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Beneficiary Forms in an Era of Expanding Family Structure

By Linda Koco

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It's not the same old, same old with beneficiary designation forms. The forms have been changing over recent decades, actually expanding in the information sought and the information and education provided. This includes beneficiary forms in insurance, banking, brokerage and employee benefit plans, among others.

The shift is interesting by itself, but made even more so by another expansion that seems to have occurred during roughly the same period. This is the expansion of the American family structure from the nuclear family that dominated the American scene during much of the second half of the 20th century to the slow but steady rise in nontraditional families or new American families.

The two trends are not causally related, but they do have interplay. That has meaning for financially oriented businesses,



which may see in the trends the groundwork for more expansion in beneficiary forms in the future. This paper looks at what has happened in this area and what enhancements could lie ahead in light of the expansion in family structures.

First, some words about family structure. The Census Bureau defines a "family household" as one maintained by a householder who is in a family (i.e., at least one is a person related to the householder by birth, marriage or adoption), and includes unrelated subfamily members and/or secondary individuals who may be residing there.¹ By that measure, family could include the traditional nuclear family (two parents and children born to or adopted by them) as well as household groupings such as single parent, stepparent and grandparent.

Broader depictions of family have arisen too in everyday conversation. These include cohabiting partners, community living groups or "tribes," skill-based teams at work, married but childless, and solo/elder orphans living in "framily" (friends and family) settings. The people who speak of these groupings aren't talking bloodline or law, but they are talking feelings, expectations and sometimes kinship-style support: "These are my people. They're not relatives, but they're mine."

In a 2015 whitepaper, researchers for Allianz Life Insurance Company of North America identified additional "modern family types." These include, among others: multigenerational; same-sex couples married or unmarried with or without children; parent/s age 40+ with very young children; and boomerang (parents with an adult child who has returned to live with the family).²

At first blush, it may seem that beneficiary designation forms have nothing to do with the expanded concept of family. After all, Americans have always been able to include names of nonkin individuals as well as traditional family relatives on the forms, whether as primary or secondary beneficiaries. In addition, they could always name charities and other institutions as beneficiaries too.

The National Association of Insurance Commissioners (NAIC) put any doubts about that to rest 10 years ago. The organization issued a statement saying, among other things: "You can name your spouse, domestic partner, children, grandchildren, relatives, friends, charities, businesses, trusts or your estate as your beneficiary."³

CONFUSION

Some people remain confused, however. They say they've heard that nonrelatives who are named on a beneficiary form "will never collect." Others aren't sure how to fill out the forms "the right way" so this won't happen. Still others don't know how to

decide whom to name. Some don't know they can write down several people, and on it goes. These comments bubble up in private conversations, financial seminars, community gatherings and general buzz. Though not quantified by consumer polls, many people expressing this confusion seem to be individuals in nonnuclear families.

To some extent, such assumptions may be expected. The nuclear family was by far the most dominant type of family for much of the second half of the 20th century. In 1960, according to the U.S. Census Bureau, the proportion of children younger than age 18 living with two parents (i.e., a nuclear family) was roughly 87 percent in 1960 (see Figure 1).⁴ It is not a stretch to see that nuclear family ideation could, and probably has, influenced people reared during that era. In some cases, this influence can be powerful enough to cause even those now living in nontraditional family structures to focus on naming only bloodline or adopted beneficiaries.

A final factor that may be contributing to consumer confusion is the beneficiary forms themselves. Some are simplified forms that typically ask for the primary beneficiary's name, relationship, mailing address, phone number and maybe a contingent beneficiary, but they tend not to include definitions or relevant

education or information about filling out the forms. In today's market, simplified forms like this might go to applicants for small face amount life policies (mail order policies), a young adult's first bank savings account or other basic products.

