



Conducting a Beneficiary Review



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Why Conduct a Beneficiary Review?

Conducting a beneficiary review and planning how to distribute your assets and wealth can be an overwhelming conversation to have with your loved ones or Financial Professional, yet it is one of the most important aspects of the estate planning process. An estate plan is a collection of documents that protects your assets, personal property and outlines how you want them to be distributed. Many people neglect to review their beneficiaries and how they plan to transfer their legacy to future generations. This can lead to a contested estate, and maldistribution of funds or sentimental items.

There are several events where a beneficiary review should be considered such as:



Marriage



A career change



Purchasing a home



Divorce



Starting a family



Death of a close relative or friend



What is a Beneficiary?

A beneficiary is the name, or organization, you put on your individual accounts designating who will inherit the asset in the event you pass away. Most, if not all, accounts will ask for two beneficiaries; a primary and a contingent.

The **primary beneficiary** has the rights to inherit your assets in the event you pass away.

A **contingent beneficiary** is second in line to inherit your assets if the primary is either: deceased, declared mentally incompetent, a minor, or revokes his or her rights to inherit them within the first nine months of inheritance.

The third type of beneficiary is a **default beneficiary**. A default beneficiary, normally a spouse, will inherit all the assets if no beneficiary is named on the account. It then becomes the responsibility of the spouse to distribute the assets accordingly. If there is no spouse, the estate of the deceased will become the default beneficiary.

Naming a beneficiary directly on an account will override any distribution instructions in a will, making it paramount to update your beneficiaries regularly to ensure your assets will be passed to the intended individual. Naming a beneficiary is also the easiest way to avoid probate.



Methods of Transferring Wealth to Beneficiaries

Assets and wealth can be transferred through:

Probate

Listed beneficiaries

Trusts

Wills

What is probate?

Probate is the legal process of settling an estate- resolving all claims and distributing a decedent's assets and property. If your assets are subject to probate, a court administrator is assigned to distribute them. All aspects of the distribution are made public and the assets in question remain frozen until proper designation is assigned.

There are ways to avoid your assets ending up in probate, those being:

- Naming beneficiaries on your accounts and reviewing them regularly
- Creating a trust



Type of Assets with Beneficiaries

Annuity Policies

Bank and Brokerage Accounts

Life Insurance Policies

Retirement Accounts



Naming Beneficiaries



Even though naming a beneficiary can be simple, it is something people often overlook and neglect to keep up to date, which can lead to a contested estate.

Some common mistakes when choosing a beneficiary can be:

- ✓ Incomplete beneficiary forms (not listing a contingent beneficiary)
- ✓ The incorrect beneficiary is named (in the case of divorce)
- ✓ Improper titling of the inherited account
- ✓ Not updating when children are born
- ✓ Not updating for marriage or re-marriage
- ✓ Naming the estate as the beneficiary
- ✓ Having deceased relatives or friends listed as beneficiaries



To avoid a disruption of your assets, a simple review of your listed beneficiaries will ensure a smooth transition of your legacy. These are other circumstances to take into account when choosing a beneficiary.



Naming a minor as a beneficiary (minors cannot inherit assets upon the death of a loved one)



Naming a beneficiary who has unpaid debt (Creditors have the ability to claim a portion of an inheritance)



Spendthrift concerns (You may have concerns about a beneficiary recklessly spending down their inheritance)



Special needs beneficiary (An inheritance can disqualify a special needs individual from receiving government or public assistance benefits)

As an alternative to just listing beneficiaries, to ensure your assets are distributed according to your wishes, a trust can be a document to consider. A trust allows for the designation of a trustee. The trustee's responsibility is to ensure that funds are distributed appropriately for a minors care, protecting the funds from creditors, limiting the amount of money available to the beneficiary at any given time, and creating a supplemental benefit plan for a beneficiary with special needs without infringing upon the public or government benefits they are receiving.



What is a Trust?

One of the most frequently utilized strategies when creating an estate plan is implementing a trust. A trust is a private document where you can place assets to be designated to your heirs while avoiding probate. Trusts offer other advantages such as estate tax reduction and the ability for the trustor to structure how the funds will be distributed to beneficiaries.

In order for a trust to be valid, it must have:

- The **trustor**, the person who creates the trust
- The **trustee**, the person who manages the trust
- The **successor trustee**, responsible for administering the trust when the trustee passes away
- The **trust beneficiaries**, the individuals who receive the assets

There are two types of trusts to consider:

A **Living trust** (revocable trust) can be modified through a trust amendment so long as the trustor lives. If the trustee and grantor are different people, the grantor retains all powers to control the trust and its assets.

Irrevocable trusts cannot be amended after the trust agreement has been signed and the trust has been formed. Any assets placed in the trust cannot be removed. The advantages of this type of trust are estate tax reduction and creditor protection.



What is a Will?

A will is a legal document with instructions on how to distribute your assets upon your passing. A common misconception about a will is that it is not subject to probate. Unlike a trust, a will is a public document that is subject to probate if you do not specifically name beneficiaries on accounts. A will can oftentimes be contested and your assets may not be distributed according to your wishes. A will is a great starting point for your estate plan but it is important to supplement a will with a trust document, to ensure assets are passed to the named beneficiaries accordingly.

Remember:

Wills can still be subject to the probate process



A comprehensive beneficiary review can be a simple way to ensure your assets will be passed to the individuals whom you intended. Everyone's situation will be unique which is why it is important to talk with your Financial Professional and loved ones to plan accordingly, ensuring your legacy is distributed according to your wishes.



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