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“Why do I need a beneficiary audit?”

By Timothy E. Flatley

beneficiary (ben-e-fi-cia-ry)

1. One that receives a benefit.
2. The recipient of funds, property, or other benefits, as from an insurance policy or will.

If you are over 30, chances are you have named a beneficiary on one or more documents, such as your employer's 401(k) plan or a life insurance policy. As your retirement plan assets and insurance death benefits become more significant, it is essential that those assets are distributed to the right people. Unfortunately, once a beneficiary is named on a document, people tend never to think of it again.

Consider this scenario: A husband purchases a life insurance policy and names his current wife as his beneficiary. They divorce and the husband remarries, while never changing the beneficiary on the life insurance policy. After 15 years of marriage to his second wife, the husband dies. The estate attorney reviews all the documents and delivers the bad news to the second wife—she is not the beneficiary of the life insurance policy.

Common perception is that a will dictates how your assets will be distributed. In reality, some assets are transferred by will while others, such as insurance policies, 401(k) plans and IRAs, are transferred by contract.


PENSIONS AND RETIREMENT ACCOUNTS

Under the Employee Retirement Income Security Act (ERISA), your spouse is automatically entitled to at least half your retirement plan assets, regardless of whom you have designated as your primary beneficiary. If you desire to have someone else as your primary beneficiary, then a spousal waiver must be properly executed. These rules can cause issues when the retirement plan participant remarries and names his children as his beneficiaries. The new spouse will receive half the value, even if not named.

IRAS

IRAs, unlike corporate retirement plans, are state controlled and do not automatically grant beneficiary rights to spouses. To gain flexibility of beneficiary, an individual can roll a former employer's 401(k) into an IRA.

BENEFICIARY AUDIT

When creating an estate plan, attorneys will review all beneficiary designations and coordinate them with your estate planning documents. Similarly, a beneficiary audit is an analysis of all your documents to ensure your estate plan is still on track. You can contact your life insurance agent, investment advisor or custodian for your IRA, and the human resource contact for your company's retirement plan to easily verify current beneficiaries. It is a worthwhile annual endeavor, especially as your retirement assets and insurance policies are growing in value. 

BENEFICIARY MAINTENANCE TACTICS

- Review your beneficiary designations on an annual basis, or delegate to your financial advisor.
- Create a list of how your assets/accounts are owned and who receives the asset when you pass away.
- Be cognizant of secondary beneficiary designations in case you and the primary beneficiary pass away simultaneously.
- Consider the use of revocable trusts to pass assets outside of your will.
- Recognize that distribution strategies from trusts that were implemented more than five years ago may now be obsolete as heirs are now older.

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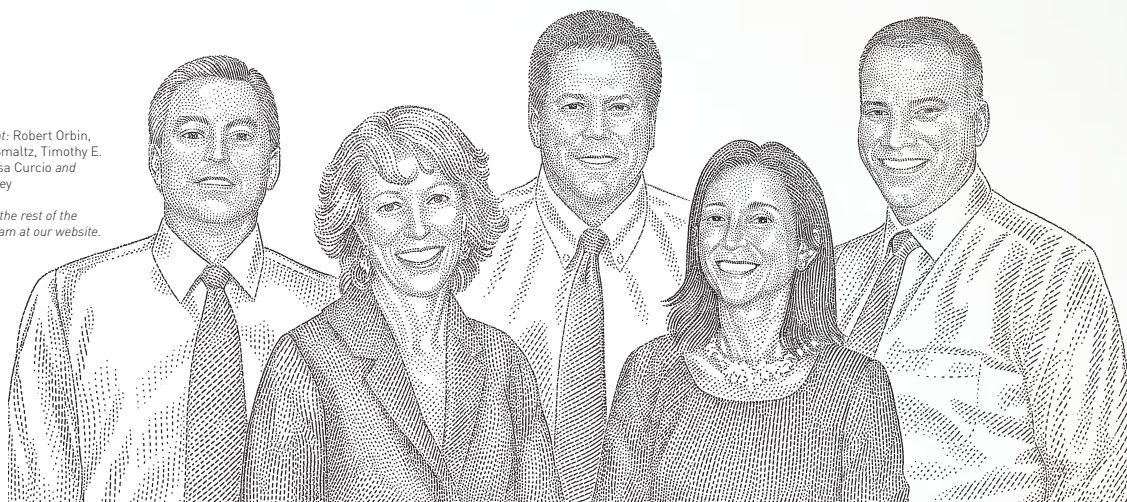
– Timothy E. Flatley

How to reach Timothy E. Flatley

We have offices in both Berwyn and Wilkes-Barre, Pa.
Please contact me at 610.560.0400.

Left to right: Robert Orbin,
Michelle Smaltz, Timothy E.
Flatley, Lisa Curcio and
Sean Flatley

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Largest Client Net Worth
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Financial Services Experience
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Compensation Method
Asset-based, fixed and hourly fees

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Professional Services Provided
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Association Membership
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Website
www.sterling-advisors.com

Email
flatley@sterling-advisors.com



Timothy E. Flatley, ChFC®
President

Sterling Investment Advisors Ltd.
1055 Westlakes Drive, Suite 150
Berwyn, PA 19312
Tel. 610.560.0400 | 877.430.7382

flatleyt@sterling-advisors.com
www.sterling-advisors.com

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