

Benchmark

Financial Group, LLC

How to Handle Beneficiary Designations

By [Christine Benz](#)

The decision about how to designate beneficiaries for your company retirement plan, life insurance policies, and other assets might seem like a no-brainer. Chances are you would like those near and dear to you to inherit any money you've accumulated during your lifetime, so making sure that happens should be as simple as writing their names on the appropriate forms, right?

Not so fast. Naming beneficiaries is a more nuanced decision-making process than you might think, and it's one that may have significant repercussions for your loved ones.

This article will provide some pointers to bear in mind as you review your beneficiary designations.

1. Know the basics.

You can typically name beneficiaries for a broad range of assets, including retirement plans, annuities, and life insurance policies. And you can name almost anyone--or anything--as your beneficiary, including individuals, charities, and trusts. (Children under the age of majority--age 18 or 21, depending on the state in which you live--cannot be named as beneficiaries of life insurance policies, retirement plans, or annuities, however.)

When you name a beneficiary, those assets can pass directly to whomever you designate; they won't have to go through probate, which can be a lengthy and costly process. In addition, ***bear in mind that your beneficiary designations will override bequests you've made in your will.*** For example, even though your will might state that you want your spouse to inherit all of your assets, your brother will get a piece of the pie if you named him as the beneficiary of your company retirement plan and didn't bother to change it after you got married.

2. Keep your designations up to date.

That brings me to my next point: Plan to review your beneficiary designations on a regular schedule, ideally as part of an annual review of your finances. Major life events, such as a marriage, a divorce, the birth of a child, or the death of a loved one may require that you make changes to your designations. By the same token, you'll also want to review your beneficiary designations if you or your employer has recently switched retirement-plan or insurance providers, as the beneficiaries you specified with your previous provider may not automatically carry over to the new one.

3. Bear in mind the tax consequences.

Before you make your beneficiary designations, be aware that inheriting assets is apt to have tax ramifications for your loved ones. (That's not the case if you name a charity as your beneficiary, however. Not only will the charity receive the assets tax-free, but your estate will also be eligible for a charitable deduction.) If you're making someone other than your spouse the beneficiary of your company retirement-plan assets, he or she may have to take mandatory distributions from that plan and, in turn, pay taxes on the money. Your spouse, on the other hand, will be able to roll over your retirement-plan assets into his or her own IRA and won't have to pay taxes until distributions begin.

Also keep estate taxes in mind: If you designate someone other than your spouse as your beneficiary, that amount will be included in the value of your estate, and, in turn, could increase your estate-tax liability. And if your beneficiary already has a large amount of assets, you could end up creating an estate-planning headache for him or her, or compounding an existing one. That's because any inherited assets will be included in that person's estate, and if the taxable estate is above a certain threshold at the time of his or her death, his or her heirs will owe estate tax. Again, these issues don't pertain to husbands and wives, as a spouse won't owe estate tax on assets inherited from another spouse. The surviving spouse's heirs may well owe estate tax at the time of his or her death, however.

For all of these reasons, it pays to discuss these considerations with your loved ones before you name them as your beneficiaries.

4. Be specific.

If you have a particularly trusted friend or relative, it may be tempting to name him or her as your beneficiary with the assumption that that person would "know" how to distribute your assets in accordance with your wishes. For example, you might want to name your financially savvy brother as your beneficiary of your retirement plan; he, in turn, could distribute your assets to each of your siblings.

I'd advise against this tack, however. For one thing, there's the possibility that that person won't know precisely how you'd want those assets distributed or could decide to keep it all for himself. Perhaps more importantly, you could create or compound estate-planning issues for that person. Even if that individual ends up distributing the inherited assets to others, those assets will still be considered part of that person's estate when he or she passes away.

For all of these reasons, it pays to be as specific as possible when designating beneficiaries. Most beneficiary designation forms allow you to name multiple primary and contingent beneficiaries and to specify what percentage of assets you'd like distributed to each person upon your death.

5. Give special consideration to special-needs loved ones.

Remember, that you could affect the disabled individual's eligibility for government-provided benefits by transferring assets directly to him or her. In addition, if the person is mentally disabled, he or she may not be able to manage the assets.

If you're in a position to transfer a large amount of assets to a loved one with special needs, consult with an attorney who specializes in estate planning first. He or she may recommend that you set up a Special Needs Trust.

6. Familiarize yourself with other aspects of estate planning.

Although you might associate the need for "estate planning" with the mega-rich, designating beneficiaries is actually one of the first steps in creating an estate plan; creating a will is another. You don't have to consider yourself extremely wealthy to contemplate setting up a trust.

7. Call Benchmark Financial Group for answers to any and all questions.