

# How to Avoid Five of the Biggest Mistakes When Naming a Beneficiary

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**W**ill years of careful planning and saving quickly unravel upon your death? No one likes to think there will be a family feud over the assets in their retirement accounts, or that a special-needs child may be denied access to benefits because they were named as a beneficiary on a retirement account. Unfortunately, that is often what happens when beneficiaries are not properly designated.

You may be surprised to find out that your retirement account may not be set up to distribute your assets as you had planned. Rules for designating a beneficiary are not the same for all types of retirement accounts. Some beneficiary designation rules are very restrictive and require the retirement account owner to follow specific guidelines, including spousal consent, for any changes.

Avoid these five common pitfalls when naming a beneficiary for your retirement account:

## 1. Not naming a primary beneficiary.

Naming a beneficiary requires thought. After all, naming a beneficiary is like writing a will for your retirement account. Who do you want to receive your legacy? Using both primary and contingent beneficiaries helps assure that your assets go where you want, not where the probate judge determines.

A primary beneficiary is first in line to receive your assets. Often a spouse is named as primary beneficiary on a retirement account. The spouse has special privileges, such as making the account his/hers and delaying distributions until reaching age 70½, the age when minimum distributions are required. Naming someone other than a spouse as the beneficiary requires them to begin distributions immedi-



ately. The distributions can be taken all at once, in a lump sum, or over the beneficiary's life expectancy.

Those who are looking for more flexibility in naming a beneficiary often

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roll their 401(k) assets into an IRA when they retire or terminate service. This is because there is no spousal consent required for an IRA beneficiary. Regardless of what any estate plan-

ning document says, the individual(s) named as beneficiary(s) will inherit the assets.

## 2. Not naming a contingent beneficiary.

Naming a contingent beneficiary is not mandatory but is highly recommended. A contingent beneficiary will receive the retirement account assets if the primary beneficiary predeceases him. The contingent beneficiary has the same distribution options. He can elect to receive the money in one payment or in periodic payments over his life expectancy. Again, failure to name a contingent beneficiary means the probate judge makes the decision.

## 3. Not updating your beneficiaries after a divorce.

Divorce can make asset distributions very tricky. For instance, if you're divorced and remarried and do not update your beneficiary, your ex-spouse may still be named as the beneficiary and therefore entitled to the assets in your retirement account.

What if you remain single? Let's say

you divorce and never remarry. Consider this example: you have a meeting with your children to let them know you have updated your will and they will each inherit an equal portion of your assets upon your death. Unfortunately, your beneficiary form still lists your ex-spouse. The ex-spouse will receive the assets. The beneficiary form trumps a legal document.

#### 4. Naming a special-needs child.

Naming a special-needs child as a direct beneficiary can impact their ability to receive special-needs benefits such as Medicaid. An alternate way to transfer the assets to these children is by creating a third-party special-needs trust and naming that trust as a beneficiary for the portion your special-needs child would inherit. This requires up-front planning but will benefit your child in the long run. It will also ensure that upon the death of the special-needs child, assets remaining in the special-needs

trust will go to the remaining heirs. If not properly named, assets in the special-needs trust may go to the state to repay any benefits the special-needs child had received.

#### 5. Forgotten accounts.

Assets held with prior employers are often overlooked. These could include a 401(k), 403(b), or SEP IRA plan. As you move from one employer to the next through career changes, it's easy to forget about an account that was left behind. These assets should not be neglected. They can be combined into a current 401(k) or rolled over to an IRA where you can more easily manage the beneficiary designations.

Naming beneficiaries makes distributing the assets in your retirement accounts much easier for those who are left behind. It is unfortunate when a family is torn apart because they were told to expect a certain outcome but the beneficiary designation reflects a different intention.

Many types of accounts other than 401(k)s and IRAs are distributed by beneficiary designations. These include life insurance policies, annuity contracts, and bank and credit union IRA savings accounts, to name a few.

Regardless of the type of account, if you fail to name a beneficiary, the assets will be subject to probate and distributed based on a judge's decision.

Let us help you avoid the mistakes made by many when naming beneficiaries. Contact the wealth management consultants at Smedley Financial Services for a **free comprehensive beneficiary review**. Call us at 800-748-4788, visit our website at [Smedley-Financial.com](http://Smedley-Financial.com), or email us at [info@smedleyfinancial.com](mailto:info@smedleyfinancial.com).

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