



University of Calgary

Beneficiary Designation Frequently Asked Questions

What are death benefits?

Death benefits are an amount of money that the insurance company will pay your beneficiary(ies) upon your death. Your death benefit amount is the amount of insurance that you have in place for any Life benefits at your time of death. This includes Basic Life, Optional Life or Accidental Death benefits, if applicable.

What is a beneficiary?

A beneficiary is the person, people or entity named on the insurance policy who will receive any proceeds of the death benefit from the basic or optional coverage you have selected through your group benefits plan when you die. For example, you may want to name your spouse or child as the beneficiary. You may select different beneficiaries for basic and optional benefits.

What is the purpose of a beneficiary?

In order for some or all of the proceeds from your death benefit to go to specific individuals, it is important to make sure that you plan ahead and select your beneficiary(ies). Having an up-to-date beneficiary designation will make this possible by listing your primary and secondary beneficiary(ies) and intended allocations.

Why are Beneficiary Designations important?

Designating a named beneficiary(ies) ensures that proceeds from your death benefit do not form part of your estate in the event of your death. This will prevent the application of probate fees and ensure that the proceeds are not subject to the creditors of the estate. Additionally naming your beneficiary(ies) under a policy gives you control over who will receive proceeds from your death benefit.

What happens if I do not name a beneficiary?

If you do not name a beneficiary, death benefits will be paid to your estate and will be subject to estate taxes, and may be vulnerable to claims from creditors.

What if my personal situation changes?

It is important to revisit your beneficiary designation on a regular basis. Careful planning and consideration should be taken to ensure that the current situation is properly reflected in your designation and that the proceeds reach the intended hands.

What are Primary and Secondary beneficiaries?

- A Primary beneficiary is the person, people or entity you choose to receive the death benefits. If you choose more than one beneficiary, you will need to indicate what percentage of the benefit you would like each person to receive. When multiple primary beneficiaries are named, the total of the percentages allocated to each primary beneficiary must add up to 100%.
- A Secondary beneficiary is the person, people or entity you designate to receive the proceeds of the death benefit if all of the primary beneficiaries die before you. If you select more than one secondary beneficiary, the benefit will be split evenly between the secondary beneficiaries.

What happens when the primary beneficiary dies before you?

If the primary beneficiary(ies) dies before you the death benefit will be paid to the secondary beneficiary(ies). If no secondary beneficiary(ies) is named the death benefit will be paid to your estate.

What happens when two primary beneficiaries are named and one beneficiary dies before you?

If you have not updated your Beneficiary Designation Form information, the entire benefit that would have been paid to the deceased beneficiary(ies) will be paid to the surviving primary beneficiary(ies) in the event that one of multiple primary beneficiaries die before you.

How do I identify my beneficiary?

On a Beneficiary Designation Form you can identify your beneficiary(ies) by name, unless two or more of your beneficiaries have the same name. Identifying your beneficiary by relationship, for example “my spouse” may make it difficult in identifying the intended beneficiary.

If you have listed a beneficiary that lives in another country, it is advisable to also provide contact information.

What if I am a Quebec resident?

In Quebec, naming your spouse (must be civil union) as a beneficiary automatically means that he/she is an irrevocable beneficiary, unless you specify otherwise or divorce.

What are Irrevocable and Revocable?

Beneficiaries may be revocable or irrevocable:

- Irrevocable means that the living beneficiary you choose cannot be changed without the written permission of that individual. The insurance money is not subject to the control of the owner or the owner’s creditors and does not form part of the owner’s estate.

For example, if you choose your spouse to be the designated beneficiary and you end up separating, you will not be able to change the beneficiary designation without a completed release form from them. This may limit your ability to deal with the policy.

If you name an irrevocable beneficiary you must obtain the consent of the beneficiary to do the following:

- Alter or revoke the beneficiary designation;
 - Assign the policy;
 - Withdraw funds;
 - Transfer ownership;
 - Change the policy coverage.
- Revocable means that the beneficiary you choose can be changed at any time without the permission of that individual. For example, if you choose your spouse or partner to be the designated beneficiary and you end up separating, you can then change that beneficiary designation without asking for that person’s permission.

In Alberta, there is no requirement to specify an irrevocable beneficiary for your group benefits (Basic Life, Optional Life or Accidental Death and Dismemberment benefits).

Can I name a minor as a beneficiary?

If a benefit becomes payable to a minor who is named as a primary or secondary beneficiary(ies), the benefit can only be paid on behalf of the minor to a trustee or guardian for property, otherwise it would be paid into court to be held until the beneficiary(ies) has reached the age of majority for your specific province. It is important when choosing a beneficiary(ies) who is a minor at the time of the designation to also name a trustee.

For residents of Quebec, the parents are considered tutors of their child and a tutor acts like a trustee.

If a minor has been designated as an irrevocable beneficiary, the policy is automatically frozen until the beneficiary has reached the age of majority for your specific province. A parent, guardian or trustee cannot consent to a beneficiary change on behalf of a minor.

Are death benefit proceeds taxed when paid to a beneficiary?

With the exception of a 'non exempt' policy and Retirement Savings Plans, proceeds from a group life insurance death benefit are tax free provided there is a named beneficiary. If a beneficiary is not named and proceeds are payable to the estate, probate fees may be applicable. While the principal sum is tax free, interest may be paid from the date of death to the date of cheque issue. Additionally, if this amount is over \$50, a T5 Income Tax form will be sent to you.

Sources:

"Understanding Insurance Basics", Financial Consumer Agency of Canada, 2012

"An Advisor's guide to beneficiary designation", Tax, Retirement & Estate Planning Services, Manulife Financial, 2016

"Tax Topics", Tax, Retirement & Estate Planning Services, Manulife Financial, 2016