10 Things You Should Know About Beneficiary Designations

Taking a few minutes today to review and update your retirement account (such as a 401(k) plan beneficiary form can save you time and trouble later. The rules below apply to both employer plans, such as 401(k)s, and IRAs, except where noted. The biggest differences involve spousal rights and divorce, since 401(k)s are governed by federal law (ERISA) and IRAs generally follow state law.

1. **The form that overrides your will –** Most participants assume their will controls who inherits their 401(k). It doesn't. If you're married, your spouse automatically inherits your 401(k) upon your death unless they've provided written spousal consent for someone else to inherit it. Otherwise, the beneficiary form supersede wills and trusts for retirement accounts. The form on file with the plan administrator is what's followed.
2. **What happens to your 401(k) if you die without a named beneficiary –** If you're not married then the plan document may include a provision that spells out the order of distribution. Otherwise, the estate could become the beneficiary which can trigger probate—a potentially lengthy and expensive legal process.
3. **Primary, contingent—why you need both –** Naming one beneficiary isn't enough. Contingent beneficiaries protect against you dying at the same time as the primary beneficiary, if the primary beneficiary dies before you, and if the primary beneficiary refuses to accept the inheritance (usually due to estate- or tax-planning purposes).
4. **Beneficiary designations aren't set it and forget it –** The form you filled out on day one of your job may be years out of date when you die. Major life events are a great trigger for a review.
5. **Why divorce doesn't automatically remove your beneficiary –** A 2009 US Supreme Court decision means a divorce decree doesn't override a 401(k) beneficiary designation. Participants must affirmatively update the form; otherwise, an ex can legally inherit the account decades later.
6. **The spousal consent rule most participants don't know about –** ERISA (the federal law that governs most workplace retirement plans) protects spouses. A married participant who names a non-spouse primary beneficiary without a notarized spousal waiver, or witnessed by a plan representative, requires the plan to pay the spouse anyway.
7. **Why "My Estate" isn't the best beneficiary you can name –** It feels tidy, but it isn't. Naming your estate as beneficiary forces probate, can potentially accelerate the distribution timeline, and exposes assets to creditors.
8. **Blended families and beneficiary forms –** "My children" sounds clear until it isn't. Relying on vague language can create disputes among half-siblings or unacknowledged heirs. Instead, be sure to name specific individuals with their full legal names and birth dates.
9. **Per stirpes vs. per capita: two words that decide who inherits –** A small box on a form can redirect assets to an entirely different branch of the family. With per stirpes (by right of representation), if a named beneficiary passes away before you, their designated share passes directly down to their children. With per capita, the inheritance is divided equally only among the living named beneficiaries.
10. **The possible pitfalls of naming your minor child as beneficiary –** Minors generally can't directly inherit retirement assets. Without a trust or custodial arrangement in place, a court may appoint a guardian to manage the assets until the child reaches the age of majority.

Five Key Do's and Don'ts for Beneficiary Designations

Do	Don't
Review beneficiary forms regularly	Assume your will controls retirement assets
Update designations after life changes	Leave outdated beneficiaries in place
Name both primary and contingent beneficiaries	Rely on a single beneficiary
Name specific individuals with their birthdates	Use vague descriptions such as "my children"
Coordinate your designations with your estate plan	Wait until it's too late to review your forms

Talk to your financial and tax professional about how to align your beneficiary designations with your estate and tax strategy.

Please refer to the plan document and/or Summary Plan Description for details about beneficiary designations.

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