Financial fitness

Who's going to get your investment accounts when you leave the planet?

Can I Name A Beneficiary For My Investment Account?

By Rocky Mills, North Ranch Resident

If your investments are held in a retirement account, like a 401K or an IRA, you simply indicate your beneficiaries when opening the account. You can change these at any time. By the way, just changing your will or your trust will not affect how your retirement plan is distributed – these plans must strictly adhere to the beneficiary statement. So it's a good practice to review your retirement plan's beneficiaries from time to time.

But what if your investments are not held in a retirement account? The most common non-retirement accounts are titled as living trusts, joint tenants or in single name. Each titling treats beneficiaries a little differently.

A well-drafted living trust already specifies your beneficiaries and lays out exactly how they will receive the assets upon your death. And when. For example, you might put your teenager's share into a trust that they can't touch until they graduate college or turn 25, whichever is earlier. A trust gives you lots of flexibility. And, a trust avoids the delay of probate (where a judge has to approve who gets your assets upon your death).

Joint tenancy, as the name implies, is where the assets are owned by two (or sometimes more) people. At death, these assets are split – not necessarily equally – among the owners, depending on the type of joint tenancy used (such as "tenants in common" or "with rights of survivorship"). This form of ownership, too, avoids the delay of probate.

An account that's titled in just your name has no beneficiary. It's not governed by a trust. It's not subject to joint tenant rules. At your death, then, it becomes part of your overall estate and goes through the probate process in order to get transferred to whomever you named in your will.

I hear this question a lot from clients who own assets in their single name: "Should I add my daughter as a joint tenant so that if something happens to me she automatically gets the assets?" Let's be clear: adding a joint tenant does more than just determine who gets the assets at your death. It also changes who owns the asset while you're alive. Who gets the income earned? Who pays the taxes on that income? Who can make the decision to sell it? Who is liable for any capital gains upon sale? And then there's the gifting issue: adding a joint tenant is generally considered a gift to that individual and possibly subject to IRS filings and taxes.

So how do you keep assets in single name and still ensure that upon your death it goes to whom you want? It's called "Transfer on Death" or TOD, and it's available in all states except Texas and Louisiana (who have not yet adopted the Uniform TOD Security Registration Act). It's a form you sign that instructs your brokerage firm to transfer the assets to the named individuals at your death. It's not as flexible as the beneficiary statement for a retirement account – you cannot name a successor or contingent beneficiary. But, according to SEC.gov, using the TOD does avoid the delays of probate.

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