Office of Personnel Management
Retirement and Insurance Service

CSRS Civil Service Retirement System 1920
FEGLI Federal Employees Group Life Insurance 1954
FEHB Federal Employees Health Benefits Program 1959
FERS Federal Employees Retirement System 1986

Benefits Administration Letter

Number: 95-221 *Date:* October 10, 1995

SUBJECT: Assignment of FEGLI Coverage

I. OVERVIEW

A. Purpose

This letter announces a change in the Federal Employees' Group Life Insurance (FEGLI) law that allows Federal employees, annuitants, and compensationers to assign ownership of their life insurance coverage.

B. Background

Section 4 of Public Law 103-336 allows Federal employees, annuitants, and compensationers to make an irrevocable assignment of the ownership of their life insurance coverage. Regulations clarify that the right to assign ownership of life insurance coverage applies only to Basic Life, Option A--Standard, and Option B--Additional FEGLI coverages. The law was enacted on October 3, 1994. Previously, only Federal judges could assign FEGLI coverage.

II. WHAT IS AN ASSIGNMENT?

A. Description

An assignment is an irrevocable transfer of ownership of the employee's FEGLI coverage (except dismemberment insurance and Option C--Family) to another individual, corporation, or trustee. The employee continues to be the insured person.

B. Effects of assignment

An assignment is irrevocable. After making an assignment, the employee, as long as he or she is continuously insured in the FEGLI Program, cannot cancel the assignment. Further, any designation of beneficiary on file at the time of the assignment is immediately void.

C. Assignment is voluntary

The law is permissive, not mandatory. Thus, employing offices may not force an insured employee to make an assignment.

D. Rights of the employee after making an assignment

After making an assignment, it is the employee's right to:

- Continue Option C--Family coverage (if previously elected).
- Elect more insurance (for example, during an open enrollment period, by furnishing proof of insurability or upon marriage, divorce, birth of a child, etc.).

  NOTE: All of the new insurance (except Option C--Family) is automatically subject to the existing assignment.

- Elect a reduction schedule for Basic Life that is less than the standard 75 percent reduction at the time of retirement. However, if the retiring employee elects a lesser reduction (no reduction or 50 percent reduction), he or she may not later cancel the election.

After making the assignment, the employee may not:

- Cancel or reduce the insurance.
- Designate a beneficiary.
- Convert the insurance to a private policy when it terminates.
- Elect a Living Benefit.

E. Rights of the assignee

The assignee has the right to:

- Cancel the insurance coverage.
- Cancel a retired employee's election of a lesser reduction (50 percent or no reduction) of Basic Life.
- Designate and change beneficiaries.

- Convert to a private policy when the coverage terminates (but not when the assignee voluntarily cancels it).

- Reassign the insurance.

The assignee may not:

- Increase the amount of insurance during an open season or as a result of any other event.

- Elect a Living Benefit.

- Make the original election of a reduction schedule for Basic Life when the employee retires.

F. Assignment to more than one individual

An assignment may be made to more than one person, corporation, or trustee. If the assignment of the insurance is to two or more persons, the employee must specify percentage shares of the entire amount of insurance, rather than dollar amounts or types of insurance, to go to each assignee. The percentages must total 100 percent. The employing office must reject a form if the percentages do not total 100 percent.

Each assignee should designate his or her own beneficiaries for his or her share of the insurance. However, all assignees must agree to most other actions taken with the coverage, such as cancellation.

G. Restrictions related to assignments

An employee who has previously elected a Living Benefit may not assign the balance of his or her insurance. An employee who has assigned his or her insurance may not elect a Living Benefit, nor may the assignee elect a Living Benefit.

III. BENEFITS OF AN ASSIGNMENT

A. General

Employees may find assignments useful in a number of circumstances, such as described below.

B. To comply with a court order

Employees may use assignments to comply with a court order for divorce that requires an employee to name a former spouse as the beneficiary of his or her FEGLI proceeds. Under the FEGLI law, designations of beneficiary may be changed by the employee at any time; whereas, an assignment is irrevocable. However, an agency cannot force an employee to make an assignment, even if a court order requires him or her to do so. It is not the agency's responsibility to enforce a court order.

C. For inheritance tax purposes

Employees may use assignments for inheritance tax purposes. An absolute assignment of an insured person's interest in a group life insurance policy, made at least 3 years before his or her death, generally removes the insurance proceeds from the insured person's estate. Current Federal estate tax law allows an unlimited marital deduction for that portion of the gross estate passed to a surviving spouse. Thus, there is no apparent immediate tax advantage to assigning ownership of a life insurance policy to a spouse. However, since State tax laws vary and tax savings under Federal or State law can be considerable if insurance proceeds are not subject to estate taxes, it is important to consult with a competent estate tax advisor.

