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By William J. Goldsmith

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Do You Know Who Gets What?

When it comes to financial planning, one of the easiest ways to really ruin your planning is to not update your beneficiary designations on things like your insurance policies, IRAs and retirement plans.

When someone dies, there are different ways that their assets can pass to their heirs. They are as follows: probate, joint ownership, trust and contract. While this article will focus on the passing of assets by contract, I will briefly discuss the other methods.

Probate is a legal process designed to validate a will, identify and inventory the deceased person's property, determine an accurate value of the property, pay debts and taxes and distribute the remaining property to the heirs according to the deceased's will or state law if the deceased died intestate (i.e. without a will).

Joint ownership of property includes Tenants in Common, Joint Tenants and Tenants by the Entirety. Which form of joint ownership is best will depend upon the goals and relationship of the people owning the property. For example, Tenants by the Entirety is only available to married couples.

There are two basic types of trusts, revocable and irrevocable. Revocable simply means that the grantor of the trust can make changes to the trust once it is established. Irrevocable trusts once established cannot be changed by the grantor without approval of the trust's beneficiaries.

One of the benefits of owning property via joint ownership, trusts and/or contract, is that these forms of ownership all bypass the probate process which can be both costly and time consuming. Also, probate is a public process and wills can be contested. So, for these reasons many people would prefer to avoid probate entirely.

As just mentioned, assets that pass via contract avoid probate. So, your IRA, 401k and any insurance policies you own will go to your stated beneficiaries assuming you selected a beneficiary in the first place. For example, sometimes a person will list their estate as the beneficiary of a life insurance policy. Unfortunately, by doing so, the death benefit proceeds will now be subject to probate. Also, many people forget to update their beneficiaries, when they experience a life changing event such as a divorce, second marriage, birth of a new child or death of a loved one, especially when they have multiple life insurance policies (both individually owned and group coverage), multiple IRAs and multiple retirement plans from different employers.

Some people also assume that because they have setup a will that the will sets out how these assets will be distributed at their death. That is not the case. The beneficiary designation is what determines who receives the asset, not the will. Without proper attention and careful planning, the problems that can develop from not having the appropriate beneficiary designations that are aligned with your financial planning goals are too numerous to cover in this article. One simple example would be your retirement plan assets going to an ex-spouse with whom you had no children instead of your current spouse with whom you have three minor children. This is just one example and there are many more.

Updating your beneficiary designations can be time consuming and falls into the category of important but not urgent for many people. That said, it is urgent because the impact it can have on the people you leave behind can be both devastating and tragic. Take the time to review your beneficiary designations. Your loved ones will thank you.

Also, I would like to take a moment to wish all the riders participating in this weekend's Pan-Mass Challenge (PMC) a safe ride. This will be my ninth consecutive PMC. I hope to see you along the route.

William J. Goldsmith, CFP®, CLU®, LIA is the President and Owner of LifeTime Financial Strategies, LLC, an independent financial services firm. Bill was born and raised on the South Coast and lives in Middleborough with his wife Lisa and their children. Bill can be reached by email at bill@lifetimefinancialstrategiesllc.com.

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