

CASE OF THE WEEK

w/o 12.04.2011 Year-End Beneficiary Audit

Our ERISA consultants on the Columbia Management Learning Center Resource Desk regularly receive calls from financial advisors on a broad array of technical topics related to IRAs and qualified retirement plans. For example, we routinely guide Columbia Management's financial advisor partners through the rules related to naming beneficiaries for IRAs and workplace retirement plans.

A recent call with Merrill Lynch advisor in New York is representative of a common inquiry regarding beneficiaries. The advisor asked: **"Will my clients' wills for the disposition of their assets upon death cover their IRAs and workplace retirement plan assets as well?"**

Highlights of Recommendations

- Generally, no; investors' wills do not override their beneficiary designations on retirement plans, IRAs, annuity and life insurance policies, or brokerage accounts.
- In some cases, federal and state laws may govern the choice of primary beneficiary on your clients' accounts—often requiring them to name their spouses unless they (the spouses) provide written waivers.
- As we all know, life's circumstances change (e.g., marriage, death, divorce, births, adoptions, remarriage, etc.). As a result, beneficiary designations may quickly become outdated.
- For that reason, it is critical for you to regularly conduct beneficiary audits with your clients on their retirement plans, IRAs, annuity and life insurance policies, and brokerage accounts to ensure the beneficiaries they have chosen accurately reflect their current circumstances and legacy wishes.
- What's more, by aligning certain types of accounts with the needs and tax situations of specific beneficiaries, your clients may be able to increase the value of their legacy and lessen the tax burden on the recipients.
- Should a client wish to change a beneficiary on a particular account, he or she should consider executing (i.e., signing and dating) a new beneficiary designation form that supersedes the old form so that there is no confusion. Beneficiary designations can sometimes be changed online as well.
- The Columbia Management Learning Center has beneficiary audit support materials in the form of a worksheet, Investor Perspective, white paper and audit form.
- As the year draws to a close, now may be an optimal time to establish a tradition (best practice) of conducting annual beneficiary audits with your clients.

Conclusion

A beneficiary audit is recommended any time a client experiences a life change, and should be conducted at least annually regardless. Financial advisors who understand beneficiary rules for retirement plans, IRAs, annuity and life insurance policies, or brokerage accounts set themselves apart from the average advisor and, thereby, win more clients and retirement plan business. As always, the Columbia Management Learning Center is available to help.