Do You Know Who Your IRA Beneficiary Is—and Why It Matters?

Deciding whom to designate as a beneficiary for your IRA might seem like an easy decision—you probably want your money to go to someone near and dear to you. But is the person (or people) you’re thinking of actually named as the beneficiary on the particular IRA you opened all those years ago?

To be certain, it’s wise to review your beneficiary designation form every few years, or whenever you’ve had a change in circumstances, such as a birth of a child or grandchild or change in marital status. Changing your beneficiary is easy—you simply complete a new beneficiary designation form. Keep in mind that a Will or trust does not override this form, or the IRA document itself (which may have “default” beneficiary designations that control even if no beneficiary designation is on file), unless you name your estate or trust as your beneficiary. Because beneficiary designations are important estate-planning documents, you may want to review them with your attorney.

You have the option of naming primary and contingent beneficiaries. The primary beneficiary is your first choice to receive your IRA account and can be more than one person or entity. If you choose more than one primary beneficiary, you may specify a percentage to be paid to each person and indicate whether a beneficiary’s share will be void if he or she predeceases you or if that share will pass to his or her children. You also can name a minor as a direct beneficiary of an IRA, but you should clearly name an individual to act as custodian for any minor beneficiary in order to avoid the need for court appointment of a guardian for the minor.

A contingent beneficiary is someone you designate to receive your IRA only if all primary beneficiaries predecease you, pass away at the same time as you or disclaim their rights to the IRA assets.

It’s important to note that distributions from an IRA may have tax consequences for your beneficiaries. While taxes shouldn’t be the primary determining factor in naming your beneficiaries, ignoring the impact of taxes could have significant consequences for your family. A tax advisor can help you weigh the pros and cons in order to make sure your wishes are executed in a tax-efficient manner.

Remember to look at your IRA assets in context with the rest of your estate before making any decisions. To help ensure that your wishes can be executed as you intended, discuss your beneficiary designations, Wills and other estate matters with your tax and legal advisors and other members of your advisory team.

A Primary Beneficiaries Primer

When naming a primary beneficiary, some designations to be familiar with are all my children, per stirpes and per capita. Terminology and definitions may vary from state to state, however, so you should consult with an attorney before making a final decision.

Per Stirpes: Also known as “rights of representation” in some states, per stirpes means that the children of a beneficiary who predeceases you will share equally in the portion of your IRA originally left to the now-deceased child.

Per Capita: This method divides your IRA assets equally among your beneficiaries and the descendants of any beneficiary who dies before you.

In addition, remember that being precise is better than being vague or general. For example, it’s not uncommon for people to name “All My Children” on a form. However, the better practice is to list the children being designated, and then decide if their share is held “per capita” (meaning if the child dies before you, your IRA assets will be divided among your surviving children, with the remaining children sharing equally) or “per stirpes” (meaning that your deceased child’s children will receive the share).

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