



Beneficiary Designations

Satisfying Clients and Managing
Beneficiary Paperwork

Speakers

- Tonia Bottoms

Director and Senior Counsel
Merrill Lynch & Co.

- Carol Gransee

Assistant Vice President, Retirement Plans/Compliance
Oppenheimer Funds, Inc.

- Edwin Leavitt-Gruberger

Partner
Compliance, Retirement Services
Windels, Marx Lane & Mittendorf, LLP

Moderator: Susan Lee Pepsin
Vice President, Retirement Services Manager
Wedbush Morgan Securities

Phases

- I. Pre-Death Planning: Designating a Beneficiary

 - II. Post-Death: Distributions to a Beneficiary
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Designating a Beneficiary

- Client Service/Financial Planning
 - IRA Document Issues
 - Custodial/Trustee In-house Procedures
 - Legal Issues
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Distributions to a Beneficiary

- IRS Guidelines on Beneficiary Options
 - Trust Beneficiary Payouts
 - Unique Situations:
 - Contested Beneficiary Designation
 - Unable to Locate a Beneficiary
 - Potential Liabilities due to incorrect payouts
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IRS Definitions

Required Beginning Date (RBD) – generally April 1st of the year following attainments of age 70 $\frac{1}{2}$ or retirement (Qualified plans and 403(b), whichever is later)

Required Minimum Distribution – the minimum amount needed to be taken annually from a retirement account upon reaching RBD.

Beneficiary – person or entity named to inherit a retirement account

Designated beneficiary – for purposes of calculating the RMD: any living person identified as a beneficiary

Types of Designations

Basic beneficiary designations: person, entity, estate, trust,

More complex beneficiary designations:

Per Stirpes – if beneficiary pre-deceases account holder, that deceased beneficiary's portion of the assets go to his or her heirs

Per Capita – if beneficiary pre-deceases account holder, the assets get divided **in equal portions** among remaining living named beneficiaries and the deceased beneficiary's heirs.

30 Day Contingent – provision that if the surviving spouse dies within 30 days assets do not go to 2nd spouse's estate, rather they are passed to the contingent beneficiary

RMD Before RBD

Spouse is sole designated beneficiary

Five-year rule

Single life expectancy payments, recalculated, begun later of 12/31 of year following death or 12/31 of IRA holder's 70 ½ year

Treat IRA as own; a spouse beneficiary may roll over into his or her own IRA

Nonspouse beneficiary or spouse is not sole designated beneficiary

Five-year rule

Single life expectancy payments based on oldest designated beneficiary (unless separate accounting applies), nonrecalculated, begun 12/31 of year following death

Spouse may transfer or rollover to his or her own IRA

No beneficiary (includes estates, entities and certain trusts)

Five-year rule

RMD After RBD

Spouse is sole designated beneficiary

The longer of: 1) the remaining life expectancy of the spouse using single life expectancy recalculated or 2) the remaining life expectancy of the decedent using the age in the year of death, nonrecalculated in subsequent years

Treat IRA as own; a spouse beneficiary may roll over to his or her own IRA

Nonspouse beneficiary or spouse is not sole designated beneficiary

The longer of: 1) the remaining life expectancy of the beneficiary using single life expectancy payments, nonrecalculated, or 2) the remaining life expectancy of the decedent using the age in the year of death, nonrecalculated in subsequent years.

Spouse may transfer or rollover to his or her own IRA

No beneficiary (includes estates, entities and certain trusts)

Single life expectancy payments, nonrecalculated, based on IRA holder, begun by 12/31 of year following IRA holder's death (fixed in year of IRA holder's death)

Case Study: To Trust or Not to Trust

A financial executive at your firm calls your department and describes the following new account.

His client, Mr. A, who is 65, is receiving a distribution from his company's 401(k)/profit sharing plan in the amount of \$2,000,000. He already has an after-tax account of \$1,000,000 that he owns in his own name. He and his second wife own a house that is free from debt and is worth \$1,000,000.

He has two children from his first marriage, as does his wife. His wife is 9 years younger than he is and about 15 years older than Mr. A's oldest child. They do not have any children from this marriage and they do not have a prenuptial agreement.

He wants to provide for his wife but wants to ensure that his children receive half of this estate.

He plans to roll over the distribution from his 401(k) plan to an IRA but the financial executive needs your input on the beneficiary designation because Mr. A does not seem to be getting any advice from his other advisers.

He asks the following questions –

Case Study: Key Points

- Age 85
- Total assets = \$4,000,000
- 401k Distribution of \$2,000,000
- Existing IRA \$1,000,000
- House \$1,000,000
- 2nd spouse 9yrs younger (15yrs older than oldest child)
- No children together, 2 from previous marriage
- Estate Planning Goal – 1/2 assets to wife, 1/2 assets to children

Naming the Beneficiary

Q: Mr. A has a small IRA with your firm and designated his estate as the beneficiary. Should the new rollover be added to that IRA and should they keep the current beneficiary designation?

If his estate is not the bene, then who should it be?

Trust vs. Individuals

What would happen if he doesn't name a beneficiary?

Distribution Planning

Q: How long can the payout from his IRA be...

- **If trust which includes Mr. A's wife is beneficiary?**
 - **If IRAs are divided with one for Mr.A's wife and the other for his children?**
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Trust Payouts

Q: If the beneficiary of Mr. A's IRA was a trust –

Would there be a difference in the payout from the IRA if a trust that benefited his wife and his children was the beneficiary when compared to an outright distribution to his wife?

How about a trust that benefited just his wife?

Beneficiary Wills/Unique Designations

Q: Does your firm offer an IRA that has a beneficiary designation section that is other than blank lines?

Will you accept a personally drafted beneficiary will with some estate planning features from Mr. A?

Unique Situations

- Community property
 - Divorce
 - Trusts
 - Murder and Mayhem
 - Simultaneous death
 - Contributions made after death
 - Notification of death many years later
 - QDRO after death
 - Disclaimers
 - Unable to locate beneficiary
 - Someone contesting the beneficiary designation
 - Lawsuits or firm liabilities for incorrect distributions
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Thank you!