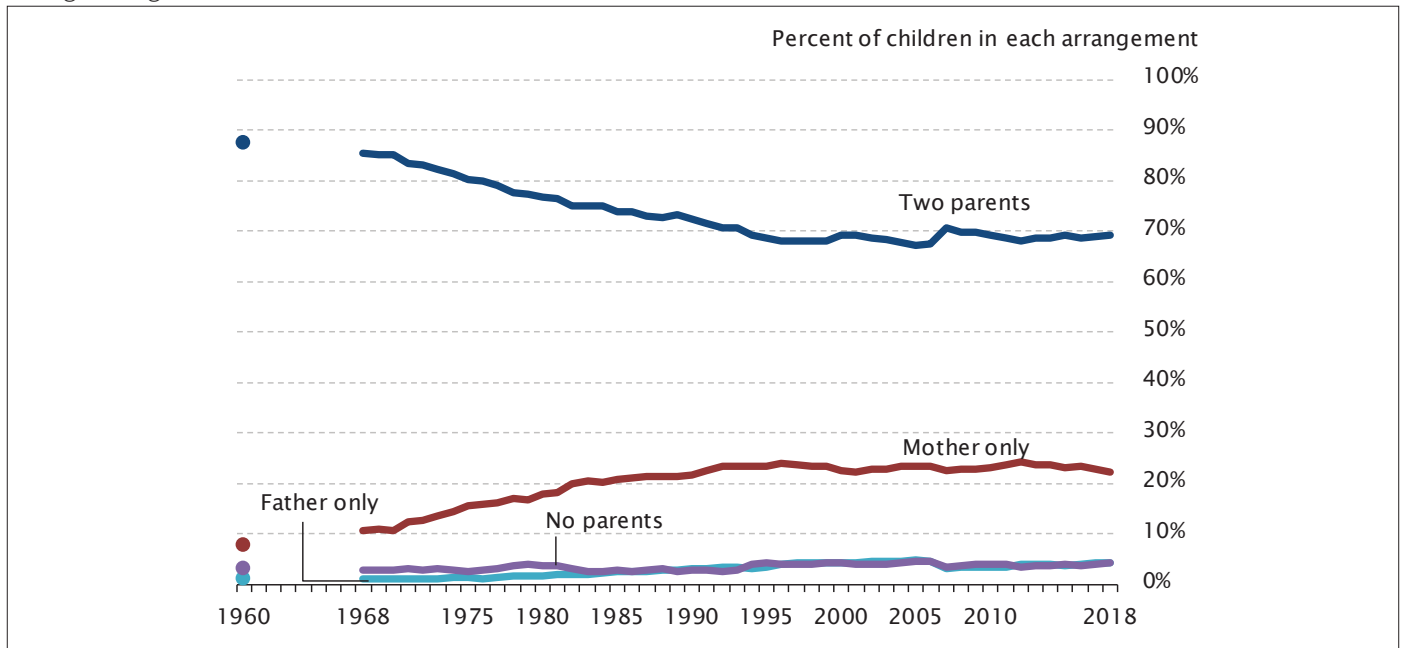
The problem is, the lack of informative content does little to enlighten people who live in nontraditional family settings but who still believe they must enter names of bloodline or adopted relatives for the beneficiary question. They could always ask around or do some research to learn if that is so, but how many will bother? This author has met people who walk away rather than check it out.

INNOVATIVE RESPONSE

Some leading insurance/financial/banking/benefits concerns have taken a different tack. The beneficiary forms they provide include fairly extensive beneficiary materials, including expanded forms plus accompanying educational information.

It is difficult to say that expanding family structures "caused" these firms to move in this direction. Many socio/economic trends influence design. However, it is noteworthy that the expansion has occurred even as the proportion of nuclear families has declined and the proportion of nontraditional family

Figure 1
Living Arrangements of Children: 1960–Present



Note: Direct identification of both parents began in 2007, resulting in the ability to identify children living with two unmarried parents.

Source: U.S. Census Bureau. Current Population Survey. Accessed Nov. 18, 2018. <https://www.census.gov/content/dam/Census/library/visualizations/time-series/demo/families-and-households/ch-1.pdf>; U.S. Census Bureau, Decennial Census, 1960, and Current Population Survey, Annual Social and Economic Supplements, 1968 to 2018.

structures has risen. Figure 1 from the U.S. Census Bureau shows that dramatic shift.

How have beneficiary forms changed during this period of expansion? Some examples follow. They point to a decided effort to provide consumers with more education on the forms and on beneficiaries in general.

Family structures are less rigid than some people may think. They evolve due to a myriad of trends.

Offer a Separate Guide to Understanding Forms

These are educational sheets or brochures, usually available online. They tell what beneficiary designations are for, include some definitions, and point out that people can have multiple beneficiaries, primary and contingent, whether related by bloodline or not. A few list things to think about before writing down names. Some indicate whether and how to make changes.

Who benefits: Just about everybody who is not well-versed in financial forms could benefit, whether the product is insurance, banking, securities or employer-based. Some people may want to write names of not only relatives but also certain close others, and perhaps charities too. They may be wondering how to go about doing that in a fair, equitable and legal way. A guide like this could help.

Provide Examples

In addition to listing steps for filling out the form, a few firms include an example or two of how a form might look when filled out properly (using fictional names, etc.). A few explain why it could be filled out that way,

Who benefits: Again, just about everyone with questions could benefit, especially if they are in a nontraditional family structure and trying to figure out what is allowed and what is not.

