Tell Your Beneficiaries About Your Accounts and Policies

Let them know how they will receive retirement assets and insurance benefits.

Will your heirs receive a fair share of your wealth?
Will your invested assets go where you want them to when you die?

If you have a proper will or estate plan in place, you will likely answer **yes** to both of those questions. The beneficiary forms you filled out years ago for your IRA, your workplace retirement plan, and your life insurance policy may give you even more confidence about the eventual transfer of your wealth.

One concern still remains, though. You have to tell your heirs that these documents exist.

That does not mean sharing all the details. If you have decided that some of your heirs will one day get more of your wealth than others, you can keep quiet about that decision as long as you live. You *do* want to tell your heirs the essential details; they should know that you have a will and/or an estate plan, and they should understand that you have named beneficiaries for your retirement accounts, your investment accounts, and your insurance policies.

Over time, you must review your beneficiary decisions.
In fact, you may want to revisit them. As an example, say you opened an IRA in 1997. Your life has probably changed quite a bit since 1997. Were you single then, and are you married now? Were you married then, and are you single now? Have you become a parent since then? If you can answer **yes** to any of those three questions, then you need to look at that IRA beneficiary form now. Your choices may need to change.

Here is a quick look at how beneficiary decisions play out for a few of the most popular retirement accounts.

Employer-sponsored retirement plans.
These are governed by the Employee Retirement Income Security Act (ERISA), which rules that if the late accountholder was married, the surviving spouse is entitled to at least 50 percent of the account assets. That applies even if another person has been designated as the primary beneficiary. In such a case, the spouse and the primary beneficiary may split the assets 50/50. (The spouse can actually waive his or her right to that 50 percent of the invested assets through a Spousal Waiver form. A spouse usually has to be older than 35 for this to be allowed.) These rules also apply for other types of ERISA-governed retirement assets, such as pension plan accounts and corporate-owned life insurance.[1,2]

The Supreme Court has decided that these rules take priority over state laws *(Egelhoff v. Egelhoff, 2001; Hillman v. Maretta, 2013)* and divorce agreements *(Kennedy Estate v. Plan Administrator for the DuPont Saving and Investment Plan, 2008).*[3,4]

If a participant in one of these retirement accounts remarries, the new husband or wife is entitled to 50 percent of those assets at death. While a plan participant may name a child as the beneficiary of a retirement account after a divorce, remarriage will leave only 50 percent of those assets with that child when the accountholder dies, rather than 100 percent, unless the new spouse waives his or her right to receiving 50 percent of the assets. The new spouse will be in line to receive that 50 percent of the account even if unnamed on the beneficiary form.[1]

IRAs.
Unlike an employer-sponsored retirement plan, a spouse does not have automatic beneficiary rights with an IRA. That is because IRAs are governed under state laws rather than ERISA. One interesting estate planning aspect of an IRA rollover is that the owner of the new IRA has the freedom to name anyone as the primary beneficiary.[1]

Life insurance policies.
The death proceeds go to the named beneficiary; occasionally, a beneficiary may not know a policy exists.

Recently, *60 Minutes* did an expose on the insurance industry. Major insurers had withheld more than $7.5 billion in life insurance death proceeds from beneficiaries. They had a contractual reason for doing so: the beneficiaries had never stepped forward to file claims.[5]

While many of the policies involved were valued at $10,000 or less, others were worth more than $1 million. The deceased policyholders had either failed to tell their heirs about the policies or misplaced the copies and the paperwork. Their heirs did not know (or know how) to claim the money. As a result, the insurance proceeds lay unclaimed for years, and the insurers only now feel pressure to pay out the benefits.[5]

Update your beneficiaries; let your heirs know how vital these forms are.
Make sure that your beneficiary decisions on retirement, brokerage and bank accounts, college savings plans, and life insurance policies suit your wealth transfer objectives.

Contact us for help in financial planning.

Citations.
1 - 401khelpcenter.com/401k_education/connor_beneficiary_designations.html [4/21/16]
2 - nolo.com/legal-encyclopedia/claim-payable-on-death-assets-32436.html [4/21/16]
3 - marketwatch.com/story/check-your-beneficiary-designations-now-2013-09-17/ [9/17/13]
4 - forbes.com/sites/deborahljacobs/2013/06/03/supreme-court-favors-ex-wife-over-widow-in-battle-for-life-insurance-proceeds/ [6/3/13]
5 - cbsnews.com/news/60-minutes-life-insurance-investigation-lesley-stahl/ [4/17/16]