



## Designating Your Beneficiaries

Naming a beneficiary on your company retirement plan, life insurance policy, or IRA might seem like just another administrative task to be completed with the rest of the paperwork that comes with setting up accounts. However, designating your beneficiaries is actually one of the first steps in creating an estate plan -- and a very important one.

When you name a beneficiary on one of the above types of assets, at your death those assets will pass directly to whomever you designate; they will not go through probate. Beneficiary designations override any provisions you've made in your will. For example, even though your will might state that you want your spouse to inherit all your assets, your sibling might inherit a portion of those assets if you named him/her as the beneficiary of your IRA and didn't bother to change it after you got married.

As you review your beneficiary designations, keep the following in mind:

- Generally, the most important consideration is going to be: who do you want to pass your assets to. Once you've made that decision, tax considerations can come into play. The beneficiary of a life insurance policy receives those benefits tax-free. That's not the case, however, with a retirement plan: 401(k)/403(b) or traditional IRAs. The beneficiaries of those accounts inherit the deferred tax liability inherent in these tax-deferred assets, so will pay income tax as they take distributions.

That's not necessarily a bad thing; a young heir, for example, can greatly benefit from inheriting an IRA, as they can stretch the distributions over their lifetime, preserving the powerful benefit of tax deferral on a significant portion of the account for decades. An older heir, on the other hand, will be required to take larger distributions due to their shorter life expectancy; in that case, it is doubtful that the stretch outweighs the impact of inheriting the tax liability.

- Charitable organizations can be a good beneficiary for retirement accounts if you have charitable intent, as they will not pay taxes on distributions from 401(k)/403(b) or traditional IRA accounts. Not only can the charity receive your assets tax-free, your estate will also be eligible for a charitable deduction.
- Minor children. If you're considering naming a trust for minor children as a 401(k)/403(b)/IRA beneficiary, you should consult with your estate attorney for the exact wording required to reflect your wishes.
- Special needs. If you're in a position to transfer assets to a loved one with special needs, again consult with your estate attorney first, as transferring assets directly to a special needs beneficiary may affect the disabled individual's eligibility for government-provided benefits.

- Be specific. It may be tempting to designate a trusted friend or relative as your beneficiary with the assumption that that person will “know” how you want your assets distributed to other heirs. However, that may not be the case, or your designated beneficiary could decide not to carry out your wishes. Therefore, be specific as possible. Beneficiary designation forms should allow you to name multiple primary and contingent beneficiaries and to specify what percentage of assets you would like distributed to each person upon your death.

And last but not least -- keep your designations up to date by reviewing them annually. Major life events, such as a marriage, a divorce, the birth of a child, or the death of a loved one, will likely require a beneficiary change. Something much less eventful may also require a review; for example, if your employer switches retirement plan or insurance providers, the beneficiaries you had previously designated may not automatically carry over to the new plan or policy.

Your estate attorney is the best person to advise you on your designations. Because you spend a lifetime building your assets, you want an estate plan that reflects your wishes -- and your beneficiary designations are a critical component that plan. Executing a will is another -- but that's a topic for another article.

-- Karen O'Brien. Posted 05/20/08.