Are your beneficiary designations in your retirement plan up-to-date?

When you signed up to participate in your retirement plan, did you name a beneficiary in the event of your death? How long has it been since you reviewed your beneficiary designations? Have you had a significant change in your life — such as marriage, divorce, death of a spouse or birth of a child — that could change your original decision on who you want to inherit the money in your retirement plan?

The importance of beneficiary designations

Not having a beneficiary designation on file, or not keeping it updated, may result in the money in your retirement plan(s) not being distributed according to your wishes. Any major life event may impact who you want to leave your assets to when you die. If you do not have a beneficiary designation on file, the terms of your retirement plan will determine who will get your money.

Many retirement plans indicate that if no beneficiary designation is chosen, your money will go to your estate. In this case, your assets may end up going through the probate process and the rules vary by state. Depending on your situation, if you are married, your spouse may receive your assets, or the court could split the money among children, siblings — or others.

The bottom line is that someone other than you will make the decision for you. Having beneficiaries on file lets you decide who will get your money after your death. As long as you have named beneficiaries, your assets in your retirement plan will pass directly to whomever you have selected and will bypass the probate process.

> Did you know that beneficiary designations in your retirement plan take precedence over the terms of your will?

Key considerations in selecting a beneficiary

There are several decisions you need to make when selecting your beneficiaries:

- Who do you want to receive your money after you die? Is it a person or persons or an entity such as a trust or charity? Your beneficiary designation can be singular or you can split your money among multiple beneficiaries. You can also specify what percentages you want each to receive. They do not have to be equal.

- If you are married, your retirement plan may require you to name your spouse as your primary beneficiary, and you may be required to obtain written spousal consent to name someone other than your spouse as your beneficiary.

- If you want to name a minor child as your beneficiary, keep in mind that minor children generally cannot inherit property directly, so you may want to consider setting up a trust to hold the assets until your child becomes of legal age. Trusts provide flexibility not only on timing of the distribution of your assets, but allow you to select a trustee to manage the account until the assets are distributed to the beneficiary. You should discuss this with your estate planner or legal counsel before naming a minor child as a beneficiary.

> If you have minor children, have you named a guardian to make decisions on their behalf until they become legal adults?

- If you want to leave your money to your favorite charity, you should do some research regarding what they will do with any money they receive as a result of your donation. Some charities operate with much higher expenses than others, and you'll want to ensure that your money goes primarily to meeting the purpose of the charity and not mostly to pay their operating expenses. This is another area where you may want to consider a trust, as you can designate exactly how the money is to be used when distributed to a charity. The trustee will be able to oversee the distribution to ensure your wishes are carried out.

- Don't forget to name a contingent beneficiary. A contingent beneficiary is the person or entity that will get your money in the event that all your primary beneficiaries die before you. By designating a contingent beneficiary, you know that if your first choice is not living at the time of your death, you have a second choice in place to receive the money in your retirement plan. Remember, beneficiary designations, including contingent beneficiary designations, pass directly to the recipient and avoid the probate process when your estate is settled.

- The Federal tax code has specific rules regarding taxation of retirement assets when distributed to beneficiaries depending upon who is receiving the money, the timing of the distributions, and the form of distribution.

What do you need to do?

1. Decide who you want to be your beneficiaries and contingent beneficiaries.
2. Review your beneficiary designations on an annual basis or whenever you have a major change in your life.
3. As with all matters related to your estate planning, you should review your beneficiary choices with your legal or tax advisor to ensure you have made the best decision regarding how your money is paid out from your retirement plan after your death.

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