

The Importance of Beneficiary Designations

If you own an annuity or life insurance policy, you are probably familiar with the concept of a beneficiary designation. You should have made such a designation when you purchased the policy. Beneficiary designations allow assets to pass directly to whomever you designate thus by-passing the costs and time involved with the probate process.

In some cases, more value passes by beneficiary designations than under a will. Beneficiary designations are easy to make and relatively easy to change. And yet, once made they are often neglected. Human nature with its built in procrastination gene kicks in and we never get around to updating them after we get married, the second baby arrives or a parent passes away.

You can name almost anyone or anything as a beneficiary including individuals, charities and trusts. However, there are a few cautions. In most instances, you cannot name children under majority age (age 18 or 21 depending on your state of residency) as beneficiaries to life insurance policies, retirement plans or annuities. If you are thinking about making a person with special needs a beneficiary, you should consider the possible consequences. Would receiving the asset affect the disabled person's eligibility for government provided benefits? If the person is intellectually impaired, are they able to manage the assets? In such cases, consulting with an estate planning professional could be well worth doing.

KEEPING CURRENT

Beneficiary designations generally go into effect immediately following your death and they override your will. What does this mean? If you marry and divorce, then marry again and forget to change the beneficiary on your life insurance or annuity, your new spouse would not receive those assets despite the fact that your will states you want everything to go to him or her. Also, if your primary and contingent (secondary) beneficiaries predecease you and you haven't updated your beneficiary designations, the asset may pass to your estate where it will become subject to probate.

CONSEQUENCES OF NOT NAMING A BENEFICIARY

If you neglect to name a beneficiary on nonretirement assets, the asset will typically be added into your estate and distributed according to your will. Retirement assets, such as a 401(k), get a little more intricate. If you have not named a beneficiary, the assets will be distributed according to the administrator's plan document. If you are married, they may go to your spouse. If you are not married, they will go to your estate. Similar results may occur if your named beneficiaries (primary and contingent) predecease you and you haven't updated your designations.

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DO THE MAINTENANCE

It is obviously important to keep your beneficiary designations current. Refer back to this helpful check list:

- Review designations on an annual basis, perhaps around the time you do your taxes.
- Review designations after any major life event including marriage, divorce, birth or adoption of a child, death of a loved one (not just a spouse but a parent, sibling or cherished friend), or change in employment or financial status.
- If you or your employer have switched retirement plans or insurance providers, be sure to check with the new provider which beneficiary designation they have on file. What you had with the previous provider may not have automatically transferred over to the new provider.

Making and maintaining beneficiary designations is an essential part of everyone's financial plan. Neglecting your beneficiary designations might mean that assets that typically avoid probate may become part of your estate and be subject to the associated time and costs of that process. Making and maintaining your beneficiary designations allows you to show your love, appreciation, and support for those important to you.



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