NAVIGATE HOME

Time for a Beneficiary Review

Presented by: Rochester Wealth Strategies

It is important to review your beneficiary designations each year. This is one of the simplest and most efficient ways to transfer assets upon your passing. Please note that the beneficiary designations you create on your accounts will supersede any other estate planning measures you have taken. While several considerations, you should always consult with your trusted advisor for personalized guidance.

Primary beneficiaries are first in line to receive assets upon your passing. Contingent beneficiaries are listed to inherit the assets if there are no primary beneficiaries remaining. The selection of “per capita” or “per stirpes” can be made to further clarify your wishes as to the distribution of your assets. For example, perhaps you would like the children of one beneficiary to inherit the assets if that beneficiary predeceases you, as opposed to that individual’s share going to the other living beneficiaries. Additionally, in the event of marriage, divorce, death, etc., always make sure to update your designations. In 2009, the Supreme Court ruled that a deceased man’s ex-wife was entitled to his retirement assets, not his daughter. Even though the ex-wife waived her rights to the account, the court unanimously ruled that, because she was listed as the beneficiary of the account, the assets must go to her and not his daughter. If you have a trust or will, you may want it to specify “my current spouse.”

We are often asked: “Should I name my trust as beneficiary?” A trust is designed to ensure that your wishes are followed, often with stipulations regarding how and when beneficiaries will receive your assets. This is sometimes useful when you have children who are minors, individuals who have special needs, or when you are trying to shelter money from estate taxes. In many cases, a trust can be an appropriate beneficiary for your taxable accounts. Regarding retirement accounts, such as IRAs and 401(k)s, specifically naming an individual may be a better option to allow beneficiaries to stretch distributions over a longer period of time, potentially reducing his or her tax liability.

One common misconception that we often hear is: “I don’t need a trust; I have a will.” While a Will does specify your wishes as to the disposition of your assets, it does not avoid probate. A probate estate would need to be created and your personal representative, after paying fees and valid creditor claims, would then distribute your assets according to the terms of your will. It’s important to note that assets in a probate estate become public knowledge and are exposed to possible creditor claims. The process is often lengthy, and depending on the size of the estate, can become very costly.

Regardless of your situation, there are important designations that should be checked at least annually. These may include employer plans (401(k), 403(b), 457, SEP IRA, Cash Balance Plan, etc.), bank accounts (personal and joint checking, savings, CDs, etc.), investments (IRA, Roth IRA, Trust, brokerage, 529 Plans, HSA, etc.), insurance (life and long-term care policies, annuities, etc.) and housing (residential, commercial, vacation properties, etc.)

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