



Fiduciary Pension Partners

When It Comes to 401(K) Beneficiaries, Where There's a Will There Isn't Necessarily a Way



Beneficiary designations are a critical yet often neglected aspect of retirement plans. Participants mistakenly believe their retirement plan assets will be distributed according to their will or trust. Retirement accounts have their own rules, so the named beneficiary usually inherits the funds, regardless of other estate

planning documents.

The Consequences of Neglected Beneficiary Designations

Neglecting to update beneficiary designations can lead to unintended outcomes, such as an ex-spouse or estranged relative receiving the retirement savings. This oversight can cause emotional distress and financial complications for the intended heirs and may result in lengthy and costly legal disputes.

Best Practices for Plan Sponsors

Plan sponsors are vital in helping participants keep their beneficiary designations current and accurate. Here are key strategies to ensure that beneficiary wishes are honored.

Educate participants. Regularly communicate to employees the importance of beneficiary designations, highlighting that these designations override wills and other estate planning documents for retirement account funds.

Offer clear instructions and regular reminders. Provide straightforward instructions on designating beneficiaries when participants enroll in the plan. Send regular reminders to review and update beneficiary information, especially after significant life events such as marriage, divorce, or the birth of a child.



Fiduciary Pension Partners

Simplify the update process. Make it easy for workers to update their beneficiary designations. Offer online and paper options, and ensure the process is clearly described in the summary plan description (SPD).

Annual reviews. Encourage participants to review beneficiary designations annually. This can be done as part of regular financial wellness programs or during open enrollment periods.

Leverage technology. Use automated systems to remind employees to check and update beneficiary designations. An online portal where they can view and update this information can significantly reduce the risk of outdated designations.

Promote consultations with financial advisors. Encourage participants to consult with financial advisors to ensure their beneficiary designations align with their broader estate planning goals. This professional guidance can help address any potential oversights and provide reassurance.

Emphasize the SPD. Ensure the SPD includes clear and concise rules for making and updating beneficiary designations. Communicate these rules effectively to participants and their advisors to prevent misunderstandings and help ensure compliance.

Protecting Participant Wishes

Accurate and up-to-date beneficiary designations ensure that retirement assets are distributed according to participants' wishes. Plan sponsors have a responsibility to educate and assist workers in maintaining these designations. By implementing best practices such as regular education, clear instructions, technology-driven reminders, and emphasizing the importance of the SPD, plan sponsors can help safeguard the financial futures of their employees' loved ones, providing greater peace of mind for all involved.

Sources

<https://www.morningstar.com/personal-finance/dos-donts-beneficiary-designations>

This material was created to provide accurate and reliable information on the subjects covered but should not be regarded as a complete analysis of these subjects. It is not intended to provide specific legal, tax or other professional advice. The services of an appropriate professional should be sought regarding your individual situation. The "Retirement Times" is published monthly by Retirement Plan Advisory Group's marketing team. This material is intended for informational purposes only and should not be construed as legal advice and is not intended to replace the advice of a qualified attorney, tax adviser, investment professional or insurance agent. (c) 2021. Retirement Plan Advisory Group. Fiduciary Pension Partners is not affiliated with Retirement Plan Advisor Group but subscribes to its annual services offering. Fiduciary Pension Partners is a registered investment adviser with its principal place of business in the State of New Jersey. Registration does not imply a certain level of skill or training.