



Thinking Through the Importance of Beneficiary Designations

"It is not that I'm so smart. But I stay with the questions much longer"

- Albert Einstein

As we approach year end, it may be a good idea to review your beneficiary designations.

If you opened your retirement accounts (including IRAs and 401ks), life insurance policies, or annuities years ago, there's a good chance you don't remember who the designated beneficiaries of those accounts were. In fact, you may not be sure if some of your accounts and policies even have designated beneficiaries at all.

Failing to designate your beneficiaries correctly will almost certainly lead to a headache for your descendants, including the possibility of costly legal disputes. It may even lead to your assets being distributed to or withheld from certain people against your intentions.

Here are some things to keep in mind when creating or updating beneficiary designations:

Name a beneficiary on all your relevant investment accounts and insurance policies

You should designate a beneficiary on your annuities, retirement accounts, and life insurance policies. Otherwise, upon your death, that asset may go through probate, and the courts may be able to influence how your assets are distributed. This could delay when your heirs can receive the assets, and may even cause all or part of the assets to go to unintended recipients.

This occurs frequently with automatic enrollment plans, including many 401(k) plans. Frequently, such plans do not require you to designate beneficiaries, and many enrollees forget to do so. If you are a participant in an automatic enrollment plan, ensure that you have appropriately assigned primary and secondary (contingent) beneficiaries.

You may want to avoid designating minors as beneficiaries

No parent wants to think of the possibility of dying while their child is still young. But if you have young children, it is important to set up your designated beneficiaries in a way that protects them and the assets.

If your beneficiary is still a minor upon your death, the assets will be held by a legal guardian until that child turns 18 or 21, depending on the state in which you reside. If you have not appointed a legal guardian, the courts may choose one for you.

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Be specific on your beneficiary designations

When designating your beneficiaries, list the specific names of your children and/or other beneficiaries. Using vague terms like “my family” or “my children” could create time-consuming legal issues for your heirs.

Additionally, if you simply name your estate as your beneficiary, your assets may end up in probate and the courts could influence the distribution of the assets.

Update beneficiary designations after major changes

After a major change in your family, it is vital to review and consider updating your beneficiary designations. Beneficiary designations are not conditional on the person’s relationship to you. If you name a spouse as a beneficiary and you later get a divorce, they will remain the beneficiary until you remove them. Divorce decrees do NOT override beneficiary designations.

Failing to update your beneficiary designations after these events could result in unintended recipients of your assets!

Beneficiary designations trump your Will

Any beneficiary designation on retirement accounts, annuities, and life insurance policies will take priority over your Will. If you update your Will, make sure you take a look at your beneficiary designations as well.

Designate responsible beneficiaries

If you have financially irresponsible or spendthrift heirs that you want to protect, it may not be a good idea to name them as your designated beneficiaries. In such cases, it may be better to set up a revocable trust account as the beneficiary of your assets. This can be a legally complex process, so please consult with your legal and tax advisors if you believe this is a possible solution for you.

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Name contingent (successor) beneficiaries

If your primary beneficiary dies before you or if you die simultaneously*, it is vital to have a contingent beneficiary for your assets. Otherwise, the assets could pass to your estate, and may go through probate and the court system.

If it has been a while since you last reviewed the designated beneficiaries on your retirement accounts, life insurance policies, or annuities, now could be a good time to do so. Please contact me and your legal or tax advisors if you have any concerns regarding designated beneficiaries and estate planning.

My very best,

Derrick

**Applies in most states which have passed the Uniform Simultaneous Death Act and/or the Uniform Probate Code*

[1] Written by Chris Whatley with R.C. Whatley & Company

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