THE IMPORTANCE OF BENEFICIARY DESIGNATIONS

Registered Representative, Sigma Financial Corporation
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A beneficiary designation is when you name someone to receive your assets, or a portion of your assets, at your death. Usually you would have beneficiaries on life insurance policies, and retirement accounts such as IRAs, and 401k's or 403b plans. If you have a pension plan, you would also need to name a beneficiary. Typically you would name a *primary* beneficiary – the person or persons to be first in line to inherit the assets when you die – and a *contingent* beneficiary – the person or persons who are second in line to inherit the assets if the primary beneficiary is already deceased. Sometimes a trust is named as a beneficiary. Beneficiaries can also be created by the manner in which you "title" your assets. If you own something (car, house, bank account) jointly with another person and you die, that other person automatically becomes the sole owner of the asset.

It is absolutely critical that your beneficiary designations reflect your wishes, and are reviewed periodically. At the time of death, beneficiary designations take priority over anything else, such as a will or trust.

Here are some examples of problems that can arise with incorrect or improper beneficiary designations.

1. John makes a provision in his will that his beloved 1965 classic Cadillac should go to his nephew, Mark. However, the Cadillac is owned jointly with John's wife, Mary. When John dies, Mary now owns the Cadillac 100%.

2. Michael and Suzanne are both widowed and marry each other when they are in their 60's. All of their respective children are grown and they intend to keep their financial assets separate. Michael has a health scare, at which time they review all of his estate planning – wills, trust, etc. A few years later, Michael dies. Regardless of all the planning they tried to do, they overlooked Michael's life insurance. Michael's deceased wife is the primary beneficiary and his children are the contingent beneficiaries. Michael's children receive the insurance proceeds and Suzanne must use her own resources to pay final expenses.

3. Amy and Bill are a young couple with their first child. They apply for life insurance, naming each other as primary beneficiaries. Because they expect to have more children, they make a "blanket" contingent beneficiary designation of "all living children". Several years later, Amy and Bill have a second child, a son, born with a severe disability. They never review or change the beneficiary designations leaving their son to potentially inherit money which will cause him to lose any government benefits he may be receiving.

4. Henry and Isabel were married in their 30's and never had children. Isabel had been a teacher since college. Each year, Isabel received a computer generated letter from her employer which summarized all of her benefits. The letter indicated that the beneficiary of her pension was "The Estate". They never formally changed the beneficiary because Henry, as her husband, was the default sole beneficiary of her "Estate". Isabel died and Henry discovered that before they were married, Isabel had named her sister as primary beneficiary. Her sister inherited the entire pension, over 1 Million dollars! (This actually happened – real names have been changed – and her husband lost the case in court.)

When is the last time you had a complete beneficiary review and audit? Did you get verification of all beneficiaries in writing? Give us a call. We can help.

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