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CAPITAL MANAGEMENT

Greetings!

Our newsletter this month is titled "Estate Planning and Retirement Assets: What You Need to Know."

Thank you for your thoughts and feedback on our newsletters. If you know someone who may benefit from this information, please pass it on. If you have any questions or comments, please contact us.

Regards,

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Estate Planning and Retirement Assets: What You Need to Know

Whether you're wealthy or earn a modest income, there is one estate planning concern that is shared by people from all walks of life -- the decision of who gets what when you're gone. While some individuals may logically assume that a last will and testament is the one official forum to express such decisions, that's not always the case. Often, an equally important issue is whom to name as beneficiary on life insurance policies, pension plan accounts and IRAs, since these assets are passed on independent of what may be spelled out in a will.

Life Insurance

No matter who is designated, the beneficiaries will generally receive the death benefit proceeds income tax free. Unlike property disposed of in a will, if the beneficiary designation form is properly completed, insurance proceeds typically do not go through probate.

For many married individuals, a spouse will be the most logical beneficiary. A trust may be a better beneficiary choice, however, if a surviving spouse would not have the knowledge, time or comfort level to manage the insurance proceeds. A properly designed and executed life insurance trust can provide considerable advantages to you, your loved ones and your estate. But trusts can be complex instruments, so be sure to consult with an estate planning professional with experience in setting up life insurance trusts to help ensure your peace of mind.

Also, remember to name contingent or secondary beneficiaries. This means that if the primary beneficiary has died, the insurance proceeds will go to the individual or trust named as secondary beneficiary. If there are no surviving beneficiaries, then the beneficiary is generally the insured's estate, which means the death benefits will be probated and ultimately distributed according to the instructions of the decedent's last will and testament. If an individual dies without a valid will (intestate), then the order of legal beneficiaries to whom assets are distributed is specified by that state's intestacy laws.

Pension Plans and Individual Retirement Accounts (IRAs)

Generally, the law requires that the spouse be the primary beneficiary of a 401(k) or a profit-sharing account unless he/she waives that right in writing. A waiver may make sense in a second marriage -- if a new spouse is already financially secure or if children from a first marriage are more likely to need the money.

Single people can name whomever they choose. And nonspouse designated beneficiaries of qualified retirement plans may be eligible for a "trustee-to-trustee" transfer to an inherited IRA, thus preserving the ability to stretch distributions over their life expectancies.

Consult your tax advisor on how these rule changes may affect your situation.

Naming Children May Not Be Best

Naming children as beneficiaries may cause unforeseen problems. For example, insurance companies, pension plans and retirement accounts may not pay death benefits to minors. The benefits would likely be held until they could be made to a court-approved guardian and/or trustee of a children's trust. A guardian, trust or trustee should be named beneficiary to ensure competent management of the proceeds for the children.

IRS rules provide that plans may allow nonspousal beneficiaries to stretch retirement plan distributions over the life of the beneficiary. Check with your employer to find out if this is an option under your plan prior to naming a child as a beneficiary. A competent financial professional and/or tax advisor can also offer guidance as to whether this action may be appropriate for you.

Keep Your Plan Up to Date

As you formalize or update your estate plan and will, it is important to review all beneficiary designations so that your plan accurately reflects your current intentions. Remember that beneficiary designations could misdirect the intended flow of an estate unless they are kept up to date.

As is always the case with estate planning, consult with qualified professionals concerning your particular situation in order to ensure that your beneficiary designations are in tune with your goals.