



## MAKING CENTS

### TAKE CARE IN PICKING A BENEFICIARY

-John P. Napolitano, CFP®, CPA, PFS, MST, RLP®



**W**hether it's for a 401(k) plan, life insurance policy or other important financial document, there are a number of occasions when you will have to select a beneficiary. While it may seem like an easy task, there's a lot to consider before jotting down a name on that blank line.

Before we go any further, a few words about the importance of naming beneficiaries on retirement plans or insurance policies. If you die, the money from these accounts or policies goes directly to the person named as a beneficiary. If you leave that line empty, the dough will most likely go to your estate, which could end up in costly and time-consuming probate court. Also, your heirs may have to pay estate taxes on that money, taxes that could take a big bite out of your estate's assets.

And don't expect a will to take precedence over beneficiary designations—it doesn't. If you name someone as a beneficiary of your 401(k), that person gets the money, regardless of what your will indicates.

As far as who should be named as beneficiary, currently, federal law mandates nam-

ing a spouse (if applicable) as beneficiary of a 401(k) retirement plan, unless he or she signs a waiver relinquishing rights to the inheritance. IRAs are a different story; for those you can name whomever you wish. You can even designate a charitable organization as your beneficiary on individual retirement accounts. You should also name contingent beneficiaries in addition to a primary beneficiary in case your primary beneficiary dies.

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And for those who have remarried, don't forget children from your first marriage. If you leave everything to your most recent spouse, those kids from that first marriage may be left out in the cold.

Naming a beneficiary is not a "one-time" undertaking. You can periodically review and change designations on insurance policies, employment retirement plans, etc. Make it easy on yourself by keeping copies of all documents where beneficiaries are named in a safe and accessible place. In fact, it's wise to keep a cover sheet list of your beneficiaries, so you can easily see who is named on each document.

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