



What Happens to Your Retirement Accounts After You're Gone?

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Working with Wanda for 10 years now, I've noticed there's one thing nobody ever wants to think or talk about – what happens after they pass? As a result, many people blow right through the beneficiary designation in their account set-up paperwork and never think about it again... but that is a big mistake.

There are some important things you need to know about what happens to your money after you're gone. And since we don't want you – well, rolling over in your grave – we better address them now!

Your Trust Does Not Apply to Retirement Accounts

A Trust document is important to have as it instructs how property held in the name of the Trust will be dealt with after you pass away... but only the property held in the Trust. Many people believe having a Trust will direct the inheritance of all bank accounts, property and investment accounts; however, this is not accurate. Any property outside your Trust, including retirement accounts, is not subject to the instructions in your Trust document. Without proper instructions, those accounts will go through probate, and the fat cat attorneys and state government will get to

enjoy a large chunk of the money instead of your heirs.



Even if your Will directs property to your Trust, it may still be subject to probate.

Retirement Account Beneficiary Designations

For retirement accounts you should be sure to carefully fill out a beneficiary designation for each account. The inheritance instructions for each of your retirement accounts is dictated by its own beneficiary designation form. If you have more than one retirement account, you should have more than one beneficiary designation. Retirement accounts include IRA, ROTH IRA, Simple IRA, 401(K), etc.

Other accounts, such as Individual and Joint accounts, may include a TOD (Transfer on Death) clause. This allows you to designate



beneficiaries just like on a retirement account. If these accounts are not already titled in the name of your Trust, it may be a good idea to add TOD to Individual and Joint investment and bank accounts to avoid probate. You should ask your estate planning attorney or financial advisor for their recommendation.

Per Stripes

While designating your beneficiaries you have the option to add a *per stripes* designation. This is a way to ensure that all children/grandchildren will be included in the inheritance by passing it to the surviving heirs of a beneficiary. It's easier to explain with examples ...

Example 1:

Don opens an IRA account and names his wife, Debbie as primary beneficiary and his good friend, Greg as contingent beneficiary. Throughout the years Don and Debbie have two children. Unfortunately, Don and Debbie pass away in a tragic basket weaving accident. As Don and his primary beneficiary, Debbie, have passed away the inheritance then goes to the contingent beneficiary, Greg. Don and Debbie's children will inherit nothing...probably not what Don and Debbie intended.

However, if Don indicates in his Beneficiary Designation that Debbie is to be the primary beneficiary with per stripes we get a different outcome. After the tragic basket weaving accident, Debbie's inheritance is passed to her surviving heirs – their two children. Greg will only receive the inheritance if basket weaving takes out the whole family at the same time. (Unlikely, but you never know!)

Example 2:

Now, say Don was diligent and updated his contingent beneficiaries to name his children, but still did not indicate per stripes. Unfortunately, their oldest son (and the father of their grandkids) was with them and suffered the same fate. (Damn those baskets... darn them to heck!) Since there is no per stripes designation, his kids (the grandchildren) get nothing and his brother (youngest son) gets 100% of the account. This may be the desired outcome, but they may have intended the grandchildren to share the oldest son's inheritance.



As someone who personally inherited money thanks to a per stripes designation, I give my own personal unprofessional seal of approval for this method: 5 out of 5 stars, two thumbs up... but I may be biased.



Better Review That Sucker

In addition to ensuring you have a Beneficiary Designation for each retirement account and ensuring you include a per stirpes designation where appropriate, you had better be sure to review those suckers regularly. Again each retirement account has its own beneficiary designation, so you must review the beneficiary designation for ALL retirement accounts.

We find the most common updates include adding new children/grandchildren (the per stirpes designation may help to safeguard here) and the removal of estranged or deceased spouses/beneficiaries. That's right, even a divorce does not automatically change your designation, you must keep it up to date or you (well, really, your heirs) may be faced with unintended consequences.

Example:

Bill and Sally have a messy divorce. Bill remarries a lovely woman named Grace and has a happy life. Years later Bill passes away and Grace begins administering his estate and collecting her inheritance. What does she discover? His ex-wife, Sally, is still the primary beneficiary on his 401(k) account! Bill never thought to review and update his beneficiary designation. The money Bill thought would go to Grace is actually going to Sally. You think Sally is going to give Grace the money? (She's not.)

It's Your Job to Keep Track

You know how sometimes you see how something works and you think, "What genius came up with this idea?" This is one of those times. It will be your (or your heirs) job to tell your retirement account administrators what to do with your money after you're dead. Surprisingly, financial institutions do not always keep accurate/up-to-date copies of your beneficiary designations. Additionally, many 401(k) providers do not collect or keep copies of your designation. So all you need to do is come on back from the grave, pull out your beneficiary designations and everything will go just as you wish.





As an alternative, we suggest keeping a copy of all beneficiary designations with your estate planning documents so your heirs will have easy access. Remember, each retirement account has its own beneficiary designation, so you should have one beneficiary designation for each account stored with your estate planning documents.

Here at Insight Financial Advisors we are making sure to review all beneficiary designations as part of our Cc Update

System; looking over and updating the designations for each account we manage during our Update Meetings. If you have not talked to your IFA advisor, you should ask your financial advisor or review your beneficiary designations at home.

Now is as good a time as any to review your beneficiary designations. Don't wait until it's too late!

This article was originally published in The Loop Volume 16 Issue 2

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