NOTE 1: It is possible that assignment to a trust may not exclude FEGLI benefits from the employee's estate. It is also possible that, if the assignee dies first, the employee could reacquire ownership of the life insurance coverage through designation of beneficiary or inheritance. The assignment form, RI 76-10, cautions the employee to consult a tax attorney if he or she wants to make an assignment to a trust or wants to avoid inheriting ownership of the FEGLI coverage upon the death of the assignee.

NOTE 2: The employing office assumes no responsibility or obligation with respect to the validity, sufficiency, or the consequences of an assignment under the Internal Revenue Code. A determination as to whether the FEGLI proceeds are included in the employee's gross estate must ultimately be made by the Internal Revenue Service at the time of the employee's death.

D. To obtain cash before death

Employees may use assignments to obtain cash before death from a viatical settlement firm. Viatical settlement is the sale (or assignment) of someone's life insurance in exchange for cash. Generally, viatical settlement firms accept assignment of life insurance from terminally ill patients within 24 months of their anticipated death.

NOTE: The FEGLI Living Benefits Act became effective on July 25, 1995. Under this Act, Basic life insurance can be paid as a living benefit to an employee, annuitant, or compensationer who has 9 months or less to live. However, viatical settlement may still be a good choice for terminally ill employees who have more than 9 months to live, or those who wish to receive cash based on the face value of their Basic Life, Option A--Standard, and Option B--Additional coverages. The FEGLI Living Benefits apply only to Basic Life, not the optional coverages.

E. To pay off debts

Employees may use assignments to pay off debts. Agencies cannot refuse to accept an assignment made to satisfy indebtedness. However, agencies should remind employees that an assignment is irrevocable and cannot be canceled when the debt is paid. The assignment form, RI 76-10, contains a warning to this effect.

IV. HOW TO MAKE AN ASSIGNMENT

A. Assignment form

Assignments are made on OPM Form RI 76-10, Assignment of Federal Employees' Group Life Insurance. Agency headquarters have already ordered supplies of these forms through OPM's rider system. Employing offices may obtain supplies of the form from their agency headquarters.

The January 1995 edition is the only edition that may be used.

B. Effective date of an assignment

An assignment is effective on the date the properly completed, signed, and witnessed assignment form is received by the employing office.

C. All insurance must be assigned

If an employee has more than one type of coverage--Basic Life plus Option A--Standard, Option B--Additional, and Option C--Family, for example--he or she must assign all of the insurance except Option C--Family. An employee may not assign only a portion of the coverage, but may assign the life insurance coverage to more than one person.

An employee may not name contingent assignees in the event the primary assignee predeceases him or her.

V. WITHHOLDING AND CONTRIBUTIONS

A.	**Payment of premiums after assignment**	After making an assignment, the employee must continue to pay the premiums. The assignee may not pay the premiums (except in certain circumstances when a FERS retiree's annuity is too low to make the withholding.)
B.	**Withhold- ings and contri- butions**	After an assignment, insurance premiums continue to be withheld from salary, annuity, or compensation, as applicable.

VI. DESIGNATION OF BENEFICIARY

A.	**Employee's designations**	An assignment automatically cancels the employee's prior designations of beneficiary. However, the agency must continue to retain the cancelled designations in the OPF. Once an assignment is effective, an employee no longer has the right to designate a beneficiary.
B.	**Assignee's designations**	Each assignee may, as part of the assignment process, designate a beneficiary or beneficiaries to receive insurance proceeds upon the death of the employee and may subsequently change the beneficiaries. If there is no designation, the assignee is the beneficiary.
C.	**Surviving beneficiary**	A surviving beneficiary receives the designated amount of assigned insurance upon the death of the employee. Assignees may designate themselves the primary beneficiaries and name some other person(s) as contingent beneficiaries in the event that the assignee dies before the employee. Assigned insurance is paid to an assignee's estate if the assignee predeceases the employee and-- • The assignee did not designate a beneficiary; or • The assignee's designated beneficiary dies before the employee.

VII. EMPLOYING OFFICE RESPONSIBILITIES

A. General

Employing offices are responsible for advising employees of the availability of, and uses for, an assignment of FEGLI coverage. Making decisions or recommendations for the employee is not the employing office's responsibility and should be avoided. Further, the employing office has no responsibility or obligation with respect to the consequences of an assignment.

B. Policing assignments

An employee who assigns his or her FEGLI coverage may not make a subsequent assignment or designation of beneficiary unless the assignee reassigns the insurance back to the employee. Therefore, when an employing office receives an assignment or designation of beneficiary from an employee, it must ensure that the employee has not already assigned his or her life insurance to someone else.

The employing office may accomplish this by reviewing the Official Personnel Folder (OPF) for every employee who submits a designation or an assignment or by keeping a log of all employees who make assignments.

