

Why choosing beneficiaries for your retirement accounts is important

Key Takeaways:

- You must name beneficiaries for your retirement accounts on beneficiary designation forms; you usually can't change the designations in your will.
- Your beneficiary designations control who receives your individual retirement account (IRA) and other retirement account assets as well as life insurance policies.
- Without a beneficiary designation, your assets may not end up where you want them to go.

If you've made and signed a will, you've taken an important step in the planning process. Equally important is making sure to choose beneficiaries for your IRAs, other retirement accounts, and life insurance policies. Here are some factors to consider as you complete or update your beneficiary designations.

Designations control where your money goes.

Your beneficiary designations control who inherits your IRAs and other retirement accounts. You usually cannot change those designations by naming someone different in your will or in a trust. Upon your death, the financial institution, insurance company or plan administrator will look at the beneficiary designation that it has on file or, where there is no designation on file, will look to default beneficiaries listed in the IRA's or plan's documents. At times, these default beneficiaries may not reflect your wishes. So, be sure to name one or more beneficiaries for your retirement accounts, and make sure existing designations reflect your current thinking.

The rules vary for when beneficiaries are required to access your account assets.

Prior to January 1, 2020, many individuals designated as retirement account beneficiaries were able to stretch distributions from inherited IRAs, allowing them to withdraw funds from the accounts over time based on their life expectancy. Where trusts were named as beneficiaries, under certain circumstances the Trustees were able to withdraw funds over time based on life expectancy. Keep in mind that these rules continue to apply to accounts inherited prior to 2020; however, the SECURE Act eliminated the stretch provisions for most beneficiaries who inherited the accounts on or after January 1, 2020, with some exceptions.

Whether your named beneficiaries can stretch IRA distributions from accounts inherited on or after January 1, 2020 depends on who they are. While spouses and certain other beneficiaries can still stretch withdrawals from an inherited IRA, with minimum required distributions based on life expectancy, many beneficiaries will have to take a full distribution of their inherited IRA within 10 years of your death (with the flexibility to take withdrawals at any time during those 10 years). Estates and certain trusts may have to take distributions within five years of your death.

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Working with a trusted advisor can help with your planning.

Without a beneficiary designation, your assets may not end up where you want them to go. Taking this step can help you take control of your plans for your finances.

Everyone has a different situation, so you may want to speak with a tax advisor and an estate attorney before making any moves.

IMPORTANT INFORMATION

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