

## Beneficiary and Transfer-on-Death Designations: Are You Doing It Right?

Do you know which of your accounts have beneficiary designations, sometimes called transfer-on-death (TOD) or payable-on-death (POD) designations? Have you updated them recently? Are you aware of what can go wrong if there are issues with your beneficiary designation forms?

If you answered “no” to any of these questions, it may be time to review your beneficiary, TOD, and POD designations and confirm that everything is accurate, complete, and current.

Accounts and property with beneficiary, TOD, or POD designations take precedence over your will or living trust, so keeping forms updated is crucial to ensuring that your accounts and property go quickly and seamlessly to the right people.

### Where to Find TOD, POD, and Beneficiary Designations

Beneficiary, TOD, and POD designations are made using legal forms that specify who will receive the asset (e.g., accounts, property, death benefits, etc.) after the original owner dies.

Such designations allow you to pass assets directly to your beneficiaries and avoid probate. Avoiding probate can reduce estate costs, ultimately leaving more money to benefit your family and loved ones, and result in faster distribution to beneficiaries. Common asset types where beneficiary designations come into play include the following:

- **retirement accounts**—401(k)s, individual retirement accounts, and other retirement plans;
- **investment accounts**—Brokerage accounts, stocks, bonds, and mutual funds;
- **bank accounts**—Checking accounts, savings accounts, and certificates of deposit;
- **life insurance policies**—All types of life insurance policies, including whole, term, and group; and
- **real estate**—TOD deeds and similar alternatives (offered in more than half of states).

For most Americans, their home and financial accounts are the primary source of their wealth, making them central in an estate plan<sup>1</sup> and making it all the more important that beneficiary designations for these assets reflect your current wishes.

### What Can Go Wrong with an Incomplete, Inaccurate, or Outdated Beneficiary Form?

According to financial advisors, beneficiary form errors are among the most common—and the costliest—estate planning mistakes that people make.<sup>2</sup> These errors fall into a few main buckets:

- **Failure to name a beneficiary.** Many people simply forget to complete beneficiary designation forms or put them off indefinitely. This situation is especially common for inherited accounts.
- **Outdated information.** Major life events such as marriage, divorce, the birth of a child, or the death of a beneficiary necessitate updating designations.

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<sup>1</sup> Rakesh Kochhar and Mohamad Moslimani, 4. *The assets households own and the debts they carry*, Pew Rsch. Ctr. (Dec. 4, 2023), <https://www.pewresearch.org/2023/12/04/the-assets-households-own-and-the-debts-they-carry>.

<sup>2</sup> Mark Henricks, *Out-of-date beneficiary designations are a common and costly mistake*, CNBC (Apr. 17, 2018), <https://www.cnbc.com/2018/04/16/out-of-date-beneficiary-designations-are-a-common-and-costly-mistake.html>.

- **Inaccurate or missing information.** Mistakes in spelling, addresses, or other identifying information or failure to provide complete information can cause delays, confusion, or even disputes when processing beneficiary designations.
- **Naming a minor as beneficiary.** Technically, minors can be named as beneficiaries, but they cannot legally receive or manage money and property above a certain value. If they are named as beneficiaries, a court may need to appoint a guardian to oversee the funds for them until they reach the age of majority (18 years of age in some states and 21 in others).
- **Overlooking complex circumstances.** A beneficiary may be unable to manage their inheritance because of a disability, special needs, poor money habits, mental health issues, or substance use disorder.
- **Not naming contingent beneficiaries.** If the primary beneficiary dies before the account holder or cannot be located and no *contingent* (backup) beneficiary has been named, it will be treated as if no beneficiary had been named.
- **Lost or invalid forms.** Unfortunately, financial institutions sometimes misplace beneficiary designation forms or fail to process them correctly. Also, if a financial institution or employer changes the plan's service provider or administrator, the original beneficiary designation may no longer apply, meaning that a new beneficiary designation form needs to be completed under the new provider.

In addition to the unintended distribution of accounts, property, or death benefits and related disputes, an invalid, missing, or outdated beneficiary designation can result in the assets requiring probate administration, possibly causing payout delays and raising estate administration costs. Also, most things that go through probate may be subject to claims from creditors, potentially reducing the amount distributed to beneficiaries.

To emphasize how disastrous beneficiary form errors can be to an estate plan, here are some examples of how they could play out in the real world:

- **Divorce dilemma.** John and Mary were married for 20 years. John had a 401(k) from his employer, with Mary listed as the sole beneficiary. They divorced, and John remarried. John passed away unexpectedly, and despite his wishes for his current wife to inherit his retirement funds, the plan administrator, bound by the beneficiary designation, paid the entire sum to his ex-wife. Not all states have revocation-upon-divorce laws, and even in states that do, there are often exceptions and specific situations where the rules do not apply.
- **Forgotten children.** Sarah had a life insurance policy from her early 20s naming her parents as beneficiaries. She later had two children but never updated the policy. Upon Sarah's death, the life insurance proceeds went to her parents.
- **Probate purgatory.** Robert had a brokerage account but never designated a beneficiary. When he died, the account became part of his probate estate, resulting in a lengthy and expensive legal process that delayed the distribution of his money and property to his heirs. Because the assets were tied up in probate, creditors also had easier access to those funds.
- **Incapacitated beneficiary.** A woman named her adult son as her sole beneficiary on her life insurance policy. Years later, her son was in a severe car accident and became mentally incapacitated. When the woman passed, there was no clear plan for how the life insurance funds should be managed for her incapacitated son, and if he was

receiving needs-based benefits, those benefits could be jeopardized by his receiving the funds.

### **Schedule an Estate Plan Review**

A recent survey found that nearly one-fourth of Americans have not revised their estate plan since creating it. Many have also not updated it within the past 10 to 15 years.<sup>3</sup>

The recommended timeline for reviewing beneficiary designations is the same as for the rest of your estate plan—at least every few years or after any significant life event. During the review process, you and your attorney can dig into details such as the following:

- Are these beneficiaries still the people you want to receive your accounts?
- Are the beneficiaries still living?
- Are they capable of managing the inheritance?
- Is there more than one beneficiary named, and if so, how hard is it to divide the account or property, and what is the potential for conflict between/among the beneficiaries?
- Have you informed the beneficiaries that they are named? Do they know how to claim their inheritance?
- Are you fine with them receiving an outright distribution, or are safeguards needed?

When reviewing beneficiary designations, get current confirmation directly from the financial institutions to verify whom they have on record. Do not just rely on the forms you originally filled out to ensure your designations were properly processed.

Even if everything looks good after a review, for added protection and control over the inheritance in complex circumstances, you may want to name a trust as the beneficiary and allow a trustee to manage the inheritance on your loved ones' behalf. You can also name a charity as a beneficiary.

Avoid letting a simple clerical error derail your estate plan. Schedule an attorney review to double-check that every "i" is dotted, every "t" is crossed, and every form accurately expresses your intentions.

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<sup>3</sup> Victoria Lurie, *2025 Wills and Estate Planning Study, Caring* (Feb. 18, 2025), <https://www.caring.com/caregivers/estate-planning/wills-survey>.