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Estate Planning 101 – Updating Your Beneficiaries

Have you checked your beneficiary designations for your TSP and other retirement accounts lately? If not, you may find that that your designated beneficiary is not who you think it should be, especially if you have had a life changing event such as divorce, remarriage, had children, or a death in the family. You may have even named a certain charity as beneficiary years ago, and now the charity may no longer exist. That's why I recommend checking with your financial institution periodically to **determine if the beneficiaries on file for your accounts reflect your current wishes**. When making beneficiary changes request a confirmation of receipt of the changes from the account administrator for your records.

It's important to note, that **retirement accounts and life insurance benefits are distributed to heirs based on the beneficiaries on file with the company or custodian**. These assets pass by operation of law to the intended beneficiaries, regardless of whether you state differently in a will. A will is helpful in dictating the distribution of non-retirement assets such as: art, personal property, heirlooms, jewelry, things of that nature. These assets flow into your estate and are paid out according to your updated will.

Accounts such as savings and checking accounts can be made Payable on Death (POD) so the funds are transferred without cost or delay to the new recipient. Real estate such as your home can be passed to heirs if designated with a Transfer on Death Deed (TODD). This simple document allows one to completely own and control the real estate in their lifetime, yet permits them to dictate who receives the property upon their death or, if married, upon the death of the second spouse. The cost for creating such a document is very minimal and well worth the benefit. Other assets including stocks, bonds, and mutual funds can be designated as **Transfer on Death (TOD) allowing assets to pass directly without delays or fees to the listed beneficiary**.

One mistake which can be costly is to name your estate as the beneficiary of your qualified retirement accounts. **Designating an estate as the beneficiary requires the assets to be distributed-and taxed within five years**. Contrast this with leaving the account to a named individual who in turn can take distributions based on their life expectancy, thereby stretching out the payments and minimizing taxes due.

Consider a Customized Beneficiary Designation.

For instance, if you have named two individuals as your primary beneficiaries and one predeceases you, the share that belongs to the deceased beneficiary automatically goes to the surviving beneficiary- unless

you update your beneficiaries or prepare a customized beneficiary designation. This way you are able to stipulate that their share goes to his/her children.

When drafting your customized beneficiary designations, you have various options to explore. Following are some basic beneficiary-designation designs:

Per Stirpes Designation

A per stirpes designation provides that in the event that your beneficiary predeceases you, the shares that he/she would have received will go to their heirs. For example: You have named your two children John and Mary named as your primary beneficiaries with John receiving 80% and Mary's share is 20%. Should Mary predecease you, her share would go to her heirs upon your death and John will still receive the designated amount of assets.

Per Capita Designation

Per capita beneficiary designations also provide that your primary beneficiary's share will go to his/her heirs. However, the allocations are not handled in the same manner as they are under the per-stirpes designation. Should a primary beneficiary predecease you, his/her share would be divided equally among your successor heirs. For example: Mary and John from the previous example both predecease you. The assets will be allocated among their children equally even though the beneficiary designation provides John with a larger portion of the assets. If Mary and John each had two children, each child would receive a 25% share.

In closing, I encourage you to review your beneficiaries to make sure your selections are up to date. This simple step can alleviate any potential confusion or unintended consequences for your loved ones and leave you with the peace of mind you deserve.

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