

BENEFICIARY DESIGNATIONS

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Who needs to make a beneficiary designation? – any one who own a 401K plan, IRA, insurance policy, annuity, or has stock options.

Who can be named?

- Your spouse
- Your child or children
- Any other person
- A charity
- A trust
- Make sure you name the person(s) or entity(ies) you intend to get whatever is left at your death. Do not name a trusted person and expect that you can trust that person to take care of your intended beneficiaries

What does it accomplish?

- Directs that the asset/account will be transferred directly to the person(s) or entity you have designated (with % shares)
- You can name one or more contingent beneficiary and designate their shares
- Will not go through probate – therefore the transfer should happen at no cost and be much quicker
- Keeps the asset from being left to your estate at your death, which could cause a large chunk to go to taxes

When should you review?

- Annual is good
- After a divorce is essential
- After death of a designated beneficiary
- Birth of a child
- Whenever you switch plans

What should you know about the consequences to the beneficiary (or to your estate)

- ✓ If spouse, he or she can roll your retirement plan assets over into his/her own IRA until distribution (when withdrawals are taxes) and the account is not added to your taxable estate
- ✓ Other individuals may have to take mandatory distributions, which are taxable to them and the account may be included in your taxable estate
- ✓ Charities receive the assets/accounts tax-free (and your estate gets a tax deduction if the estate is large enough to need it)
- ✓ If your estate is large enough to be taxable, you should discuss beneficiary designations with a tax or financial advisor
- ✓ You should consider Medicare/Medicaid issues

What is will? A document that controls the distribution of whatever you own at death the way you want it to be, not the way state law would have it, unless the will is overridden by another document such as

- ❖ Beneficiary designation of retirement plans, annuities, and life insurance policies do not pass to the heirs we designate in our wills
- ❖ Jointly owned property (real estate and accounts) do not pass under the will
 - Avoids probate but not estate taxes
- ❖ Payable-on-death accounts
- ❖ Transfer-on-death deeded property
- ❖ Thus, our beneficiary designations override the directives we give in our will

What do you need to do to create an estate plan?

- Designating beneficiaries is the first step in creating an estate plan
- Preparing a will is the second step
 - You will probably own some assets at death that are not exempt from probate (e.g., any asset titled in your name alone, the final social security check etc.)

- Remember to name a guardian if you have minor or special needs children
- A letter of instruction, though not legally binding, may be the third step
- Preparing other basic estate planning documents is the fourth step
 - General power of attorney (financial matters, management of assets, sign tax return, pay bills, sell/rent property etc.
 - Living will (express your wishes in the event you find yourself on life support) (remember Terry Shiavo?_
 - Health care power of attorney (who can make health care decisions if you are unable to do so and makes sure your wishes are respected)
- A trust may be a fifth step even if you are not wealthy but have
 - Minor children particularly if you are a single parent or divorced
 - A special-needs loved one
 - Are remarried and have children by the first marriage
 - Pets you want care provided for
- If you set up a trust, be sure to fund it
- The last steps are to organize your financial/asset records and tell your family about your plans

Top Ten Beneficiary Designation mistakes:

- 1. Not naming anybody**
- 2. Naming your estate**
- 3. Naming the wrong person**
- 4. Thinking that your last will and testament will override your beneficiary designations**
- 5. Not reviewing them regularly with your financial advisor**
- 6. Not reviewing them after divorce or other major life or job change**
- 7. Not considering the tax consequences on our beneficiaries**
- 8. Not considering the Medicaid eligibility consequences for a special needs beneficiary**

9. Not making it one piece of your overall estate plan

10. And, last, but most importantly, not having a trusted financial advisor and attorney