

The importance of beneficiary designations

Make sure your retirement assets go where you want them to

A quick review: Ensure your retirement assets are properly designated

Your retirement accounts are an important part of your estate that are sometimes overlooked when it comes to beneficiary designations. Many don't realize that retirement assets will pass on to the beneficiaries named on financial accounts — not to the heirs named in a will or other estate-planning documents.

Time may have passed, circumstances may have changed, and your designated beneficiaries may no longer reflect your current wishes. That's why it's important to take the time to review your beneficiaries every few years and keep them updated.

Here are answers to some of your biggest questions about beneficiaries:

I have a current will — isn't that enough?

No matter what your will provides, your retirement assets will pass to the beneficiary or beneficiaries designated on your financial accounts. If you don't designate a beneficiary, the default provisions of your retirement plan often determine who will receive your assets upon your death. Depending on circumstances, significant amounts of your hard-earned savings could be lost to taxes.

Do I need contingent beneficiaries?

It's in your best interest to name a contingent beneficiary in addition to a primary beneficiary. If you haven't named a contingent beneficiary and your primary beneficiary dies before you, the assets will be distributed according to the rules in your retirement plan or IRA document upon your death.

Can I name a beneficiary who is not my spouse?

Yes, but in certain situations, you will need your spouse's consent. Keep in mind that spouse and nonspouse beneficiaries may have different options available to them when they inherit your retirement assets.

I'm thinking of naming my estate as beneficiary. Is this a good idea?

If you name your estate as beneficiary, your retirement assets may have to go through probate — a time-consuming and costly court process. Depending on the situation, this could also increase the tax bill and limit payout options for your heirs.

How about naming a trust as beneficiary?

Trusts may be appropriate as an IRA beneficiary if post-death control is desired. A trust can provide for a special needs beneficiary or children from a previous marriage, or allow additional distributions for specific purposes. A trust may also help shield inherited IRA assets from creditors. It is important that you work with a qualified estate-planning attorney who can properly draft a trust that provides the control you are looking for while also incorporating the IRA distribution rules.

Can I name my young children as primary or contingent beneficiaries?

Yes. However, minor children can't legally control assets. Parents can name a guardian, custodian or trustee in advance to manage finances for their children if the children are minors when they inherit retirement assets. If this isn't taken care of ahead of time, a court will need to name a guardian for a child and the assets. In addition, minor children can take control of the assets when they reach the age of majority (as early as age 18 in some states) unless other arrangements are made.

Are there any problems with naming a charity as my beneficiary?

Naming a qualified charity as the only beneficiary of your retirement assets typically doesn't cause issues. However, if there are multiple beneficiaries and one of them is a charity, there could be negative tax impacts for the heirs if the charity hasn't paid its full share by Sept. 30 of the year following the IRA owner's death. Be as clear as possible when naming a charity as a beneficiary, ensuring that the name and address are correct and distinguishing between national organizations and local chapters.

Common beneficiary designation mistakes

- Failing to review beneficiary designations periodically
- Failing to name a contingent beneficiary
- Not identifying a new beneficiary after the death of a primary beneficiary
- Forgetting to remove an ex-spouse after divorce or remarriage
- Not obtaining an updated spousal consent form after remarriage when a nonspouse beneficiary is named
- Neglecting to designate a beneficiary on each plan or assuming that a separate beneficiary can be designated for individual accounts within a plan
- Failing to update beneficiary designations after the birth or adoption of a child
- Young, single adults naming their parents as beneficiaries, and then forgetting to update the forms after they marry or have children, or after their parents die
- Naming a trust or the owner's estate as beneficiary without guidance from an estate-planning attorney

Talk to an Ameriprise financial advisor about reviewing your beneficiary designations.

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