

## **Your Will is Not Enough: The Importance of Beneficiary Selection**

Naming beneficiaries is not something people enjoy doing, but it is necessary to think about the future and your wishes. Some people think an updated will is all you need, but your will or trust will NOT overrule the beneficiary designation section of your life insurance policy, annuity, or retirement account. A beneficiary designation is a legally binding document that supersedes your will, so regardless of your current estate plan, or relationship status, the asset will go directly to the person you named in the beneficiary section . . . bypassing probate. People often forget to update their beneficiary when life changes and as a result a prior spouse or deceased friend is still named as a beneficiary on a retirement account at a former employer, or on a life insurance policy purchased long ago.

You have several choices when selecting a beneficiary. Your spouse, child or children, other individual(s), your trust, an organization or a charity can all be beneficiaries of your account. You can also choose multiple primary beneficiaries allocating their shares as you see fit. Determining which assets to leave to which beneficiary is a critical part of estate planning as different beneficiaries have different options regarding how they receive your assets. When selecting your current legal spouse as your beneficiary on a retirement account usually they can continue the account in their own name. Should you select a person who is not your spouse their options are different. Selecting a child, for example, will mean creating a beneficiary IRA and a need to take withdrawals based on life expectancy. The younger the recipient the longer their life expectancy the longer they have to withdraw funds. Keep in mind, when naming a minor that most companies will not pay benefits to someone under age 18 directly so you may want to create a trust for the minor and name a trustee to manage the account for them.

Some people choose to name an entity as their beneficiary. Your estate, Revocable Living Trust, or an organization/charity can be your beneficiary choice. Naming a charity can work well for individuals with a passion for a certain cause. Because an entity is not a living person, your account typically will be fully distributed and withdrawals over a period of time would not be an option. Establishing a trust as your beneficiary has disadvantages but can be useful if your preferred recipient is not able to manage money well. This allows you to provide for their future needs, without granting them with control of the account. You can work with your attorney to name a trustee who can control, invest and disburse the

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funds for your beneficiary. There are also professional fiduciaries available who can take that burden off a friend or family member.

In addition to naming a valid primary beneficiary, you should also name a contingent or secondary beneficiary. If your first beneficiary is deceased the account goes to your contingent beneficiary still avoiding probate. One simple option for contingent beneficiaries, is to select “Per Stirpes” on your beneficiary forms.

Per Stirpes, Latin for “by branch”, means that each branch of the family is to receive an equal share. When the heir of the first generation predeceases the decedent that portion is distributed to their heirs. So as an example, should something happen to you and your spouse, your primary beneficiary, then the account would go to your joint child(ren).

With all of the considerations it may seem ideal to just name your estate as beneficiary or leave it blank. Most companies require you to enter something and not naming a beneficiary means your assets will go into your estate and be distributed according to your will or state law. Naming your estate means those assets will pass via probate. Probate is the legal process through which a deceased person's estate is properly distributed to their heirs and designated beneficiaries after any debt owed to creditors is paid off. In general, probate property is distributed according to the decedent’s last will and testament, if there is one, or according to state law if no will exists. When a valid beneficiary is named, your account will avoid probate, and the process is much faster and less costly for your beneficiary.

Regardless of the beneficiary designation you make originally when you set up an account remember that life is full of change and you should review your designations every few years and every time you have a life event (marriage, birth, divorce, death) to make sure your assets will go where you want them to go. We talk regularly with clients to make sure their designations are up- to-date and work with client attorneys to help ensure that designations match their overall estate plan. Working with a CERTIFIED FINANCIAL PLANNER™ professional that reviews your whole picture, including your estate plan, is invaluable to making your wishes for your family a reality.

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