

Top 5 Beneficiary-Form Boo-Boos

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Naming beneficiaries should be the easiest task when it comes to estate planning, right? Simply jot down who gets your stuff when you're gone, then provide them with a list of delightful vignettes from your life to frequently and publicly share with anyone who will listen.

If only. Many people get this basic task all wrong, much to the joy of ex-spouses, the IRS, and tabloids angling for a nasty inheritance scoop. In 2001, *The New York Post* ran a headline declaring a "Pension Pickle!" after Anne Friedman's \$900,000 pension went not to her beloved husband of nearly two decades, but to her sister, who refused to share the bounty. Not even the state Supreme Court could right the oversight: The beneficiary form Anne filled out in 1974 and never updated was legally locked down.

The biggest beneficiary-form blunders

Before you dash off your spouse's name, or put Junior's Social Security number on the dotted line, make sure you're not making any of these mistakes:

- 1. Assuming your will is going to take care of all the details.**
Beneficiary designations *always* trump what's in a will. These documents must be consistent with one another: If you set up a trust, designate the trust as the beneficiary, not the person you named in the trust to inherit the money.
- 2. Subjecting your heirs to an avoidable tax bill.**
Failing to name beneficiaries on your [IRA](#) (or consigning it to your estate) robs your heirs of the ability to maintain tax-advantaged growth over their lifetime (via a stretch IRA). Without a beneficiary, your IRA money will go through probate, and your family (excluding spouses) will be required to withdraw the money within five years. Most beneficiaries don't even wait that long: They take hold of the entire IRA at once. Doing so not only incurs an immediate tax bill, but also subjects all subsequent earnings and capital gains to income taxes. On a \$100,000 inheritance earning \$5,000 a year, anyone in the 25% tax bracket just bought themselves an annual tax bill of \$1,250.
- 3. Forgetting to update forms when life happens.**
Just as bad as failing to name a beneficiary is not updating designations when beneficiaries marry, divorce, come of age, or tick you off. That's how exes and bitter sisters-in-law strike it rich.
- 4. Not having a plan B.**
If your primary beneficiary isn't around to collect, and no secondary beneficiary is named, the court decides who gets the dough. Be exact. You can name multiple primary and secondary beneficiaries, so don't be afraid to spell out how you want your assets divided.
- 5. Naming minor children as beneficiaries.**
Until age 18 or 21 (depending on state laws), minors can only inherit limited amounts. Designate a financial guardian or set up a trust for the kiddos. Either should have detailed directions on how to manage the windfall until the children are of age.

Other boo-boos

There are plenty of other beneficiary form mistakes. Here are just a few of them:

- **Triggering probate on life insurance proceeds:** Similarly, naming your estate -- not an individual or a trust -- as the beneficiary of your life insurance subjects it to probate.
- **Disinheriting kids from a first marriage:** Houses, bank accounts, and other assets held jointly go right to the co-owner, no matter what your will states, leaving children from a previous marriage no rights to contest. You can prevent them from being cut out with beneficiary designations on other assets that carry no spousal or joint ownership constraints.
- **Overlooking others whom you'd like to remember:** Estate laws favor spouses. Payable- or transferable-on-death accounts automatically go to the closest living relative (not a charity or life partner), unless designated otherwise.
- **Failing to get permission to bequeath your qualified retirement plans:** By law, spouses are first in line to inherit retirement funds and assets subject to right of survivorship laws. If you wish to leave the money to someone else, your betrothed must sign a written waiver, or else the deal is off at death.
- **Assuming your wishes are on file:** Don't take it on faith that a beneficiary form you filed 30 years ago is still in some bank's file -- or that when you switch plans your form follows suit. Get copies from every bank, fund, and insurance company.
- **Updating forms incorrectly:** Marking up beneficiary forms and initialing your changes won't hold up in court. To override old designations, make changes in writing, and give a copy to the institution where the original is (hopefully) on file.
- **Keeping your plans a secret:** While alive, Anne Friedman insisted that she had updated her million-dollar pension beneficiary form. But no one could locate it after her death. Make copies and tell your executor and loved ones where they're kept.
- **Misspelling my name:** It's D-a-y-a-n-a Y-o-c-h-i-m. But in all seriousness, be sure to correctly spell out the full legal names (and provide Social Security numbers, if requested) of all your lucky heirs.