Choosing Beneficiaries

After setting up a savings or retirement account, applying for an insurance policy or finalizing a trust, you may think the final step—designating beneficiaries for these assets—would be a piece of cake. It seems simple enough, after all—fill in a few blanks with the names of those closest to you, and you're one step closer to solidifying your estate plan. Ironically enough, what many people don't realize is that these types of beneficiary designations can actually derail your estate plan if you're not careful. Far from being the final step in a stack of paperwork, choosing the people who will eventually inherit your assets should be a carefully planned and strategically executed portion of your estate planning process.

Overriding your will

For many people, the terms "estate planning" and "will" are almost interchangeable. A will is probably the single most vital document in an estate plan and provides an outline for how your estate will be distributed upon your death. However, what surprises many people is that beneficiary designations on insurance policies, trusts, retirement accounts and many other estate planning vehicles will actually override the beneficiaries that you name in your will. Without careful coordination between your will and these estate planning tools, you could accidentally disinherit a loved one or leave your heirs facing a large tax bill.

> *Without careful coordination between your will and other beneficiary designation forms, you could accidentally disinherit a loved one.*

The biggest appeal of designating beneficiaries directly on a financial account or insurance policy is that upon your death, the assets will go directly to your named beneficiaries without going through probate. This can help save your future heirs both time and money. Unfortunately, especially if your estate plan is particularly complex, keeping your beneficiaries consistent can be very difficult, and naming conflicting

Heim, Young & Associates, Inc.
(417) 882-7283

1256 E Kingsley St
Springfield, MO 65804

beneficiaries on various accounts and within your will can cause assets to be distributed unequally. Changing or contesting someone's beneficiary status after the death of the death of the account or policy owner is a lengthy and costly process, and can lead to your assets being distributed contrary to your wishes.

Choosing wisely

Beyond just making sure that your will and beneficiary designations are in alignment, you will also want to ensure that the beneficiaries you have chosen are the right people to inherit your assets. "Right" doesn't always mean "closest," "most in need" or "most deserving." Choosing the right beneficiaries will cause you to consider tax implications, probate and the ease of transfer.

When choosing a beneficiary, you can name any of the following to receive your assets:

- People
- Trusts
- Charities
- Organizations
- Your estate

However, there are certain beneficiary designations that make it more difficult to transfer your assets or that can cause problems for beneficiaries during the inheritance process. You may want to think twice before naming one of the following as a beneficiary:

Minors: If you designate a minor as a beneficiary, the assets will likely have to go through probate, as the court will have to appoint someone to look after the funds until the minor comes of age. This can be an expensive and complicated process. Furthermore, many beneficiaries are not ready to handle assets, even once they turn 18. Trusts can be an option to delay the transfer of assets directly to beneficiaries, and can give these young heirs time to develop the skills and maturity they will need to handle their own assets.

The disabled: A direct inheritance, even if it is a small amount, may prevent disabled beneficiaries from receiving government aid. Consider a supplemental needs trust to protect the assets of disabled beneficiaries while still allowing them to receive an inheritance.

Your estate: Although it may seem easiest to simply designate your estate as a beneficiary, doing this will mean that the proceeds from your policy or account will go directly into your estate and become subject to estate taxes. This will also mean that the full amount of the plan must be paid out and taxed within five years. This will prevent any possible investment gains and could put your heirs into a higher tax bracket. By naming individual beneficiaries, it allows them to stretch out the distributions for many years, avoiding high estate taxes and benefiting from investment.

Your children instead of your spouse: If you leave a retirement account to your children, they will have to start taking distributions from the account beginning a year after your death in order to fulfill the required minimum distribution amount. However, your spouse will have the option to roll the account(s) over into his or her name, allowing the option to postpone distributions until age 70 ½.

No one: By leaving beneficiary designations blank, accounts will go to probate court and rules on who gets what will vary by state, and may not be distributed according to your wishes. For example, if you don't update or name a beneficiary on a large retirement account, the account will likely go to your estate rather than your spouse or children, which can leave them with a large tax bill to pay off in the years to come.

Tips for choosing beneficiaries

Whomever you choose to pass down your assets to, you should keep the following things in mind during the beneficiary designation process:

- Ask for copies of all beneficiary forms, and keep them all in one place, with your other estate planning documents. This can help you make sure you are being consistent when designating beneficiaries.
- Check regularly with your bank or broker to ensure that what's on file is current and correct.
- Avoid using vague language such as "son" or "husband" when designating beneficiaries—use people's full and legal names to avoid confusion.
- Review your beneficiary designations regularly (at least once every few years) and after major life events. For example, if your daughter gets married and changes her last name, you will need to update any beneficiary forms in which she is named. Births or deaths will also likely cause you to make changes to these forms, as will divorce.
- You will have to manually change the beneficiary designations on retirement plans when you roll a 401(k) into a new plan or switch to an IRA or from an IRA to a Roth IRA; the account will not do it automatically.
- Be aware of which forms distribute assets *per stirpes* and which do not. If assets are distributed in this way, it means that each branch of the family will receive equal amounts of the account. This would come into effect, for example, if you were predeceased by one of your children and wished his or her inheritance to go to his or her children rather than to your remaining children.