

WHAT YOU NEED TO KNOW WHEN COMPLETING YOUR BENEFICIARY FORM IN A 401K

When you designate beneficiaries, you have the final say over who receives your death benefit. If you don't choose one, your state's laws determine who gets it. Primary, secondary (contingent)...? Your primary beneficiary is first in line to receive your death benefit. If the primary beneficiary dies before you, a secondary or contingent beneficiary is the next in line. Some people also designate a final beneficiary in the event the primary and secondary beneficiaries die before they do.

If you are married, your surviving spouse is entitled by law to inherit the funds in your 401k account. Therefore, you cannot disinherit your spouse from your 401k simply by naming another individual as beneficiary. However, if your spouse signs a properly executed written waiver agreeing to allow you to name another beneficiary on the account, you can leave your 401k to someone else.

If you fail to name any beneficiaries on your 401k account, the account will pass to your estate at your death. If you fail to name both a primary and contingent beneficiary, and your primary beneficiary predeceases you, your 401k will also pass to your estate because of failure to name a contingent beneficiary. There are several reasons you don't want this to happen. First, most people don't want their 401k proceeds to pass through probate because probate involves attorneys' fees, court costs, delays in distribution of the inheritance to your intended beneficiaries, and a public record is created regarding the assets in your estate. Also, if a beneficiary inherits your 401k through your estate because you failed to name beneficiaries on the account, the beneficiary will lose the opportunity to spread out distributions over a longer period of time and benefit from tax deferral. Even worse, if you fail to make a will and fail to name beneficiaries on your 401k, your 401k will pass to your legal heirs through the laws of intestate succession, which means the 401k may not even pass to the beneficiaries you want to inherit your retirement funds.

A beneficiary form can be completed at anytime. It is important that your employer is the primary keeper of this form. Take the time now to update your wishes when you leave earth.

Do's and Don'ts of Beneficiary Designation

Based on experience, the following "Do's and Don'ts" are suggested as a means to reduce the number of errors on beneficiary designation forms and ensure that participants are well served in this important area.

Don't use "white-out" or cross out names to make changes in designation. This makes the form unacceptable.

Do complete a fresh form whenever the member makes a mistake in designating a beneficiary. In the long run, this will save the participant time and will eliminate any uncertainty regarding the desired designation.

Don't name the same person or persons in both the Primary and Contingent Beneficiary sections.

Do choose both primary and contingent beneficiaries with care.

Don't leave the address for any beneficiary blank.

Don't neglect the birthdate of each beneficiary.

Don't forget to list the relationship of each beneficiary to the member.

Do have all beneficiary information on hand when completing a *Designation of Beneficiary* form.

Do periodically check the most recent form submitted with your plan administrator, making sure that all beneficiary information is correct, especially names, addresses, and phone numbers.