If the employing office decides to keep a log of employees who make assignments, it must check the log each time an employee designates a beneficiary or makes an assignment to ensure that the employee has not previously assigned his or her life insurance to someone else. In addition, when an agency reemploys a former Federal employee after a break in service of less than 31 days the employing office must check the employee's OPF to determine whether there is an assignment. If so, the employee's name must be added to the agency's log.

To assist the employing office, we have revised Standard Form 2823, Designation of Beneficiary, to add a new section asking the designator to check whether he or she is completing the form as the employee or an assignee. Nevertheless, the employing office must verify in each case whether there is

previous assignment by checking the employee's OPF or its log of employees who have made an assignment.

If the employing office finds that the employee has previously assigned his or her life insurance to someone else, the employing office must return the form to the employee explaining that he or she has previously made an assignment and that only the assignee may reassign the insurance or designate a beneficiary.

C. Viatical settlement forms

When employees want to assign their life insurance to a viatical settlement firm, the firm will ask the employing office to provide information about their FEGLI coverage. The employing office must have a release, signed by the employee, before providing the information. See BAL 95-212 for detailed information about viatical settlements.

The employing office must file copies of the release and the information disclosed to the viatical settlement firm in the employee's OPF.

D. Consulting tax attorneys

Employing offices should always advise employees to consult a tax attorney when they are considering assigning their life insurance. This is particularly important if the employee wants to make an assignment to a trust or wants to avoid inheriting the FEGLI coverage upon the death of the assignee. The attorney has specific information about tax laws and IRS regulations to make a determination about the tax effect of an assignment. The employee should also consider obtaining a ruling from the IRS.

E. Notifying the assignee

When an assignment is made, the employing office must notify the assignee that the employee has assigned ownership of his or her life insurance to the assignee and provide a copy of the FEGLI Booklet, RI 76-21, which explains the FEGLI Program, and a blank designation form (SF 2823). The notice must include the types of insurance the employee assigned (Basic Life, Option A--Standard, Option B--Additional) including the number of multiples of pay under Option B--Additional. The notice must also give the percentage of the total insurance that the assignee now owns. (The percentage is 100 percent unless there are multiple assignees.) A sample notice is attached.

F. When insurance terminates

At the time the insurance terminates, other than by voluntary cancellation, the employing office must send SF 2819, Notice of Conversion Privilege to the assignees to inform them of their conversion rights. Employing offices must also complete Standard Form 2821, Agency Certification of Insurance Status, and give it to the assignee, together with a copy of the assignment form (RI 76-10) by which the employee had transferred ownership of the life insurance coverage to the assignees. See section S5-3 of the FEGLI Handbook for Personnel and Payroll Offices (formerly FPM Supplement 870-1) for additional information about SF 2819 and SF 2821. If there are multiple assignees, do not complete multiple SF 2821's. Instead, complete only one SF 2821 and make photocopies for the additional assignees.

G. When an employee dies

Upon the death of the employee, the employing office must send Form FE 6, Claim for Death Benefits, to each assignee at the last known address. See Subchapter S10 of the FEGLI Handbook for Personnel and Payroll Offices for additional information about procedures required at an employee's death.

H. When an employee leaves the agency

When the employee leaves the agency by separation, retirement, transfer to another agency, or for any other reason, (when the Nature of Action Code begins with a 3) cite on the separation Standard Form 50 Remark B69: Employee has assigned ownership of life insurance coverage. Assignment terminates 31 days after the separation date unless employee is entitled to continued coverage or resumes coverage before that date.

I. Unacceptable assignments

An insured person's assignment is unacceptable if--

- The insured person previously assigned his or her life insurance coverage.
- The insured person previously elected Living Benefits.
- The assignment form has not been properly witnessed.
- The assignment form contains erasures or alterations.
- In the case of an assignment to two or more persons, the shares are not expressed in percentages (dollar amounts are not acceptable).

If the assignment is unacceptable, write VOID across the front of the form and return it to the insured person with an explanation of why the assignment is unacceptable.

VII. ASSIGNEE'S RESPONSIBILITIES

A. Current address

Each assignee is responsible for keeping the employee's personnel office aware of his or her current address. Employing offices must attach the assignee's change of address notice to the assignment form in the employee's OPF.

B. Designation of benefi-ciary

We recommend that all assignees complete a designation of beneficiary, even though they want to be the beneficiary, in order to designate a contingent beneficiary. The contingent beneficiary is the person who would receive payment if the assignee dies before the employee.

If they do not designate a contingent beneficiary, the life insurance is payable to the deceased assignee's estate. There may be problems in reopening the assignee's estate after the employee dies to determine who is entitled to the insurance payment. By naming a contingent beneficiary, the assignee can simplify payment of the life insurance.

