

Beneficiary Review

Beneficiary designations will override bequests made in your will. For non-probate assets, such as life insurance policies, annuities, qualified retirement accounts and IRAs, the beneficiary designation form you complete for each asset determines who will inherit it.

Be sure you have named your beneficiaries. Review all beneficiary-designated assets to be sure your beneficiaries are properly named, the forms are signed and that the asset custodian has the current version of your beneficiary designation form.

Spouses often name each other as their primary beneficiary. However, if your estate is large enough to face estate taxes at your death, then you may want to designate your children or other heirs to receive some assets directly or through trusts in order to take full advantage of your estate tax exemption. If all your assets pass to your spouse, you "waste" your exemption.

Don't name your "estate" as beneficiary. In doing so, your assets will probably end up going through probate -- a time-consuming and sometimes costly process. Second, some assets could go to heirs in a way that would accelerate their distribution and increase the tax bite. Failing to name a beneficiary or having a deceased primary beneficiary with no contingent beneficiary will also result in the state naming your estate as the beneficiary, with the same consequences.

Name contingent beneficiaries. If your primary beneficiary is no longer living and if you haven't named a contingent beneficiary, the asset will ultimately go to your estate.

Don't name minor children as beneficiaries or contingent beneficiaries. Minor children can't legally control the assets. If you don't take care of this issue with advance planning, a court will need to name a guardian for the assets. Second, minor children can take control of the assets when they reach the age of majority -- possibly as early as age 18 -- which you may not want. Naming a qualifying trust as primary beneficiary or contingent beneficiary for certain assets might be a good choice in the case of minor children or a spendthrift heir. The trustee can then manage and disburse the assets according to your wishes. Naming trusts as IRA beneficiaries, however, involves special income and estate tax considerations -- be sure to review this strategy with your estate attorney and tax planner.

Be careful naming a charity. Naming a charity as a beneficiary is usually fine when you want the entire asset to go to the charity. But don't mix a charity with other named beneficiaries because it could have negative tax consequences for your living heir(s). For an IRA, you can avoid this problem by splitting it into two IRAs and naming the charity as the sole beneficiary of one IRA and your living heir(s) as beneficiary(ies) of the other IRA.

Review and update your beneficiaries. Major life events, such as a marriage, a divorce, the birth of a child or the death of a loved one may trigger the need for you to update your beneficiary designation forms.

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