

Money Matters

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Question of the Month: An Inheritance Shocker

By Aaron Skloff

Q: My husband of 20 years passed away earlier this year. Even though we updated our wills just before his passing, his ex-wife now claims she owns all the assets in his IRAs and 401(k)s, totaling \$3 million. Is that legal?

A: Yes. Many people update their estate planning documents every three to five years, yet overlook one of the most important documents — the beneficiary designation form for their IRAs, 401(k)s and other retirement accounts. Unlike most assets, where beneficiaries are determined by your will, retirement account beneficiaries are determined by that specific account's beneficiary designation form.

Independent of your intentions, such as seeing the assets distributed to your wife and children, custodians of retirement accounts must follow the directions of the beneficiary designation form — even if that means \$3 million of the assets legally go to an ex-wife from 20 years ago.

The Solution. Diligently Designate Beneficiaries. Upon establishing or transferring a retirement account, diligently designate your primary and contingent beneficiaries. Primary beneficiaries are the first in line to receive your retirement account assets if you pass away.

If you do not specify what percentage each beneficiary should receive, many retirement account custodians will evenly distribute your assets between all the listed primary beneficiaries — even if your intent was for the first of two beneficiaries to receive 75% and the second to receive 25%. Some retirement account custodians will simply distribute 100% of the assets to the first beneficiary listed, ignoring the other beneficiaries listed.

Review your beneficiary designations annually and during important changes in your life.

A short list of those changes include: the adoption or birth of a child, divorce, the transition of beneficiary from a minor to one of majority, marriage, inheritance, death and/or change in financial situation.

Update your beneficiaries accordingly.

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