

Review your Beneficiary Arrangements



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Most people are familiar with the terms “beneficiary arrangements” and “beneficiary designations”, but may not be fully aware of their importance and usefulness in planning for future financial situations.

What does “beneficiary” mean? It refers to the person/persons, and/or entity/ies entitled to receive specified benefits at the time of a designated future event. Generally we think of this in terms of benefits from life insurance policies, payable at the death of the insured. It can also include proceeds from annuity policies, deferred compensation plans, individual retirement accounts, employer-sponsored retirement accounts (such as 401(k), 403(b), etc.), trusts, “payable on death” accounts for bank accounts and certificates of deposit, “transfer on death” accounts for investment accounts, among other assets. Some municipalities also allow for titling real estate and vehicles with a contingent owner.

In most instances, the default beneficiary of any asset, if none is named, will be the estate of the owner. This should usually be avoided for several reasons. Estates of deceased persons might be subject to estate taxes, claims of creditors, and delays in disposition. Each state has its own laws that pertain to the parties that will have a valid claim on the estate, and these are not likely to be consistent with the wishes of the deceased property owner.

It is fairly common to name family members, such as spouses and children, as primary and contingent beneficiaries. This can work well, as long as the arrangement is kept up to date, and there are provisions in place for a guardian or trust to receive any assets that will go to minor children. Life insurance companies often provide “settlement options”, which can be used to detail amounts and frequencies for beneficiaries to receive funds, if this is a planning concern. Using “class” beneficiaries allows you to automatically include future children, and using “per stirpes” designation is a way to include future grandchildren, should one of your children predecease you.

The biggest problems we see in this area tend to arise due to the arrangements not being reviewed and updated, when a person’s life circumstances change. Often, a former spouse will be entitled to a certain benefit related to financial obligations for alimony or child support, outlined in a divorce property settlement agreement. Once the liability has been met over a period of years, the records need to be updated with the insurance company.

Another problem area seems to be when trusts are established to own or be named as beneficiaries for life insurance policies, and the trust provisions are not reviewed with the client’s attorney periodically. It is critical to be sure that the legal documents are still appropriate to meet the client’s ongoing needs and desires. Other considerations to be discussed with professional advisors would include any arrangements for “special needs” dependents, uses of financial assets as collateral for debts, business arrangements, and the impact of changing tax legislation on planning goals and strategies.

We highly recommend that you do a thorough review, at least annually, to itemize the various assets that will pass to someone at your death. Determine whether the legal arrangements are in place for these assets to be disposed of in the way you intend. If not, create an action plan and follow through to update them!

For more information, please contact your trusted advisor at Swartzbaugh-Farber – ‘Client Centered – Client Advocates™’.