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# 10 Reasons Why Beneficiary Designations Are Important

Beneficiary designations can provide a relatively easy way to transfer an account or insurance policy upon your death. However, if you're not careful, missing or outdated beneficiary designations can easily cause your estate plan to go awry.

We often complete these designations without giving it much thought, but they're actually important and deserve careful attention. Here's why: Beneficiary designations take priority over what's in other estate planning documents, such as a will or trust.

For example, you may indicate in your will you want everything to go to your spouse after your death. However, if the beneficiary designation on your life insurance policy still names your ex-spouse, he or she may end up getting the proceeds.

## Where you can find them

Here's a sampling of where you'll find beneficiary designations:

- Employer-sponsored retirement plans [401(k), 403(b), etc.]
- IRAs
- Life insurance policies
- Annuities
- Transfer-on-death (TOD) investment accounts
- Pay-on-death (POD) bank accounts
- Stock options and restricted stock
- Executive deferred compensation plans

Because you're asked to designate beneficiaries on so many different accounts and insurance products, it can be difficult to keep up. However, it's worth the effort; failing to maintain the beneficiary designation on that 401(k) from three employers ago could mean money will go to the wrong place.

When you first set up your estate plan, go over all the designations you previously made and align them with your plan. After that, you should review and update them regularly – a least once a year.

## 10 tips about beneficiary designations

Because beneficiary designations are so important, keep these things in mind in your estate planning:

1. **Remember to name beneficiaries.** If you don't name a beneficiary, one of the following could occur:
    - The account or policy may have to go through probate court. This process often results in unnecessary delays, additional costs, and unfavorable income tax treatment.
    - The agreement that controls the account or policy may provide for "default" beneficiaries. This could be helpful, but it's possible the default beneficiaries may not be whom you intended.

2. **Name both primary and contingent beneficiaries.** It's a good practice to name a "back up" or contingent beneficiary in case the primary beneficiary dies before you. Depending on your situation, you may have only a primary beneficiary. In that case, consider whether a charity (or charities) may make sense to name as the contingent beneficiary.

3. **Update for life events.** Review your beneficiary designations regularly and update them as needed based on major life events, such as births, deaths, marriages, and divorces.

4. **Read the instructions.** Beneficiary designation forms are not all alike. Don't just fill in names - be sure to read the form carefully.

5. **Coordinate with your will and trust.** Whenever you change your will or trust, be sure to talk with your attorney about your beneficiary designations. Because these designations operate independently of your other estate planning documents, it's important to understand how the different parts of your plan work as a whole.

6. **Think twice before naming individual beneficiaries for particular assets.** For example, you establish three accounts of equal value and name a different child as beneficiary of each. Over the years, the accounts may grow unevenly, so the children end up getting different amounts - which is not what you originally intended.

7. **Avoid naming your estate as beneficiary**. If you designate a beneficiary on your 401(k), for example, it won't have to go through probate court to be distributed to the beneficiary. If you name your estate as beneficiary, the account will have to go through probate. For IRAs and qualified retirement plans, there may also be unfavorable income tax consequences.

8. **Use caution when naming a trust as beneficiary.** Consult your attorney or CPA before naming a trust as beneficiary for IRAs, qualified retirement plans, or annuities. There are situations where it makes sense to name a trust – for example if:
   - Your beneficiaries are minor children
   - You're in a second marriage
   - You want to control access to funds

   Even in cases like these, understand the tax consequences before you name a trust as beneficiary.

9. **Be aware of tax consequences.** Many assets that transfer by beneficiary designation come with special tax consequences. It's helpful to work with an experienced tax advisor, who can help provide planning ideas for your particular situation.

10. **Use disclaimers when necessary - but be careful.** Sometimes a beneficiary may actually want to decline (disclaim) assets on which they're designated as beneficiary. Keep in mind disclaimers involve complex legal and tax issues and require careful consultation with your attorney and CPA.

**Next steps**

- When creating, updating, or simply reviewing your estate plan, pay attention to your beneficiary designations.
- Remember, beneficiary designations take precedence over what you may have specified in a will or trust.
- Put a reminder on your calendar to check your beneficiary designations annually so you can keep them up-to-date.


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