GLENMEDE

Beneficiary Designations

Beneficiary designations are among the most important legacy decisions you will make. A variety of financial accounts, including retirement plans and life insurance policies, allow you to designate beneficiaries. Whomever you name on an account's beneficiary designation form will receive those assets after you die — even if your will, trust or other estate documents have different instructions.

Beneficiary designation forms are frequently executed without professional oversight. You fill them out when you enroll in a 401(k) plan, purchase a life insurance policy or, sometimes, when you establish a new bank or brokerage account. These forms are easy to file away and forget, but failure to update beneficiary designations after marriages, births, deaths and even divorce can have serious financial and emotional consequences for your loved ones.

Why beneficiary designations matter

Beneficiary designations are powerful tools. They can keep certain assets out of your probate estate, which is subject to filing fees, creditor claims and potential will contests. Depending on the asset, your designations provide an initial source of liquidity for named beneficiaries until your estate is settled and fully distributed.

Avoiding probate

An estate administration can be costly and can take months — even years — to resolve, adding uncertainty to an already stressful time for heirs and loved ones. Any outstanding debts held at your death must be paid out of the probated estate first, leaving those assets the most vulnerable to creditor claims. Since assets with beneficiary designations are not part of the probate estate, they transfer directly to the designated beneficiary with minimal delay and at little to no cost.

Honoring your wishes

A beneficiary designation allows you to control who receives a specific asset when you die, even if that person or entity is not named in your will or other estate documents. For example, even if your will states your assets will be distributed equally among your three adult children, you may still want to acknowledge a favorite cousin when you pass away. Naming your cousin as the designated beneficiary of a modest pay-on-death bank account lets you fulfill your wish without the complication of including the cousin in your will

Which accounts allow beneficiary designations?

Many common account and asset types allow you to designate beneficiaries. Chief among them are employer-sponsored retirement plans, such as pensions, 401(k)s and 403(b)s; individual retirement accounts (IRAs); life insurance policies and annuities; transfer-on-death (TOD) investment/brokerage accounts; pay-on-death (POD) bank accounts; stock options and restricted stock; and executive deferred compensation plans.

Some assets are more complex than others, and each comes with unique responsibilities and tax implications for designated beneficiaries. While a simple savings account is straightforward, qualified retirement plans and IRAs are highly regulated. They have significant tax-deferral advantages, but failure to comply with distribution requirements can result in financial penalties. You may want to consider these factors when deciding who is best able to manage — and benefit from — an inherited asset.

Who can be named as a beneficiary?

Any person and certain entities, including charitable organizations, can be named as a beneficiary. Spouses, children, grandchildren, other family members, and foundations or endowments are common choices. You can also name multiple beneficiaries and specify how much you want to leave to each recipient. Most accounts also allow you to designate one or more contingent beneficiaries in the event your primary beneficiary predeceases you or cannot be located when you die.

Not all designated beneficiaries are equal in the eyes of the law. For example, your spouse would have more distribution options, resulting in more favorable tax treatment, for retirement plan assets than a non-spouse beneficiary would. While you may change most beneficiary designations unilaterally, certain qualified retirement plans require that your spouse be named primary beneficiary. In those cases, your spouse must explicitly sign away that right should you prefer to name another party as the primary beneficiary.

4 beneficiary designations to avoid

Just because you are able to designate a particular person or entity as a beneficiary doesn't mean doing so is a good idea. Many well-meaning designations can have unintended negative consequences. In general, avoid the following designations and speak to your estate planning attorney and wealth advisor about more favorable alternatives:

1. Minors

   Financial institutions cannot pay benefits directly to a minor. If a minor is a designated beneficiary, a court-appointed custodian must manage the asset until the child reaches their majority, and the custodian may deduct a fee for their services. The legal and administrative expenses can be significant. There are several less expensive and burdensome alternatives, including establishing a trust for the minor, naming a parent's trust as beneficiary or making use of your state's Uniform Transfers to Minors Act (UTMA) provisions.

2. Special needs persons

   Designating a special needs or chronically ill person as a beneficiary may disqualify them from receiving public assistance disability benefits provided by Social Security, Supplemental Security Income, Medicare or Medicaid. Consider creating a Special Needs Trust to pass your assets to your loved one without jeopardizing their benefits.

3. Your estate

   Designating your estate as the beneficiary of an account negates all the advantages of beneficiary designations. The assets will be subject to probate costs and administrative delays, and distributed to heirs in accordance with the terms of your will or trust. If the assets include IRAs or qualified retirement plans, there may also be unfavorable tax consequences to recipients.

4. A trust

   Use caution when designating a trust as a beneficiary. As noted above, specific trusts established for minors or special needs persons can facilitate passing assets to loved ones. In general, however, designating a trust as a beneficiary may have unintended tax consequences — particularly when it comes to IRAs and qualified retirement plans. Always seek guidance from a tax or estate planning attorney before designating a trust as your beneficiary.

4 keys to successful beneficiary designations

Every estate planning attorney has a horror story about telling a client's family that an unintended beneficiary will receive the decedent's assets because the beneficiary designation forms were not revisited and updated. You can avoid causing unnecessary pain and heartache for your loved ones — and ensure your wishes are honored — by giving careful thought to your initial designations, revisiting them regularly and updating them as necessary over the course of your life.

1. Always designate primary and contingent beneficiaries.

   You should always designate a beneficiary — if that option is provided — when setting up a financial, banking or investment account; purchasing an annuity or insurance policy; or starting or rolling over a qualified retirement account or IRA.

   Most married people name their spouse as their primary beneficiary. If, however, you and your spouse were to die at the same time, the assets will revert to your probate estate unless you have named one or more contingent beneficiaries. Adult children, trusts for the benefit of minors, other adult family members or charities are common choices for contingent beneficiaries.

2. Coordinate beneficiary designations with your will and estate plans.

   Since beneficiary designations supersede anything in your will, trust or other estate documents, it is imperative to synchronize language across all instruments to avoid confusion and ensure your intentions are consistent and clear. A good rule of thumb is to review your current beneficiary designations whenever you or your advisors make a change to your estate plan, will or trust documents.

3. Keep all beneficiary designations up to date.

   Changes in your life — and the lives of your primary and contingent beneficiaries — might make you reconsider who should inherit certain assets. Marriages; births or adoptions; children or grandchildren attaining their majority; divorces; a new job or business venture; retirement; disabilities, serious illnesses or deaths in the family; and changes in domicile are all good reasons to review, and possibly update, your beneficiary designations.

   Even if none of these changes occur, review your beneficiary designations at least once a year. Your annual Goals-Based Wealth Review with your Relationship Manager is a great time to reassess whether your beneficiary designations still align with your wishes. It is also worth considering whether new tax laws or changes in a designated beneficiary's circumstances might trigger burdensome financial consequences for them and adjust accordingly.

4. Store beneficiary designations with your important papers.

   Keep a copy of all designated beneficiary forms with your other important papers and make sure your estate planning attorney has current copies as well. Verify that retirement plan administrators, policy issuers and other financial institutions have up-to-date copies of relevant beneficiary designation forms. Finally, be sure the person you designate as your executor or personal representative knows where you store all your important papers, including your beneficiary designations.

GLENMEDE

SUMMING UP

Beneficiary designations allow you to direct who receives certain assets upon your death. They offer several advantages to you and your beneficiaries but need to be thoughtfully executed and regularly reviewed to avoid common pitfalls.

If you have questions about making beneficiary designations that support your overall legacy objectives, please contact your relationship manager or visit us at **glenmede.com**.