Put the Beneficiary Section in a Table

People can write the name of one primary beneficiary on each line, with the necessary identification and contact information in the adjacent boxes, including amount of bequest. In another section, or a similar table, the person can write the name of contingent beneficiaries if desired and their associated contact information.

Who benefits: People who like orderly presentations will appreciate seeing a form like this. The table format helps organize

thinking, as opposed to forms that simply list name, address, relationship, and so on, down the page. Also, the lines for entry of several names sends a subtle message that yes, you can have more than one or two primary beneficiaries and contingent beneficiaries if you want.

Include Instructions about Marital Status

This educational section typically has a few short sentences that include some pointers about each status—married, divorced, unmarried, engaged to marry or widowed.

Who benefits: Many times, people are in expanded family structures for a period in their lives—while waiting to marry, divorce, and so on. Such individuals could find that such a section clarifies issues or brings to the fore some points not previously considered.

Include a Reminder Section

A lot of forms today remind the person to

- Add a separate sheet if he or she wants to add more beneficiaries.
- Change beneficiaries should divorce, remarriage or other major changes occur that make this advisable.
- Update contact information of primary beneficiaries who relocate.
- Check to be sure that listed beneficiaries are in sync with one's will or other legal instruments, especially when updates have been made.
- Be sure, in qualified benefit plans, that the chosen beneficiary names are in accord with legal requirements.

Who benefits: The reminders make clear this is not a set-it-and-forget-it form and that it is smart to check the named beneficiaries periodically. At time of bereavement, the updated forms should make things easier for all parties concerned.

Include Beneficiary's Social Security Number

A number of financial institutions are requesting this information as one more detail to help identify and locate the beneficiary when the time comes.

Who benefits: Providers say this information can help them speed the process of locating and verifying, which can be important for recipients. However, as discussed later, not everyone wants to enter this information, so firms need to research their options here carefully.

A TEAM APPROACH HELPS

Some upgrade ideas may raise legal, compliance or process issues that designers have not anticipated. For that reason, most developers recommend seeking input from legal and other experts early in the design process.

WHAT'S NEXT?

Some potential areas for future enhancements include:

- **Include a list of categories of people and institutions that can be named as beneficiaries.** NAIC's list could be a start. These lists can easily fit the parameters of the simplified beneficiary forms still in use today as well as of more extensive forms. The list helps reinforce the message that beneficiary options are wide, not narrow, and can include relatives but also others. Reviewing the list may spur people to evaluate what they really want to accomplish.
- **Provide access to online information about beneficiary forms.** This applies to firms and institutions that continue to use simplified forms. Some firms may not want to “clutter” those simple forms with explanations. Providing an online link to an information page would not add clutter and could help interested consumers who have computer access. Call center and email support can also help.
- **Emphasize the value of choosing beneficiaries carefully.** People living in nontraditional families may need to be encouraged to consider everyone in their sometimes very broad, or surrogate, family network. Who may have the greatest need? Who will put a bequest to good use? Who might have no need for money at all?
- **Consider asking for the Social Security numbers of human beneficiaries.** This can be a sensitive area. Although the information can help financial firms confirm identity and speed delivery, some people resist. They may not have the numbers of loved ones, regardless of family structure but especially in nontraditional families. Some do have the numbers but are reluctant to give them out due to privacy concerns. Others hesitate to request the number from a loved one because they do not want to disclose beneficiary status. Some who do request the number get a firm “no” plus some ruffled feelings. Others get a flat “yes, and I will phone it to the company tomorrow” but the call never occurs. A possible workaround: Ask for the beneficiaries’

Social Security numbers, but don't make it mandatory. Also, request a working email address.

FINAL THOUGHTS

Adult orphans have beneficiary issues too. As people age, nuclear family members often predecease them, become disabled or are otherwise absent. Some elders who are “orphaned” this way create or enter support networks with friends, neighbors and community groups. Some now term these support networks “framilies,” meaning friends who function as family. Some even name family members as their powers of attorney and include them in, yes, their beneficiary designation forms.

Nonkin networks like this are not a new phenomenon. Throughout American history, people who are not related by bloodline or law have banded together to help one another, and even live together, like family. The family is a modern-day expansion of that. Insurers, banks, brokerages, employers and other financial providers might want to stay abreast of this development along with other family structure trends. This may help determine how best to reshape their beneficiary forms in new and relevant ways.

In sum, family structures are less rigid than some people may think. They evolve due to a myriad of trends. The job of the financial sector is to keep up with the trends and anticipate how to respond effectively to needs as they arise. ■

Linda Koco, MBA, is a writer and editor specializing in retirement trends, insurance and financial products, and related issues. She can be reached at koco4insight@outlook.com.

ENDNOTES

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