Don’t Forget to Name Your Beneficiaries

Failing to do so can create a lot of legal and financial headaches for your heirs.

A growing number of companies are nudging their employees to build nest eggs by participating in workplace-sponsored retirement plans. Auto enrollment, as it’s known, has become a common feature in U.S.-based 401(k) plans.[1]

The ease of such a service, which lets employers automatically contribute a specific percentage of a worker’s paycheck to his or her retirement plan, is reportedly causing some unintended consequences. Consumer advocates are expressing concern that too many plan participants are simply putting their savings efforts on autopilot.

The results, say several large 401(k) and 403(b) record-keepers, is that many plan participants are forgetting to take care of even the most basic of administrative tasks. One fundamental issue frequently raised by plan sponsors is a tendency to fail to designate a beneficiary.

“It is a specific step in the enrollment process when you’re joining your retirement plan to declare a beneficiary for the asset that you’ve saved should something happen to you or when you pass away,” a Fidelity manager explained to industry trade publication PlanSponsor.[2]

The same official estimated more than a third of retirement plan participants that Fidelity worked with as recently as 2019 hadn’t listed their beneficiaries. At the same time, she warned that the number of savers not doing so was going up — dovetailing a rise in those who are being auto enrolled.

As the article summarized: “Participants who were auto-enrolled into their company’s plan may miss declaring a beneficiary, as they fail to enroll themselves into the plan.” In particular, Generation X and Millennial workers are cited as most prone to skip over designating their beneficiaries.

Besides those who haven’t designated a beneficiary, government regulators warn that many participants simply forget to keep such information updated. That’s important since federal law dictates how plans are administered and savings are reported for tax

Footnotes:

1. CNBC, “More Employers Put 401(k) Savings on Autopilot,” Dec. 28, 2021.
2. PlanSponsor, “The Importance of Getting Beneficiary Designations,” July 31, 2019.

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purposes, points out Bryan Doane, an estate planning attorney at Doane & Doane in Palm Beach Gardens, Fla.

"A general rule of thumb is that information listed on a 401(k) plan's beneficiary designation form will supersede what is written in someone's will," he says.

Another point to keep in mind, Doane suggests, is "for the most part, the spouse is likely to be listed as the default option on a plan's beneficiary designation form." On the flip side, those who aren't married must "make sure to name other people — either family or friends — as their beneficiaries," he says.

Along those lines, leaving assets in a 401(k) plan to someone other than a spouse might require you to sign a separate spousal consent form.

In those cases, many retirement advisors recommend that plan participants take the time to list each beneficiary separately and the percentage of assets that will go to each person. "That level of detail is necessary to keep the process from getting messy after your death," says Shareen Balkey, director of retirement services at Index Fund Advisors.

In such cases, plan participants can choose to name several primary beneficiaries, then designate how much on a percentage basis each will receive. "By naming multiple beneficiaries," says Balkey, "if one dies before you, the assets will be split proportionally among the remaining primary beneficiaries."

Besides designating primary beneficiaries, you can also list so-called contingent beneficiaries. "This is a secondary list of beneficiaries that can add another level of protection in case all of the primary beneficiaries are no longer living at the time of your death," says Balkey.

Another factor to consider, she notes, is keeping designations updated and consistent with other personal financial information. Those include estate planning documents and individual retirement account data.

Estate lawyer Doane points out that a lack of proper beneficiary information could force banks, brokerages and other financially interested parties to require a closer look at your will and estate documents.

Simply put, naming a beneficiary on retirement plan accounts "is important in order to help ensure that your accumulated assets can be passed along to your heirs without putting them through a protracted and potentially costly legal review process," says Doane.