Estate Planning? Don't Forget Retirement Plans

Most of us are probably more concerned about running out of money in retirement than having any left over to bequeath. However, your retirement plans may represent a significant portion of your assets, so it's important to integrate them into your estate plan. Here are three steps to help make sure that your retirement assets are distributed according to your wishes.

1. Get organized.
According to the Bureau of Labor Statistics, the average person will hold more than 10 jobs over a lifetime.* If you're like many people, you may end up with several different defined contribution plans and perhaps even a pension plan to keep track of. Make sure you have a record of each plan, including the account number, employer's name and contact information. To simplify recordkeeping, consider rolling over previous employers' plan accounts to your most recent plan, if the current plan accepts rollovers, or to an individual retirement account (IRA).

2. Review beneficiaries.
Employer-sponsored retirement plans and IRAs typically have beneficiary designations that supersede your will instructions, and employer-sponsored plans generally have spousal rights rules. As a result, it is critically important to keep your beneficiaries up-to-date. For example, suppose you divorced several years ago and named your daughter as beneficiary of your employer-sponsored retirement plan. You've since remarried and leave all of your assets to your new spouse in your will. If you want your spouse to inherit your retirement plan assets, you need to change your beneficiary. If you still want your daughter to inherit the retirement plan assets, you should have your new spouse sign a waiver to that effect. Otherwise, your spouse may be able to successfully contest your daughter's inheritance, because spouses are typically the default beneficiaries of employer-sponsored retirement plans. Bottom line: Make sure you review all your beneficiary designations whenever you have a significant change in your financial situation or personal life – such as marriage, divorce, birth or adoption of a child or death of a beneficiary – and update them as necessary.

3. Consult an expert.
The rules for taking distributions from and paying taxes on inherited plans can be complex, depending on:

- Whether the plan is an employer-sponsored retirement plan, a traditional IRA or a Roth IRA.
- Whether the beneficiary is the spouse or a nonspouse.
- Whether the original account owner died before or after beginning required minimum distributions.

These considerations can dictate whether the beneficiary has to take the distribution (and thus pay all applicable income taxes) in a lump sum, on the same schedule as the original account holder, over a specified period or over the beneficiary's lifetime.

* Source: Bureau of Labor Statistics, press release, June 27, 2008, www.bls.gov.
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