



# 4

## Big Mistakes Made with Beneficiaries

When we think of an estate plan, we often consider the documents created by an attorney that will determine the distribution of our wealth after our passing. **However, many people don't realize that certain types of assets don't follow what has been outlined in a trust or will.** Many accounts require the account holder to designate a beneficiary when they open the account. This includes retirement accounts, such as IRAs and 401(k)s, along with other financial products like life insurance and annuities. This up-front designation enables a smooth transfer of ownership, but it also leaves an opportunity for inconsistencies and missteps if beneficiaries aren't reviewed periodically.

There are many valuable practices that can help avoid problems down the road such as including a contingent (or backup) beneficiary on an account or reviewing beneficiaries annually.

The following stories are real-life examples of common beneficiary pitfalls.







## Post-Divorce Blunder

During a routine review with his advisor, Frank brought in an old statement for a fixed index annuity he had purchased decades ago and had forgotten about. He asked his advisor for a second opinion. The advisor looked at the annuity and noticed a name he didn't recognize listed as a beneficiary. When the advisor mentioned the name to Frank, he was shocked and exclaimed, "that's my ex-wife!"

Oftentimes when people divorce and remarry, remembering to update beneficiaries can slip through the cracks. Ensure this doesn't happen by informing your advisor about major life changes such as marriage, divorce, welcoming a new child, or the passing of a family member. In some states, a divorce immediately removes the ex-spouse as a beneficiary of an account. In that case, failure to update and correct beneficiary designation on the account could lead to the account being tied up in probate, or payable to the account holder's estate when they die.

Probate is the process for settling a decedent's estate, paying their debts and expenses, and ultimately distributing the property to the decedent's heirs. Probate can often take a long time - 9 months to 2 years is common, depending on the state - and may also cause unintended tax consequences (such as if an IRA or 401(k) were payable to the estate.) As such, it can make life easier for those left behind if beneficiary designations are routinely updated to reflect the changes in your life.

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## Name Change Snafu



Lois opened her first 403(b) in 1976 when she became a teacher. The application was only one page and required minimal information. She listed the names of her husband and two children as her beneficiaries. After she retired, Lois and her husband lived off his pension, and her 403(b) was left untouched for decades. When Lois passed soon after her husband, her 403(b) funds were to be transferred to her two surviving children. Her daughter, Jane, was grown, married, and had changed her last name. Since Lois had only listed the names of her children without any birthdate or Social Security number, Jane had to jump through several hoops to prove her identity and receive her inheritance.

Grief is hard enough. Dealing with unnecessary paperwork and providing sufficient legal documentation makes it even harder. Oftentimes, older policies and accounts didn't require as much information as they do now. To facilitate a smooth transfer of wealth, review your older policies with an advisor and provide any missing information.

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# Election Procrastination

After being forced into early retirement, Steve rolled over some retirement assets into an annuity. He hurriedly completed and signed the paperwork, and set his wife as primary beneficiary to “get the ball rolling,” fully intending to add his four children when he had more time. Years passed and Steve and his wife died in a tragic accident. As his children attempted to put together the pieces of their parents’ estate, they realized there are no surviving beneficiaries listed and the annuity would have to go through probate court.

Probate can be costly and time-consuming. Luckily, it can be avoided by listing primary, secondary, and even tertiary beneficiaries.

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# State Law Faux Pas



After the death of her first spouse, Grace started her own business and accumulated enough wealth for her and her daughter, Lilly, to live comfortably. After Grace retired, she met another successful entrepreneur and they were married a few years later. After marriage, they agreed to keep their assets separate. Grace's wealth was intended to go to Lilly. Grace filled out forms to list Lilly as the primary beneficiary of all her retirement assets and her spouse as secondary. When Grace decided to change advisors, it was revealed that her beneficiary designations were rejected by the holding company. Since Grace lived in Arizona—a community property state\*—the law required Grace's spouse sign off on any assets distributed to someone other than him, making Grace's beneficiary choice of Lilly invalid.

There are nine states that utilize community property law and require sign-off when electing beneficiaries other than the spouse. Ask your advisors if community property law applies to you, and if so, determine how this may impact your estate planning decisions and beneficiaries.

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\*Community property information can be found at [IRS.gov](https://www.irs.gov)

*Please note that the comments herein do not constitute legal or tax advice or a legal or tax opinion. Any decision to implement the ideas or concepts discussed herein shall be made solely by the client on the advice of his or her legal and tax advisors.*

All these situations are real life examples of how small mistakes can upend your estate plan. Luckily, they can be easily avoided by starting a dialogue with your financial advisor. A quick review of your retirement accounts, annuities, and life policies now can save your family from unnecessary work, frustration, and even probate down the road.

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