

# Beneficiary Decisions

Designating beneficiaries keeps you in control of who receives your assets.

Designating beneficiaries overrides a will and provides your loved ones:

- Access to your assets outside of probate, so your funds pass directly to them without going through the courts. Probate, the legal process to settle a deceased person's estate, can be costly and time consuming and may subject the assets to creditor claims.
- More flexible withdrawal options with potential tax benefits.

## Distributing Assets

Your retirement account assets will typically pass to your primary beneficiary or beneficiaries. But it also makes sense to designate contingent beneficiaries in case:

- All primary beneficiaries predecease you.
- The financial institution is unable to locate your primary beneficiaries.
- A beneficiary disclaims (refuses) the assets, which might be recommended by a tax or legal professional due to estate or income taxes.

## Designating Beneficiaries

As a general rule, your personal wishes matter most. There's no right or wrong answer, but tax rules should be considered.

**Individuals other than spouses.** IRS rules generally require non-spouse beneficiaries to:

- Withdraw 100% of the assets received within a 10-year period.

**Spouses.** Spouses have more options. They can:

- Delay RMDs until the year their spouse would have turned age 73<sup>1</sup> or the end of the year following their year of death.
- Or, combine the assets with other retirement assets in their name only, such as their own IRA, to simplify their financial accounts and delay RMDs until they turn age 73<sup>2</sup>. (If they're younger than age 59½, this may not be advisable because withdrawals would be subject to penalty taxes. If they instead remain as a beneficiary on the account, no penalty would apply and they could still move the money to their own IRA when they reach age 59½.)

**Note:** In community property states and in certain 401 employer plans, your spouse is entitled to a share of your assets, regardless of whom you designate as beneficiary, unless they waive that right.

**Children.** An adult has to oversee any funds received by a child until the child reaches age 18.

What options do you have when naming a child as a beneficiary?

- Designate a Uniform Transfer to Minors Act account as a beneficiary, with a custodian you appoint to oversee it.
- Stipulate that the guardian designated in your will is to oversee the funds.
- Designate a trust as the beneficiary to hold and distribute the assets to the child (who would be the trust's beneficiary) according to your instruction.

If you name an adult as beneficiary, they're not legally obligated to use the money for the child. And if that adult passes away, you run the risk of the money going to the adult's estate/beneficiaries and not to the child.

<sup>1</sup> 70½ (if your spouse was born before July 1, 1949), age 72 (if your spouse was born after June 30, 1949, and before January 1, 1951), or age 73 (if your spouse was born after December 31, 1950).

<sup>2</sup> 70½ (if you were born before July 1, 1949), age 72 (if you were born after June 30, 1949, and before January 1, 1951), or age 73 (if you were born after December 31, 1950).

**Providing for Children and Grandchildren.** If a child predeceases you, would you want that child's share to go to their children (your grandchildren) instead of your other children? If so, designate *Per Stirpes* in your beneficiary instructions.

**Trusts.** Designating an existing trust, or a trust to be created upon your death, as beneficiary is a good idea, particularly for larger amounts of money, if:

- You're concerned a beneficiary is fiscally irresponsible, may need protection from creditors, or would be too young to act responsibly.
- You have a child with special needs.
- You want to ensure children from a previous marriage receive assets, as well as your current spouse.

The downside of a trust is the cost of setting it up and maintaining it. If the trust doesn't follow various IRS rules, some tax benefits could be lost, such as the ability of the beneficiaries to stretch out distributions, or a requirement to take distributions over the oldest beneficiary's life expectancy.

For help with a trust, consult a qualified estate planning attorney.

**Charities.** There are tax benefits to designating retirement accounts to a qualifying charity. The charity receives the assets tax-free, and charitable gifts are not included in your estate, which could be relevant if state or federal estate taxes apply. You can then assign non-retirement assets to individuals, who would get a stepped-up cost basis for tax purposes upon death, minimizing potential capital gains taxes.

It generally doesn't make sense to assign Roth assets to a charity because they're tax-free to any recipient.

### Updating Beneficiaries

You should review and update your beneficiary designations:

- As you experience life changes, such as:
  - Marriage or divorce
  - New child or grandchild
  - Death of a beneficiary
- Annually, since your preferences and laws can change.

### Communicating with Beneficiaries

- Communicate with your beneficiaries to let them know what to expect so there's no resentment or confusion.
- Share with them what the accounts are and where they're held, and the value of stretching out the distributions to spread out the tax bill and increase possible growth.
- Encourage them to speak to a financial or tax professional before making any decisions about inherited assets, to review tax rules that may impact their financial goals.

### More Than Just Your Retirement Accounts

In addition to your retirement accounts, designate beneficiaries for:

- Life insurance and annuity contracts
- Regular bank and investment accounts you own. You may need to leave some liquid assets to your estate to pay debts, sell property, etc.

MissionSquare Retirement does not provide tax or legal advice. You should consider contacting a qualified estate planning professional for beneficiary advice specific to your situation.

To learn more about creating and managing key estate planning documents, visit [www.missionsq.org/estate](https://www.missionsq.org/estate).

To learn more about inheriting retirement accounts, visit [www.missionsq.org/inherit](https://www.missionsq.org/inherit).

For tips and tools to help you save, invest, and retire, visit **MissionSquare's Financial Wellness Center** right from your account for 100+ interactive, fun, short videos, charts, calculators, articles, and tutorials.