

Do You Know Where Your IRA Beneficiary Forms Are?

Do you know where the beneficiary forms are to your individual retirement accounts? For that matter, do you know *who* are your IRA beneficiaries?

You may think you know, but when was the last time you checked? Has it been years? Did you even fill out the beneficiary form provided by the financial institution where you opened the IRA? The oversight could cost your heirs a lot of money and a lot of heartache.

Have you named your beneficiaries? Many IRA owners leave their beneficiary forms blank because they mistakenly assume the IRA custodian named the proper beneficiaries when the owner opened the account or it didn't need to be filled out because owners assumed the IRA would be properly distributed according to their will.

While some IRA owners may have sound reasons for naming a trust or a charity as a beneficiary to an IRA, most will want to name a “designated beneficiary”—living persons such as a spouse, children, other relatives, or friends. In most cases, they should avoid naming their estate as beneficiary, because then the IRA must pass through probate to the heirs designated in the will. That needlessly delays distribution of the IRA's funds, and the funds may not end up in the hands of the heirs you intended.

This also undermines the IRA's inherent tax deferral advantages, potentially costing heirs thousands or even millions of dollars in tax-deferred growth. Depending on the age of the owner at death, the contents of an IRA passing to the estate must be distributed within either five years or what would have been the remaining life expectancy of the deceased owner. But designated beneficiaries receiving IRAs directly can “stretch” their required distributions out over the lifetime of the heirs, which can be especially profitable to younger heirs.

Leaving the beneficiary form blank produces the same consequences as naming the estate as beneficiary, though some custodians name the spouse as beneficiary by default if the form is left blank.

Can you find your beneficiary forms? If your heirs can't find the proper beneficiary form following your death, the IRA will likely pass to your estate and they'll lose the ability to stretch the IRA. In theory, the financial institution should have the form, but paperwork gets lost as institutions change hands, move, and so on.

Locate your forms, or fill out new ones if you can't, and retain a documented copy. Be sure the IRA account holder and perhaps your beneficiaries have a copy, and ask your financial planner to hold a copy.

Is the form up to date? Did you find the form but had to blow dust off of it? Read it carefully. The beneficiary, such as a spouse, may have died since being named. Or perhaps other changes in your life—a marriage, divorce, the birth or adoption of a child—call for a revision of the form.

IRA owners can make beneficiary changes up to the owner's death, even if the owner has already started distributions.

Are primary and contingent beneficiaries named? The form should not only indicate the primary beneficiary, but in the case of multiple heirs, such as children or grandchildren, how you want the account's assets distributed, such as equally or in a certain percentage. You also need to make clear whether in the event a designated heir dies before the account owner dies that heir's share of the IRA goes to the other heirs (per capital) or to the designated heir's descendants (per stirpes).

It's also important to name a contingent beneficiary to step forward should a primary beneficiary die before the IRA owner dies or should the primary beneficiary decide to "disclaim" his or her inheritance so it passes directly to the contingent heir.

Are the forms in agreement? Verify that your up-to-date form matches the form held by the institution. You don't want confusion, or worse, a court fight over which form is the most recent.

Also, a review of the beneficiary form may turn up custodial restrictions on how your IRA can pass. For example, some institutions don't allow a "per stirpes" designation, and a few custodians don't even allow "stretch" IRAs. If such restrictions apply, you may need to move the IRA to another financial institution.

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