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WHAT BENEFICIARIES NEED TO KNOW

What to do when an account owner passes away?

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If your loved ones have invested, saved or insured themselves to any degree, you may be named as a beneficiary to one or more of their accounts, policies or assets in the event of their deaths. While we all hope “that day” never comes, we do need to know what to do financially if and when it does.

Legally, just who is a “beneficiary”? IRAs, annuities, life insurance policies and qualified retirement plans such as 401(k)s and 403(b)s are set up so that the accounts, policies or assets are payable or transferrable on the death of the owner to a beneficiary, usually an individual named on a contractual document that is filled out when the account or policy is first created.

In addition to the primary beneficiary, the account or policy owner is asked to name a contingent (secondary) beneficiary. The contingent beneficiary will receive the asset if the primary beneficiary is deceased.

Some retirement accounts and policies may have multiple beneficiaries. Charities, schools and nonprofits are also occasionally named as beneficiaries. If you have individually listed one (or more) of your kids or grandkids as designated beneficiaries of your 401(k) or IRA, that designation should override a charitable bequest you have stated in a trust or will.¹

A will is NOT a beneficiary form. When it comes to 401(k)s and IRAs, beneficiary designations are commonly considered first and wills second. If you willed your IRA assets to your son in 2008 but named the man who is now your ex-husband as the beneficiary of your IRA back in 1996, those IRA assets are set up to transfer to your ex-husband in the event of your death. Sometimes beneficiary forms are revised; often they are never revised.¹

If a retirement account owner passes away, what steps need to be taken? First, the beneficiary form must be found, either with the IRA or retirement plan custodian (the financial firm overseeing the account) or within the financial records of the person deceased. Beyond that, the financial institution holding the IRA or retirement plan assets should also ask you to supply:

- A certified copy of the account owner's death certificate
- A notarized affidavit of domicile (a document certifying his or her place of residence at the time of death)

If the named beneficiary is a minor, a birth certificate for that person will be requested. If the beneficiary is a trust, the custodian will want to see a W-9 form and a copy of the trust agreement.^{2,3,4}

If you are named as the primary beneficiary, you usually have four options regardless of what kind of retirement savings account you have inherited:

- 1) Open an inherited IRA and transfer or roll over the funds into it.
- 2) Roll over or transfer the assets to your own, existing IRA.
- 3) Withdraw the assets as a lump sum (liquidate the account, get a check).
- 4) Disclaim as much as 100% of the assets, thereby permitting some or all of them to be inherited by a contingent beneficiary

However, these options may be influenced or limited by four factors:

- 1) The kind of retirement plan you have inherited.
- 2) Whether the named beneficiary is a spouse, non-spouse, trust or estate.
- 3) The age at which the account owner passed away.
- 4) The resulting tax consequences.

Before you make ANY choice, you should welcome the input of a tax advisor.^{3,5}

What if you are a spousal beneficiary? If that is the case, you may elect to:

- Roll over or transfer assets from a traditional IRA, Roth IRA, SEP-IRA or SIMPLE IRA into your own traditional or Roth IRA, or an inherited traditional or Roth IRA
- Withdraw the assets as a lump sum
- Roll over or transfer qualified retirement plan assets from a 401(k), 403(b), etc. into your own retirement account, or take them as a lump sum
- Disclaim up to 100% of the assets within 9 months of the original account owner's death^{3,5,8}

What if you are a non-spousal beneficiary? If this is so, you may elect to:

- Roll over or transfer assets from a traditional IRA, Roth IRA, SEP-IRA, SIMPLE IRA or qualified retirement plan into an Inherited IRA
- Withdraw the assets as a lump sum
- Disclaim up to 100% of the assets within 9 months of the original account owner's death
- Leave the assets in the plan (sometimes permissible with qualified retirement plans)^{3,5}

What if a trust, estate or charity is named as the beneficiary? If that is the circumstance, there are three choices:

- Transfer assets from a traditional IRA, Roth IRA, SEP-IRA, SIMPLE IRA or qualified retirement plan into an Inherited IRA
- Withdraw the assets as a lump sum
- Disclaim up to 100% of the assets within 9 months of the original account owner's death^{3,5}

The next calendar year will be very important. Inheritors of retirement accounts have until September 30 of the year following the original account owner's death to review and remove beneficiaries, and until December 31 of that year to divide the IRA assets among multiple beneficiaries. Usually, December 31 of the year after the original retirement plan owner's passing is the deadline for the first RMD (Required Minimum Distribution) from an inherited traditional or Roth IRA.⁶

Now, how about U.S. Savings Bonds? If you are named as the primary beneficiary of a U.S. Treasury Bond, you have three options:

- Redeem it at a financial institution (you will need your personal I.D. for this).
- Get the security reissued in your name or the names of multiple beneficiaries. You do this via Treasury Department Form 4000, which you must sign before a certifying officer at a bank (not a notary). Then you send that signed form and a certified copy of the death certificate to a Savings Bond Processing Site.
- Do nothing at all, as the primary beneficiary automatically becomes the bond owner when the original bond owner passes away.⁷

What about savings & checking accounts? Bank accounts are often payable-on-death (POD) assets or "Totten trusts." All a beneficiary needs to claim the assets is his or her personal identification and a certified copy of the death certificate of the original account holder. There is no need for probate. (Some states limit charities and non-profits from being POD beneficiaries of bank accounts.)⁷

How about real estate? Lastly, it is worth noting that about a dozen states use transfer-on-death (TOD) deeds for real property. If you live in such a state, you have to go to the county recorder or registrar, usually with a certified copy of the death certificate and a notarized affidavit which informs the recorder or registrar that ownership of the property has changed. If the deed names multiple beneficiaries and some are dead, the surviving beneficiaries must present the recorder or registrar with certified copies of the death certificates of the deceased beneficiaries.⁷



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Citations.

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