



BENEFICIARY DESIGNATIONS: WHY THEY MATTER

Learn the importance of designating beneficiaries and how it provides financial security to your loved ones.

WHAT IS A BENEFICIARY?

In the context of a 401(k)-retirement savings plan, a beneficiary is an individual or entity designated to receive the assets or funds in the 401(k) account in the event of the account holder's death.

WHO CAN BE DESIGNATED A BENEFICIARY?

1. Individuals:

- **Spouse:** Spouses are often the primary beneficiaries for married individuals. They may have special rights under federal law, such as the right to inherit the entire 401(k) account, unless they waive that right.
- **Children:** You can designate your children as beneficiaries. If you have multiple children, you can specify how the assets should be divided among them.
- **Other family members:** You can name other family members, such as parents, siblings, or cousins, as beneficiaries.

2. **Trusts:** You can designate a trust as your beneficiary. This is a common choice if you want to control the distribution of assets to specific individuals or for certain purposes. It's important to work with an attorney to set up a trust properly.

3. **Charities:** You can choose to name a charitable organization as your beneficiary, allowing your 401(k) assets to support the causes you care about.

4. **Estates:** You can designate your estate as the beneficiary, and then the assets will be distributed according to your will or according to the laws of your state.

5. **Non-individual Entities:** In some cases, you may be able to name a non-individual entity, such as a business organization, as a beneficiary, especially if the 401(k) is connected to a business.

WHY SHOULD I NAME BENEFICIARIES?

Your 401(k) isn't just for you; it can be an inheritance for your loved ones. In the event of your death, the beneficiary designation determines who will receive the assets in your 401(k) account. This can be a significant financial asset, and having a clear beneficiary designation ensures that your assets are distributed according to your wishes.

Assets in a 401(k) account typically bypass the probate process, which can be time-consuming and costly. Designating beneficiaries allows for a seamless transfer of these assets directly to your chosen recipients without the need for court involvement.

CAN I DESIGNATE A MINOR AS A BENEFICIARY?

When designating a minor as a beneficiary, several considerations arise. Minors cannot directly manage inherited assets until they reach the age of maturity. In such cases, a legal guardian or trustee is often appointed to oversee the minor's inheritance until they reach adulthood. Setting up a trust or custodial account can offer control over how the assets are managed and disbursed, ensuring the minor's financial well-being while abiding by legal regulations governing minor's inheritance. Additionally, specifying clear instructions in legal documents helps in ensuring the proper management and distribution of assets for the minor's benefit.

WHAT HAPPENS IF YOU DON'T DESIGNATE BENEFICIARIES?

By designating beneficiaries, you maintain control over who receives your retirement savings. This can be especially important if you have specific intentions for your assets, such as providing for your spouse, children, or charitable organization. In the absence of a clear beneficiary designation, disputes may arise among family members or other potential claimants over who is entitled to the 401(k) assets. Designating beneficiaries can help prevent such conflicts and provide clarity. Something people often don't realize is that beneficiaries named on your 401(k) surpass individuals named on your will. This is something that is easy to overlook and all the more reason to ensure proper updates of beneficiaries in your 401(k) account.

WHEN SHOULD YOU UPDATE BENEFICIARIES?

Life circumstances change, and it's important to review and update your beneficiary designations as needed. Events like marriage, divorce, the birth of children, or the passing of a beneficiary can impact your choices. Regularly reviewing and making necessary updates ensures that your wishes are current.

Beneficiary designations are a key component of your 401(k) and estate planning. They work in conjunction with other estate planning documents, such as will and trusts, to ensure that your assets are distributed in line with your overall estate planning goals. It's essential to keep your beneficiary designations up to date and aligned with your financial and estate objectives. Failing to do so could result in inadvertent consequences or complications for your loved ones after your passing.