Choosing A Beneficiary

Smart Money Magazine

Choosing a beneficiary is the cleanest and clearest way of leaving someone money after you're gone. But the process also requires consideration of both the amount of money at stake and the beneficiary's ability to handle a potential windfall.

Upon opening an investment account or life insurance policy, you will be asked to designate a beneficiary. This decision should be carefully considered, most likely well in advance of opening the account. Naming a beneficiary for a life insurance policy or annuity means it will bypass probate, a lengthy and complicated legal process.

Here's one way to control what happens to your assets after your death.

Imagine the world after you're gone. When thinking about your beneficiaries, ask yourself the big questions about the future without you. For example, will your children need money to pay for college? Will your parents need help to pay medical bills? Did you consider children or grandchildren? Do you have a favorite charity?

- **A family affair.** A beneficiary is usually a spouse, child, relative or friend.
- **Spread it around.** You can also have more than one, depending on the amount of money and personal circumstances of those in your life. You can also name secondary and tertiary beneficiaries, reducing the chance that all your prospective beneficiaries pre-decease you.
- **No tax.** For a spousal beneficiary, most assets pass on tax-free. For example, a widow/widower can roll your IRA over to their own. But, because laws on spousal inheritance vary from state-to-state, be sure to check with your lawyer or tax adviser.

If there's a will.

- **Conflicting advice.** If you have a will, make sure that your will and your designated beneficiaries per account do not contradict each other.
- **Will comes up short.** Decisions you make regarding beneficiaries usually out-rank all stipulations in your will if they conflict. Spousal inheritance, however, may take first priority in some states
- **Ironclad.** Beneficiary Designation forms are more ironclad than a will and a legal dispute over a beneficiary conflict can be long and arduous.

Consider setting up a trust. Trusts remove some of the burden of disposing of your assets when you're gone, but moving them while you're alive. They also have their own costs and require another soul-searching mission: designating a trustee or custodian.

- **Kids these days.** For children under 18 or those used to a certain lifestyle. consider setting up a trust which allows you to stagger the flow of assets over time so the beneficiary can't spend it unwisely or all at once.
- **For their protection.** If your beneficiary has debts, a trust can help protect your assets from creditors.
- **Trusts can be tax-advantaged.** "Revocable trusts" can be altered during your lifetime and its assets are subject to the estate tax. "Irrevocable trusts," on the other hand, generally cannot be changed after they are created without the consent of the beneficiary, so you need to be sure you won't need these assets during your lifetime. The assets in irrevocable trusts are not subject to taxes if correctly drafted and the income remains in trust.

What not to do when choosing a beneficiary or trustee:

- **Don't choose the wrong trustee.** Don't fall down at the final hurdle. There's no point in putting all of your time into choosing your beneficiary if you name an irresponsible trustee. This person will be charged with administering the assets in the trust for your beneficiary and ensures your wishes are carried out.
- **Be mindful about playing favorites.** Leaving more money to one child could create discord among your children after you've gone. A final word of warning: if you name your favorite child as a sole beneficiary with the intention of distributing the money equally among your children, it's perfectly legal for that child to keep all the money for his or her self.