IX. RETIREES AND COMPENSATIONERS

A. Transferring assignments

When an employee retires or becomes a compensationer under circumstances that would allow continued FEGLI coverage, the assignment continues in force if the assignee does not choose to convert the insurance. The assignment form must be transferred to OPM with the rest of the FEGLI documents. See Subchapters S6 and S7 of the FEGLI Handbook for Personnel and Payroll Offices (formerly FPM supplement 870-1) for
procedures for transferring the life insurance to OPM when an employee retires or becomes insured as a compensationer.

B. Assignments by retirees and compen-sationers

Retirees and compensationers may assign their life insurance under the same conditions as employees. OPM serves as the employing office for retirees in all retirement systems for Federal employees and for compensationers whose life insurance has been transferred to OPM. (For compensationers', the employing agency continues to maintain the life insurance coverage through the first 12 months the employee is on compensation. The employing agency then transfers the coverage to OPM if the employee is eligible to continue it as a compensationer.)

C. Conversion versus continuation

When there are multiple assignees, some assignees may prefer to let their share continue when the insured employee becomes a retiree or compensationer. Others may prefer to convert to a private policy. Information about conversion is given in section X of this letter.

For continued coverage, the amount of each type of continued insurance is determined by the total percentage of the shares of the assignees who choose continued coverage. For example, if two assignees, each having a 25 percent share in the ownership of the total insurance amount consisting of Basic Life and Option A-Standard, choose to continue coverage while the other assignees choose to convert, 50 percent of the value of the basic life and 50 percent of the value of the Option A-Standard continues. Although the assignees own a share of the total value of the insurance, it is necessary to distinguish between the types of insurance in order to apply premiums and reduction factors during retirement.

X. CONVERSION

A. Termination

Insurance terminates when the assignee cancels the coverage, when the employee separates from service, and when other terminating events occur. See FEGLI Handbook subchapter S5 for a full explanation of when coverage terminates.

B. Conversion

When an employee's insurance terminates other than by voluntary cancellation, an assignee has the right to convert all or a portion of the life insurance to an individual policy on the employee.

If the insurance is assigned to more than one assignee, each assignee has the right to convert all or part of his or her share of the insurance. Any assignee who does not convert loses all interest in the insurance unless the insured person is entitled to continue coverage as a retiree or compensationer (see section IX).

C. Conversion when there are multiple assignees

When multiple assignees have been named and they wish to convert the assigned insurance to individual policies on the employee, the maximum amount of insurance each assignee may convert is the dollar amount of the assignee's share of the total insurance. If the amount is not a multiple of $1,000, it is rounded up to the next thousand dollar amount.

D. Rates for converted life insurance

Rates for converted life insurance are based on the employee's attained age and class of risk at the time the conversion policy is issued.

XI. TERMINATION OF ASSIGNMENT

A. Termination of assignment

An assignment terminates 31 days after the life insurance terminates, unless the insured person is reemployed during the 31-day period in a position in which the insurance resumes. That date coincides with the expiration of the 31-day temporary extension of coverage and the cancellation of designations of beneficiary. Once terminated, the assignment does not resume if the person is later reemployed in a position in which he or she again has FEGLI coverage. Instead, the employee must make a new assignment if he or she wants someone else to have ownership of the life insurance.

B. When assignee cancels life insurance

When an assignee cancels the life insurance, there is no 31-day temporary extension of coverage. The assignment terminates permanently at the same time the life insurance terminates.

Abby L. Block, Chief
Insurance Policy and
Information Division

Attachment

G:\COMMON\OIP\INS\SEARS\ASSIGN.BAL October 4, 1995

Attachment to BAL 95-221

(Sample letter for notifying assignees of the assignment.)

Jane Doe
123 Main Street
Anytown, US 00000-0000

Dear Ms. Doe:

This is to notify you that (name of employee) has assigned __ percent of ownership of his/her coverage in the Federal Employees' Group Life Insurance (FEGLI) Program to you. (Name of employee) has Basic Life plus (Option A--Standard and Option B--Addition at __ times his/her annual pay.) The enclosed booklet explains the features of the different type of insurance.

You are the beneficiary of the life insurance coverage, and you will be entitled to the benefits upon the death of (name of employee). However, we urge you to designate a contingent beneficiary to receive the benefits in the event that you die before (name of employee). To do this, complete the attached Designation of Beneficiary form and return it to (name and address of employing office). To designate a contingent beneficiary, name yourself as primary beneficiary and another person to receive benefits in case you die before the insured person. See example 3 on the form.

It is important that you tell us when your address changes, so that we can notify you if events occur that affect the life insurance coverage that has been assigned to you. When you write us to tell us about a change of address, be sure to include the name and social security number of the insured employee.

Sincerely,