

Man's mistake cost his children \$400,000 of an IRA inheritance

Jeanie Ahn • Yahoo Finance

Before Leonard Smith lost his battle with cancer in 2008, he worked with his financial advisors and attorneys to make sure his children received the balance of his retirement funds when he died.

A single mistake, however, thwarted his well-laid plans. Family members realized a year after he died that his IRA beneficiary form was filled out incorrectly. Instead of specifically listing the names of his children along with the percentages designated to each heir, Smith wrote: "To be distributed pursuant to my last will and testament," where the disbursement of funds was spelled out.

But Smith's failure to complete the form correctly invalidated the document, making his surviving spouse the beneficiary by default.

"I had no idea that a will could be trumped by an IRA beneficiary form," Deborah Smith-Marez, 50, Leonard's daughter, told Yahoo Finance.

Smith-Marez and her siblings fought in court to recover the money, but the court awarded the \$400,000 in the IRA to their father's wife, who married Smith two months before he died.

Like Smith-Marez, many Americans are unaware that long-forgotten beneficiary forms can override wills and undermine their loved ones' intentions.

How does this happen? Beneficiary forms are meant to be a straightforward method for heirs to bypass the probate process and receive funds in a timely manner. But sometimes account holders forget they've filled out these forms and fail to update them with major life changes.

Your estate is governed separately from your accounts with beneficiary designations, which include retirement accounts, life insurance policies, bank accounts, certificates of deposit, stocks, annuity contracts, bonds, and mutual funds. So if your last will and testament designates one person as the beneficiary and your IRA designates someone else, the IRA will outrank stipulations in your will.

Americans now store more and more of their wealth in retirement accounts, with \$6.5 trillion held in IRAs, and \$5.9 trillion in employer-based defined contribution plans like 401(k)s, according to the Investment Company Institute -- all of which require beneficiary forms to designate recipients upon the account holder's passing.

Unfortunately, there are no automatic reminders to update these forms on a regular basis -- the account holder has the responsibility to keep them current and valid.

After losing a loved one, fighting with family over money compounds the emotional toll. To keep this from happening, follow these five tips from certified estate planner Jean Ann Dorrell:

1) Set aside time at least once a year to update your beneficiary forms. Your beneficiary forms will override your will 99% of the time so it's important to keep these forms up-to-date and make sure your will and your designated beneficiaries on accounts don't contradict each other. You should fill out a new form if you've had a birth, death, marriage, or divorce in your family. If you can't find your beneficiary designation form, ask the financial institution for a new one. If you choose to fill out this form online, make sure to print a hard copy for your files.

2) When filling out a beneficiary form, don't forget to designate percentages next to the names of your beneficiaries. You can also write "in equal shares" if you want the assets to be distributed equally. Also know that adding "per stirpes," Latin for "bloodline,"

after your beneficiaries' names and the percentages, will ensure that it will go to your beneficiaries' descendants



3) If the institution where your money is held changes its name or merges with another bank, fill out a new form. Forms with old institution names may not be valid and the banks won't go out of their way to tell you.

4) Keep hard copies of your beneficiary forms, including your "payable on death" forms and your "transfer on death" forms in your emergency file. If all of these forms are in your account online, keep hard copies on hand because computer systems change and the forms might be hard to track down, especially if the bank has merged or changed names.

5) Consider hiring a certified estate planner who is licensed in your state. Many financial planners and attorneys who do not specialize in estate planning can make mistakes when filling out forms because of state-specific rules and laws, or just plain lack of experience.

When is the last time you've updated your financial forms?

