary cards instead.

He had updated his will right after the wedding, but not his beneficiaries on his accounts. He assumed that his will would cover that, but wills don't typically supersede beneficiary designations. So, his first wife received every penny of his death benefits.

In a time when the new wife could have focused on grieving, she had to come to the realization that the ex-wife received all the assets. It's a sad ending to a tragic loss.

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## Help your clients create a smooth transition

Making it a point to do an annual beneficiary review can help ensure that your clients' wishes will go as planned. Remember that over the course of their lifetime a client can get married, divorced, remarried, have children, gain step-children, or disinherit relatives. Change is a constant.

And whether it be money going to the wrong person, or delays in a loved one receiving their death benefits, a lot can go wrong without you there to lend a hand. For instance:

- Surviving spouses may be disinherited
- Children from a prior marriage may be disinherited
- Ex-spouses and disinherited heirs may be accidentally included as beneficiaries
- Heirs with special needs may find their governmental benefits reduced or eliminated
- Inheritances may be "forced out" as a lump sum, potentially resulting in a largely inefficient tax bill for the heirs or for trusts holding the death benefit on behalf of the heirs

## Starting the conversation

The following are excellent probing questions to start a discussion with your clients, followed by an explanation of the potential pitfalls.



### **Have you or any of your beneficiaries married/divorced/been widowed since our last review?**

Forgetting to remove an ex-spouse may result in them receiving the death benefit. Divorce does not automatically remove them as beneficiary in many states.



### **Do either you or your spouse have children from a prior marriage that you specifically wish to include or exclude as beneficiaries?**

Second marriages often lead to the new spouse or children from a prior marriage being inadvertently disinherited.



### **Are you still in contact with the beneficiaries you originally named? Have there been any fallings-out since our last review? Any deaths?**

Removing an heir from your will does not, in itself, remove them as beneficiary on your annuity contract.



### **Have you named a trust as a beneficiary of your assets? If so, which assets?**

Tax and estate-planning rules surrounding non-natural beneficiaries (e.g. trusts) can differ greatly from those for natural beneficiaries.



### **Do all of your accounts, either with me or elsewhere, have contingent beneficiaries listed in case your primary beneficiary (e.g., spouse) predeceases you, or elects to disclaim the death benefit?**

Defaulting to estate as beneficiary is usually undesirable for multiple reasons.



### **Are any of your beneficiaries in a high tax bracket, where receiving this death benefit could result in substantial taxation to them?**

Such heirs are likely already very tax-sensitive and may benefit from certain distribution options that minimize their tax liability when taking the death benefit.

## Broadening your relationship

Going the extra mile for your clients by performing an annual beneficiary review will surely be appreciated. And it's also a great opportunity to reveal areas where you can help them achieve their goals. You may even find situations where you can talk to them about other solutions that Lincoln has to offer.

## Uncovering other ways you can help



**I've asked a lot of questions about your family and loved ones. Would it make sense for us all to get together sometime soon and gather their thoughts?**

Talking to the kids directly is something every advisor knows they should do, but very few make this a regular part of their practice. Frequently, they don't interact with the kids until the account transfer form comes in after mom/dad passes.



**Do you have any other retirement accounts held with another advisor? If so, when was the last time those accounts were reviewed like this?**

Has this other advisor been asleep at the wheel, failing to perform this critical value-add? If so, perhaps changing to you is in your client's best interest.



**What are the death benefit values on those contracts?**

If higher than the cash value, a move to a new contract may lock in that increased death benefit for the beneficiaries.



**There is a substantial amount of gain in these annuities. Should we review the tax consequences to you once you start taking income?**

Clients sometimes do not understand that annuity income is all ordinary income, and is never treated as capital gains. They also are not aware of the availability and benefits of LIFO (last-in, first-out) taxation.



**We have found a few errors in your beneficiary titling today. Do you have any other similarly titled contracts or accounts that may need correcting? Bank accounts? Brokerage accounts?**

The client may have other non-annuity accounts that nobody is watching or helping the client with. Any changes needed on the annuity contracts may need to be changed on these other accounts. Moving these accounts to you will ensure there is always a second pair of expert eyes on the contracts to avoid problems in the future.



**We've talked about several tax and legal issues today. Would it make sense for us to meet with your tax or legal advisor to make sure that we all are on the same page?**

An effective legacy plan usually requires a client's financial, tax and legal advisors to be on the same page to ensure that wealth is transferred efficiently and according to the client's wishes.

## Next steps

Here are a few easy steps you can take today to help you use beneficiary reviews in your practice.

- Make beneficiary reviews a regular part of your client review process, initially as part of your onboarding process and annually thereafter.
- If you're connected to your clients through social media, watch out for posts regarding life events that could require titling and beneficiary changes. Then reach out to these clients by email to offer a review of their accounts to make any necessary changes.
- Offer to schedule a joint meeting with your client's tax and legal advisors to ensure that their wealth transfer plan has been implemented accurately.
- Use a discovery checklist with questions that help you uncover and document life events that could lead to the need for beneficiary changes.



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LCN-2701397-082619

POD 9/19 **Z01**

**Order code: LFD-BENER-FLI003**



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