

Mistakes In Designating A Retirement Beneficiary

In [Who Is the Beneficiary of Your Retirement Account?](#), we discuss the importance of updating beneficiary designations. A problematic beneficiary designation can be frustrating for everyone involved. But, while making an update to your designation is important, it is effective only if it meets certain requirements. In this article, we look at beneficiary designations that may cause problems, and how you can avoid them by taking some simple precautionary steps.

Designating Unidentifiable Beneficiaries

Your custodian's inability to identify your beneficiary could result in a delay in your intended beneficiary receiving the [assets](#), and could also cost your beneficiary legal fees if it becomes necessary for the courts to decide who the beneficiary is. Identifying your beneficiaries by name and relationship to you causes little or no problems for the beneficiaries. However, you do not have to put your beneficiary's name on your designation form: simply stating "all my surviving children," for example, is an acceptable beneficiary designation. In fact, the final [required minimum distribution](#) (RMD) regulations state, "A designated beneficiary need not be specified by name in the plan ... in order to be a designated beneficiary so long as the individual who is to be the beneficiary is identifiable..." [Treas. Reg. § 1.401(a)(9)-4, Q&A 1]. 'All my surviving children' satisfies this requirement.

The designation 'all my children' is also acceptable; however, should one of your children predecease you, it raises the question of how that person's share should be handled. If you want that child's share to go to his or her heirs, then you must make that intent clear in your beneficiary designation. This can be accomplished by attaching a customized beneficiary designation or by including a [per stirpes](#) clause.

Beneficiary Designations and Your Will

Many IRA custodians are unwilling to accept beneficiary designations of 'as per my will'. In many cases, the reluctance is due to the fact that a [will](#) addresses the treatment of assets that are part of an individual's [estate](#), and a [retirement](#) account is not considered to be part of an estate. While "as per my will" is not a widely accepted designation, the regulation suggests that it conforms to federal guidelines. Before you make such a designation, be sure to check with your IRA custodian. Even in instances where the custodian will accept such a designation, it still may not provide the desired result.

For instance, assume you provide in your will that your IRA assets should go to your daughter. She will eventually receive the assets; however, she will not be treated as the beneficiary of your IRA, and therefore will not be able to take advantage of the life expectancy options that would have been available to her had she been the direct designated beneficiary of the IRA. Instead, the IRA will be treated as having no designated beneficiary or a non-person as the beneficiary.

Amounts Instead of Percentages

Some individuals like to ensure that a designated beneficiary will receive a specific amount. Toward this end, beneficiary designations may be formulated something like '\$80,000 to Charlie and the remainder to John'. This designation may not be an issue for accounts that at the time of the IRA owner's death have balances significantly higher than the stated amount, but could be problematic for other accounts.