Make Beneficiary Designations With Care

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When you opened your IRA account 25 years ago, whom did you name as the beneficiary? Is your ex-spouse still the beneficiary of your life insurance policy? If you can't quite remember, now is a good time to check.

Designating a beneficiary — the person who will receive the proceeds upon your death — may seem like an administrative formality, but it's an important decision with lasting financial and legal ramifications. And it can also have a big impact on how your loved ones remember you after you're gone.

Probate Protection

In addition to ensuring your assets pass to the individual(s) of your choice, assigning a beneficiary can exempt some assets from probate. Probate is typically a lengthy multi-step process where your assets are inventoried, creditors are paid, and remaining assets are distributed according to your estate plan. Probate is also costly; costs vary by state but may total as much as 3–7 percent of estate value. By designating a beneficiary, your loved ones will typically have access to funds more quickly and with less legal expense.

Here are some beneficiary strategies that will help to ensure your estate plan follows your intentions. Of course, consult your legal and investment advisors on these matters.

- **Check all your accounts.** Beneficiary designations can be made on a wide range of assets, from 401(k) plans and ESOPs to insurance policies, annuities and stock options. Verify that you have made your wishes known on all eligible accounts.

- **Stay current.** Births, deaths, marriages, divorces, graduations, changes in the financial status of loved ones and philanthropic interests may affect your intentions for passing on your assets. Be sure to review all beneficiary designations on a regular basis. Failing to do so may mean, for example, that an ex-spouse receives funds you would prefer someone else to have.

- **Divide when appropriate.** When you make designations, you can split assets among loved ones in the exact percentages you desire. This ability can be particularly helpful in preventing family disputes after your death. Intentionally splitting assets within accounts may also be preferable to naming different family members as beneficiaries on different accounts that may appreciate at different rates.

- **Designate a backup.** If your primary beneficiary predeceases you and no secondary designation has been made, the asset may end up in probate. Assign a secondary beneficiary on all eligible accounts.

- **Remember causes.** In many cases, your beneficiaries will be liable for income tax on some or all of the assets received. However, the tax bill may not apply to a qualified charity. If you intend to support a philanthropic cause, naming it as a beneficiary may be an efficient way to do it.

- **Think beyond your estate.** It is generally not advisable to name your estate as beneficiary as it will pull non-probate assets into probate. It may also have adverse income tax consequences.

- **Carefully consider trusts.** It may make sense to name a trust as beneficiary in some cases, especially if the trust will oversee funds for minor children or disabled individuals. However, other things being equal, naming a trust may require accelerated distributions to recipients — possibly creating greater tax liability sooner than if the individuals were named as beneficiaries directly. Consult your attorney or CPA for the specifics of your situation.

Stay in sync
Above all else, make sure your beneficiary designations are aligned with your will, living trust and overall estate plan. Consult with your attorney and CPA as you make beneficiary designations to ensure that all elements of your plan work together toward the same goals.

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