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6 Mistakes to Avoid When Designating Beneficiaries

We all have loved ones that we want to care for now and into the future. Designating our loved ones as beneficiaries on our asset accounts is a wonderful way to fulfill that goal. But there are six common mistakes that people make when designating beneficiaries, resulting in outcomes they didn't desire. Here's an overview of those mistakes and how to avoid them.

Mistake #1:
Not Naming a Beneficiary for All Accounts

It's important to be sure your accounts have beneficiary designations in order to avoid probate, which can result in your loved ones having to pay high tax bills.

Mistake #2:
Forgetting to Name a Contingent Beneficiary on All Accounts

Don't forget to provide a secondary beneficiary. If your primary beneficiary passes away first and no contingent beneficiary is named, it's the same as having no beneficiary.

Mistake #3:
Not Reviewing and Updating Beneficiaries Regularly

Major life changes like births, marriages, and divorces will impact beneficiary designations. Doing an annual review of your beneficiary designations ensures that the people you love most are included.

Mistake #4:
Not Using Specific Names

Using full names, including middle names and applicable prefixes (like Sr. and Jr.) eliminates the possibility for confusion with distant relatives who have the same first name as your intended beneficiary.

Mistake #5:
Not Considering Special Circumstances

Your purpose in designating beneficiaries is to improve the well-being of your loved ones. So you'll want to consider what will be best for loved ones with special needs, minor children, or those with a history of money problems. Here's what to keep in mind.

- When Designating a Beneficiary with Special Needs — People who are receiving government aid for a disability may be disqualified upon receiving an inheritance. It's best to consult with an estate planning attorney who understands the legal implications of designating beneficiaries with special needs.
- Naming a Minor Child as a Beneficiary — Minor children typically get access to an inheritance at the age of 18 or 21. But most children aren't yet experienced enough with money to make good decisions. This situation is best handled with a trust, where you can detail how the money is to be paid out and when.
- Naming Someone Unable to Manage Money — For the same reason, you'll want to use a trust to put guidelines in place for money distributed to loved ones with significant financial problems. You want to be sure they are set up for success.

Mistake #6:
Inconsistency with Estate Planning Documents

If your will doesn't match your beneficiary designations, the beneficiary designation will override the will in many states. This is another good reason to review your beneficiary designations on each account annually.

Knowing these common mistakes will help you to better plan, enabling you to stay in control of your assets while caring for your loved ones. Keep in mind that wills, trust, and estate laws vary from state to state and sometimes even from year to year, so always check with a local estate planning attorney to learn the best way for you to designate beneficiaries.

Looking for a tool that will make it easier to gift tangible personal property to your loved ones? Try Thingealogy, and check with your estate planning attorney to learn how to link Thingealogy to your existing will!

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