

Supreme Court Affirms Validity of Beneficiary Revocation Law

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We have a case in our office that involves the payment of death proceeds after a divorce. It's not often that a recent U.S. Supreme Court case has direct effect on the payment of death proceeds - - but this is one of those times.

In a case published June 11, 2018 (*Sveen v. Melin*), the Supreme Court upheld the validity of a beneficiary revocation/default statute in Minnesota. About twenty states have a statute that says the dissolution or annulment of a marriage revokes any revocable beneficiary designation by an individual to the individual's former spouse. Instead the spouse is treated as predeceasing the insured.

These laws include life insurance. As a result, the policy provisions will determine the beneficiary. The death proceeds will be paid by default to the contingent beneficiary or, failing that, usually to the insured's estate.

The reason for such a law is that the state legislature presumes the insured/policyowner would rather have the death benefit paid to the contingent beneficiary or estate, than the former spouse. There are exceptions, of course, such as if a court has ordered the insured to name the spouse as beneficiary.

If you work in a state with this kind of statute, upon divorce you can "add value" to the agent/client relationship by contacting the client and recommending a review of beneficiary designations. Many clients do not realize the effect that divorce may have on insurance planning.

And, even if you do not work in one of these states, the same thought applies: a client may not realize that a divorce is reason to review beneficiary designations. In fact, it's a good practice to review designations not only upon divorce, but also upon birth, death, and marriage, or any other life cycle event.

Of course, you should recommend that the client consult with their legal and tax advisors for advice about a change in beneficiary. Had that happened in the case mentioned above, the insured/policyowner may have avoided a nasty dispute over death proceeds following his death.

If you have questions about this article or an advanced sales case please contact Ronnie Hamilton and Gail Smith at First Protective.

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