

Estate Planning Red Flag

Contingent Beneficiaries Haven't been Named in an Estate Plan

Naming contingent beneficiaries in your estate plan can help ensure that your assets are distributed according to your wishes — even if your primary beneficiaries are unable or unwilling to accept their inheritances. Contingent beneficiaries serve as a backup plan. They're the individuals or entities who'll receive the designated assets if the primary beneficiary passes away before you or can't be located or identified.

A key benefit of naming contingent beneficiaries is the increased control it gives you over your estate. Without an appointed backup, if your primary beneficiary can't inherit, the assets could end up in your residuary estate and be distributed according to your will's default clauses. This can result in assets going to unintended recipients. Identifying contingent beneficiaries helps to ensure that your estate plan is executed smoothly and in alignment with your intentions.

For retirement plans, the plan document might call for the funds to go to your spouse or, if you're not married, to your estate. Leaving retirement plan assets to your estate can have undesirable consequences. Plus, they'll have to be distributed and taxed under a five-year rule, depriving your beneficiaries of opportunities to defer those taxes for 10 years or more.

For other types of assets, the funds will likely be included in your estate, which can lead to undesirable outcomes. Suppose, for example, that your will leaves your entire estate, valued at \$1 million, to your son. You also have a \$1 million life insurance policy naming your daughter as beneficiary. If your daughter predeceases you and you haven't updated the beneficiary designation or named a contingent beneficiary (your grandchild, for example), then your son will receive everything, effectively disinherit your daughter's family.