BENEFICIARY DESIGNATION BEST PRACTICES

Beneficiary designations often seem simple, but they create some of the most significant client-service and estate-planning issues when left unreviewed. These talking points can help you guide clients through proper designation practices and ensure their financial plans remain aligned with their long-term goals.

1. Don’t assume all beneficiary forms are the same
Each carrier and financial institution uses different beneficiary language and requirements. Encourage clients to review forms carefully and provide complete, accurate information. Clear designations can prevent delays, disputes, and unintended outcomes during an already difficult time.
2. Remember that beneficiary designations supersede the provisions of a will or trust.
Clients often misunderstand this. Life insurance, annuities, IRAs, and qualified plans transfer by *contract*, not by will. If designations haven’t kept pace with their current estate plan, their assets may pass in ways they never intended.
3. Update designations when a beneficiary passes away.
Things can get complicated when a beneficiary dies before the account owner does. Many accounts will pass to any surviving primary beneficiary, but you also have the option to designate that a deceased beneficiary’s share of the account passes to their heirs. Updating your beneficiary designations after a beneficiary dies is the best way to ensure your wishes are carried out.
4. Revisit designation after any major life event.
It’s important to review your beneficiary designations annually, but especially after life changing events such as a marriage, a divorce, or the birth of a child. When an old beneficiary designation remains on file but the account owner’s life has changed, it can lead to a difficult situation.
5. Avoid naming the estate as beneficiary.
Your client’s estate is subject to the probate process. Probate is a public proceeding. It can also be expensive and tie up assets for months. When you leave retirement accounts to your estate, it can also result in accelerated income taxation of those assets. An estate will generally have to distribute retirement assets within 5 years of the account owner’s death. Clear and accurate beneficiary designations are a much more efficient way to pass along your retirement accounts
6. Always name at least one contingent beneficiary.
A contingent beneficiary will inherit the account if all the primary beneficiaries have died before the account owner. If the primary beneficiaries are deceased and no contingent beneficiaries are named, the account typically passes to the owner’s estate.
7. Carefully evaluate spousal beneficiaries.
Spouses have a lot of flexibility when they inherit an account. They can put the account in their own name and treat it as their own, which may allow them to delay distributions until age 72. If the spouse isn’t 591/2, they have an option to leave it as an inherited account and access the proceeds without the 10% premature distribution penalty. No matter the situation, it’s important for the spouse to immediately update the beneficiary designations on the account; otherwise, it can lead to the account being payable to their estate

8. Be careful when leaving retirement accounts to minors.
A minor doesn't have the legal capacity to claim retirement assets; an adult would need to claim the assets on their behalf. You can identify an adult to act as a custodian by using a Uniform Transfers to Minors Act (UTMA) designation. This allows a designated adult to manage the assets on behalf of the child until that child reaches the age of majority and they gain full control of the assets. Without an UTMA, an adult — even a parent — may have to go to court and be appointed as a guardian. If your goal is to have someone manage assets for a minor beyond the age of majority, you may want to consider a trust instead
9. Exercise caution when leaving retirement assets to a trust.
The rules on leaving retirement assets to a qualifying trust have changed dramatically under the Secure Act. Under old rules, a trust beneficiary could spread distributions from a retirement account to a trust over a long period (typically based on the trust beneficiary's life expectancy). Under the Secure Act, a trust will usually have to fully distribute an inherited IRA within 10 years of the account owner's death. If the trust is not allowed to pass distributions to beneficiaries in full, they will be subject to very high trust tax rates. If you need to fund a trust at your death, consider life insurance, which pays a tax-free death benefit, or Roth accounts, which pass to beneficiaries tax-free.

Consider this….

Unintentional mistakes can be made in beneficiary arrangements.

Many of those issues can be avoided by simply completing beneficiary designation forms properly and understanding the current contract (or, if replacing, the contract being replaced). With that knowledge, you can:

- Determine what happens at death
- Determine what is appropriate for you and your circumstances
- Properly structure beneficiary designations