Why You Should Review Your Designated Beneficiaries Annually

When you apply for life insurance, or open a retirement account, you'll be asked to name beneficiaries. This is an important step in financial planning.

Failure to name beneficiaries can be a costly mistake, and one that can cause your loved ones a great deal of hardship after you're gone.

What's a named beneficiary?

A named beneficiary is the party who gets the life insurance death benefit, and/or the proceeds from an annuity or other financial account when you pass away. Generally, these should be individuals that you identify by name.

Why are beneficiaries important?

It's crucial to list your beneficiaries by name, so that the money can go to these loved ones right away after you are gone.

If you fail to name a beneficiary, then that money will usually go into your estate. That means it will go through probate - an expensive process that can potentially take months or even years to complete.

When you don't name a beneficiary, everything in that account goes to your estate, and to probate first, rather than to your heirs. Your family and loved ones will only get what's left, after months of waiting.

Contingent beneficiaries

There are two kinds of beneficiaries - primary and contingent. A contingent beneficiary is the individual or entity who receives the money in the event that the primary named beneficiary cannot.

Naming a contingent beneficiary is important because it helps protect your family against the unexpected.

For example: What if you and your primary beneficiary were to die in the same car crash? If you have no contingent beneficiary, the assets would fall back into your estate. Your surviving children or grandchildren would not be able to inherit the money until after a lengthy probate process.

Accidental disinheritance

Suppose you had an estranged child, but also a loving and devoted stepchild who was very much a part of your life to the end? Unless you take steps to name the stepchild as a contingent beneficiary on your financial accounts, or provide for your stepchild by name in your will, the probate attorneys must divide your assets according to your state's "intestate laws."

These laws are a set of defaults that govern who will receive your assets in the event you die without a will. They don't account for unadopted stepchildren.

Note: Beneficiary listings trump wills. If you have one person listed to receive your IRA assets or your life insurance proceeds in your will, and a different person listed as a beneficiary, the beneficiary listing will take precedence.

What to do now

It's a good idea to physically look at all your financial accounts every year, and update both primary and contingent beneficiary listings. If you can answer "yes" to any of the following questions, you may need to update your accounts:

- Have you married or divorced in the last year?
- Does a divorce decree or property settlement agreement specify you have to name anyone in particular as a life insurance beneficiary?
- Have there been any deaths among your current beneficiaries?
- Do you have any stepchildren who need to be added?
- Do amounts need to be adjusted?
- Do you have children from a prior marriage? Do you want to keep them as beneficiaries?
- Have any new children or grandchildren been born? If so, what share should they receive?
- Are your current beneficiaries competent to receive the assets directly? Or should the assets go to a trustee or guardian?

A periodic review of all your beneficiary designations is an important step in the financial planning process. Don't wait until it's too late. Call us today.