If you’re like most people, you probably have several accounts with named beneficiaries. These include employer-sponsored retirement plans, IRAs, life insurance policies, annuities and college savings plans. In each case, at the opening of the account you are asked to name a beneficiary — the person(s) or entity(ies) that will receive the assets should you pass away.

As years go by and your life changes, the people or entities you initially named as the beneficiaries for your accounts may no longer be your first choice, or even an appropriate choice. Reviewing your named beneficiaries regularly, and after any significant life changes, is a simple way to ensure that your assets are distributed according to your wishes.

Beneficiary decisions are as important as your will

Remember, the assets in these accounts go to the person(s) or entity(ies) you have designated as your beneficiary(ies) in your account forms, regardless of how you may dispose of your assets under your will. Keeping your beneficiary designations up to date helps you avoid unintended consequences, such as an ex-spouse receiving your life insurance proceeds.

Some accounts are easy to overlook

You probably have more accounts and policies than you realize, and maybe even one or two you’ve forgotten about. Employee benefits like life insurance are easy to overlook, as are 401(k) plans from previous jobs. Imagine a man whose job benefits included life insurance. He named his wife as beneficiary when he was first hired. Later, when he and his wife divorced, he forgot to update his policy with the HR department. If he were to die suddenly, his ex-wife could possibly receive the policy proceeds (subject to state law).

Here’s another example: By law, your spouse is generally the default beneficiary of an employer-sponsored retirement plan like a 401(k), but it’s not the same for an IRA. Consider an unmarried woman who held a number of jobs and then decides to consolidate 401(k) assets from previous employers in an IRA. She names her sister as her beneficiary. When she gets married some years later, her husband automatically becomes the beneficiary of her 401(k) at her current job, but unless she updates her IRA account, her sister is still the beneficiary of her IRA (subject to community property rights).
Types of accounts and policies with beneficiaries

You should review the beneficiaries for all your accounts, retirement plans and life insurance policies. IRAs, employer-sponsored retirement plans, life insurance and annuities, Coverdell Education Savings Accounts, 529 College Savings Plans as well as accounts titled “in trust for” or “pay on death” all have named beneficiaries. These accounts and policies often make up most of your estate.

Contingent beneficiaries are your backup plan

As you review your primary beneficiaries, you should also pay attention to secondary or contingent beneficiaries. This is your backup plan in the event that your primary beneficiary is deceased or does not want the assets. (This is known as disclaiming. Note that when assets are disclaimed, the person disclaiming has no say in who should receive the assets. The contingent beneficiary(ies) receive the assets as though the primary beneficiary did not exist.)

When you first got married, for example, you might have named a sibling as a contingent beneficiary after your spouse. If you now have children, however, it may be more appropriate to name them as contingent beneficiaries.

Spending the time now – and at regular intervals throughout your life – to keep your beneficiaries up to date can prevent confusion and the potential loss of assets in the event of untimely death.

Regular review is essential

It is important to make sure you’ve named appropriate beneficiaries for all your accounts and policies. That way, the individuals, trusts, charities or institutions you’ve chosen are certain to receive the assets you intend for them. If you’ve never performed a thorough review of your account beneficiaries, now is the best time to start. In the future you can review your beneficiaries every few years and whenever you have a major life event.

You can start by listing all your accounts and policies with beneficiaries. Don’t forget to include:

- 401(k) plans, 403(b) plans or other employer-sponsored retirement plans
- IRAs, including Traditional, SEP, SIMPLE and Roth
- Life insurance (including employer-provided coverage)
- Annuities
- Coverdell Education Savings Accounts
- 529 College Savings Plans

Your Advisor may guide you through an easy-to-use worksheet that lists all your accounts and policies along with the beneficiaries currently assigned to them. If you find you want to change the people you’ve named, you will need to notify the appropriate account custodian, plan administrator or insurance company of any changes you intend to make, using the required forms and/or procedure for each.

Review account beneficiaries after major life events

It’s a good idea to review your beneficiaries regularly, but it’s especially important to do so after major life events, such as:

- Marriage
- Divorce
- New child in the family
- Death of a spouse, child or beneficiary
- Child/grandchild enrolling in college
- New job
- Retirement
- Sale of a business
Inform your beneficiaries ahead of time

When your documents are up to date, make sure that you have a copy. It’s also a good idea to tell someone you trust where they can find this information. And although some may choose not to advise a beneficiary of their selection, we believe it is a good idea to tell those you have named as beneficiaries so they will be prepared to receive your assets. Make sure they know that they will have to make decisions about the assets that they inherit, and that their choices, particularly in regard to retirement accounts, may have tax implications.

Distributions from a Roth IRA are generally tax-free, for example, but for a Traditional IRA or 401(k), cash distributions are usually taxable as ordinary income. If your beneficiary chooses to keep the assets in an IRA or other qualified retirement account, they can generally defer taxes, though they should be aware of required minimum distribution (RMD) rules. Because these decisions can be complicated, you should recommend that your beneficiaries speak to a tax advisor before taking any action.

Some accounts and policies require special treatment

Naming beneficiaries is a fairly simple process, but there are many cases in which professional advice and guidance can be helpful, including:

**When your beneficiary is a minor:** Young children cannot own financial assets, so if you have named a child as your beneficiary, you may also have to name a guardian in your will to oversee these accounts until the child reaches adulthood. State laws pertaining to guardians vary, so you may want to consult an estate planning attorney.

**529 College Savings Plans:** If you establish a 529 plan for one or more of your children, your death will not affect the beneficiary. The assets still go to the child named in your account documents. However, you may also want to choose someone to act as a successor account owner on behalf of your children. A successor account owner can name a new beneficiary to your account, if necessary. This can be important if, for instance, one child gets a full scholarship and it makes sense to shift the money to another child.

**Stretch IRA:** If you want to extend the benefits of tax-deferred growth across generations, you could name a young person such as a grandchild or even a great-grandchild as your beneficiary. After your death, RMDs are recalculated to reflect the beneficiary’s life expectancy. The beneficiary can take much smaller RMDs out of the account, allowing the assets to continue to grow tax-deferred for many additional years. The young person can benefit from tax deferral for many years and significantly enhance the value of your gift over time.

Avoid the potential delays and expense of probate

Assets in accounts with beneficiaries avoid the potential expense and delays of probate (the review and administration of a will).

Probate can be a lengthy process during which an estate’s assets are tallied, its debts are paid and then finally the remainder is distributed according to the will. Assets in accounts with beneficiaries pass directly to the people or organizations you’ve chosen.
Your estate as beneficiary: If you don’t name a beneficiary, or if your beneficiary has died and there is no contingent beneficiary, your accounts may become part of your estate. This is usually less than ideal, since it means that assets will have to pass through an often lengthy and potentially costly probate process before being distributed. In addition, individuals who are unhappy with the terms of the will may contest it, further delaying distribution of the assets.

Peace of mind for you and your family

A beneficiary review is a simple step that can give you peace of mind. You’ll know that the right people or organizations will benefit from your assets, and that they will have access to these resources without expensive or lengthy delays. Your family will know exactly how your assets should be distributed, sparing them anxiety at a stressful time. Meet with your Advisor today and ask for a copy of the “Naming Account Beneficiaries — Review Worksheet” so you can conduct your beneficiary review now.