DOLLARS AND SENSE

By Brian Ross, OST Director of Financial Education

Are Your Beneficiary Designations Correct?

A true (but sad) story: A teacher in New York was a dedicated saver and investor. For years, she put everything she could into her retirement plan. Though she never made more than $40,000 a year in her entire life, by the time she retired she had over a million dollars in her tax qualified retirement plan (similar to the Thrift Savings Plan).

She set up her retirement plan when she first began teaching, back in in her 20's. At that time, she was married to Husband No. 1. They divorced about three years later. She eventually remarried and built a family with Husband No. 2. They were married for twenty or so years before she passed away. But who ended up getting her million dollars? Husband No. 1 did. I'm sure she thought her money would go to Husband No. 2 and their kids, but it did not. The case even went to court, where it was ruled that the money would go to her first husband. If she wanted her second husband and her family to inherit her money, according to the court, she should have changed her beneficiary designation.

Many people are shocked to learn that a beneficiary designation on retirement plans and life insurance policies will take precedence in most cases over the terms of a will or trust.

The teacher's story is a dramatic illustration of improper beneficiary designation, but the problem isn't an unusual one. Financial planners report that up to 90 percent of new clients have improper beneficiary designations. This can create significant repercussions, since these designations dictate not only who gets an inheritance, but when and how.

It is recommended that beneficiary designations be reviewed at least once a year, and any time you have a change in your life--a divorce, the loss of a loved one, even a financial change. As you can tell from the sad story above, it's very, very important.

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