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401(k) **FIT**

The Importance of Beneficiary Designations in 401(k) Planning

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Prepared by: Meghan Hannon, CRPS

When it comes to retirement planning, it's easy to overlook the importance of beneficiary designations. However, deciding who will inherit your 401(k) and other financial assets is a crucial step in securing your legacy. In this article, Meghan Hannon, CRPS®, Senior Retirement Plan Manager, explores the benefits of naming beneficiaries and how it fits into your 401(k) planning strategy.

Who—or What—Is a Beneficiary?

Your life insurance policy and retirement plan urge you to name a beneficiary, but what does that really mean? A beneficiary is an individual or entity, such as a trust or charity, that you designate to receive the funds from your employer 401(k) plan or other eligible accounts after your death. This decision is critical, as it empowers you, not the court, to dictate the destination of your assets when you're no longer here. You can name one or more primary beneficiaries, who will inherit the account if they survive you, and one or more contingent beneficiaries, who will inherit the account if all the primary beneficiaries predecease you.

Why are Beneficiaries Important?

By naming beneficiaries for your 401(k) and other accounts, you can ensure that your assets will be distributed according to your preferences and avoid unnecessary complications for your loved ones. Here are a few key advantages of having beneficiary designations:

- **Control**: You can choose who will receive your assets and how much they will receive, regardless of your will or state laws. This can help you fulfill your personal and financial goals, such as providing for your spouse, children, grandchildren, or charitable causes.
- **Speed**: The assets will be transferred directly to your beneficiaries without going through probate, which is a legal process that can take months or even years to settle an estate. This can save your beneficiaries time, money, and stress and allow them to access the funds sooner.
- **Tax efficiency**: Depending on the type of account and beneficiary, the assets may be eligible for favorable tax treatment, such as stretching out the distributions over the beneficiary's life expectancy or rolling over the funds to another retirement account. This can reduce the tax burden on your beneficiaries and preserve more of your legacy.

How to Choose and Update Your Beneficiaries

Choosing your beneficiaries is not a one-time decision. You need to review your beneficiary designations periodically and update them whenever you experience a major life change, such as marriage, divorce, birth, death, or retirement. Here are some steps to follow when choosing and updating your beneficiaries:

1. **Review your accounts**: Make a list of all your financial accounts that allow you to name beneficiaries, such as your 401(k), IRA, life insurance, annuity, brokerage, bank, or trust accounts. Check the current beneficiary information for each account and make sure it is accurate and up to date. Regular reviews of your designations, particularly during significant life events like divorce, are essential to ensuring alignment with your current wishes.
2. **Consider your options**: Consider who you would like to inherit your assets and the manner in which they will receive them. You have the option to designate individuals such as your spouse, children, grandchildren, or other relatives, as well as entities like trusts, charities, or organizations as beneficiaries. You can also choose to split the account among multiple beneficiaries in any proportion you desire. It is important to take into account the tax implications and potential challenges your beneficiaries may face, such as creditors, lawsuits, or special needs. Consulting with a knowledgeable wealth management advisor can help you make the best decisions for your unique situation.

Probate Avoidance and Additional Considerations

Assets like life insurance, annuities, and 401(k) plans often have named beneficiaries, classifying them as non-probate assets. This distinction becomes a valuable tool for avoiding probate, a costly and slow legal process in some states. If no beneficiary is named, the asset becomes part of the decedent's estate, potentially triggering an unnecessary probate.

Helping You Get There…

By choosing beneficiaries for your financial accounts and assets, you take control of your money and can save your loved ones time, money, and stress by avoiding probate court. It's important to regularly review your beneficiary designations, as life changes may require updates. With proper planning and attention to detail, you can ensure a smooth transfer of your assets to your intended recipients. Boulay is committed to *helping you get there* as your employer 401(k) plan advisor, with any inquiries or advice you need about your retirement savings and investment strategies, as well as general financial planning ideas. Feel free to connect with Meghan to discuss any questions or concerns.

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