KING
FINANCIAL GROUP LLC

Understanding beneficiary designations

Ten things everyone should know

Most of us think of our estate plan as our will or living trust. However, in many cases, those documents have no effect on some of your most important assets. Instead, your beneficiary designations control who will receive those assets. Always keep these important considerations in mind regarding your beneficary designations.

1. **Don't forget to name beneficiaries.** Assets that pass by beneficiary designation are not subject to probate. But if you fail to name a beneficiary, the asset(s) becomes part of your probate estate. This could delay distribution or lead to additional administrative costs.
2. **Name both primary and contingent beneficiaries.** It's important to name a "back up" beneficiary in case the primary beneficiary predeceases you. Again, this is important to avoid having a nonprobate asset ending up in probate.
3. **Update for life events.** Review your beneficiary designations regularly and update them as needed, based on a birth, death, marriage or divorce. Failure to update designations can result in a transfer of assets to unintended beneficiaries – for example, an ex-spouse or heirs of a deceased beneficiary.
4. **Coordinate with your will and trust.** Whenever you change your will or trust, be sure to talk with your attorney about your beneficiary designations. Be certain that you understand how all the different parts of your estate plan work as a whole.
5. **Understand potential consequences of naming individual beneficiaries for particular assets.** Consider the example of someone who established three equal accounts and named a different child as beneficiary of each. Over the years, some accounts grew more than others, so some beneficiaries got more and others less – which may not be what was originally intended.
6. **Avoid naming your estate as beneficiary.** This causes nonprobate assets to become subject to probate. And for IRAs and qualified retirement plans, there may be unfavorable income-tax consequences. The required minimum distribution (RMD) rules generally let an individual beneficiary "stretch" distributions over his or her life expectancy. An estate, however, has no life expectancy. And so, in most cases, taxable distributions must be made over a shorter timeframe than would apply if an individual had been named as beneficiary.
7. **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. In many cases, the governing document (the plan document or annuity contract) or tax law (the RMD rules) may require accelerated taxable distributions when a trust is beneficiary. There are situations where it makes sense to name a trust – for example, if your beneficiaries are minor children or if you want to control access to funds – but be sure you understand the tax consequences in advance.
8. **Explore rollover alternatives when changing jobs.** Beginning in 2010, nonspousal beneficiaries of qualified retirement plans, such as a 401(k) or profit-sharing plan, must be allowed to make a direct rollover into an inherited IRA for any amounts eligible to roll over. However, if he or she doesn't transfer the assets in a timely manner (by the end of the year following the year of death), his or her distribution options will be limited to those allowed in the qualified plan. As a result, the beneficiary may not be permitted to "stretch out" distributions over his or her life expectancy, which he or she may be able to do with an inherited IRA.

Beneficiary designation accounts

Individual Retirement Accounts (IRAs)

Retirement plans

- 401(k), 403(b) and 457 plans
- SEP and SIMPLE IRAs
- Pension plans
- Employee stock ownership plans (ESOPs)

Life insurance

Annuities

Other employee benefi plans

- Group term life insurance
- Stock options
- Restricted stock
- Phantom stock or stock appreciation rights (SARs)
- Employee stock purchase plans (ESPPs)
- Nonqualified deferred compensation (NQDC) plans

Transfer-on-death (TOD) accounts

You can count on us

Beneficiary designations can have a big effect on whether your estate plan works as intended. Your financial professional can help you gather information about all of your beneficiary designations so you will be better prepared when you meet with your attorney and CPA to review your estate plan.

If a beneficiary doesn't transfer the assets to an inherited IRA, he or she will need to keep in contact with your former employer and deal with the company's human resources department to manage the assets and arrange withdrawals. In many cases, rolling the assets into an IRA will simplify this process, broaden the range of potential investment choices and provide greater control than dealing with a former employer with whom the beneficiary is probably unfamiliar.

These are factors to consider when deciding whether to leave retirement funds with a former employer or roll them over into your IRA.

9. **Consider naming a charitable organization as bene ciary.** The benefi ciary of an IRA, qualified retirement plan or deferred annuity will need to pay income taxes on all or part of the distributions from these accounts. But, if a qualified charity is named as beneficiary, it can take distributions without any income tax. If your estate plan includes a bequest to charity, talk to your tax advisor about naming a charity as beneficiary of income-taxable assets.

10. **Use disclaimers when necessary – but be careful.** Mistakes involving beneficiary designations are often not discovered until after an account owner's death. In some cases, it is possible to "fix" mistakes by using a disclaimer – a legal document that lets the named beneficiary refuse the asset. When a beneficiary disclaims, the asset passes to whomever is next in line. Disclaimers involve complex legal and tax issues and require careful consultation with your attorney and CPA.

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