WHY ARE PROPER ACCOUNT TITLING AND BENEFICIARY DESIGNATIONS SO IMPORTANT?

Everyone should have a plan for their estate, but wills and trusts are not the only parts necessary to make sure your assets are distributed according to your wishes. Though often overlooked, beneficiary designations and account titling are crucial to successful estate planning. If you do not pay attention to these elements, you may unwittingly undermine the estate plan established by your will and trusts. In order to avoid such needless errors, it is helpful to understand the use of beneficiary designations and the various account titling options available so you can pick the ones that work best with your plan. When properly coordinated, you can help minimize estate complexity and ensure that your assets pass on to the next generation in the way you intended.

What is a Beneficiary Designation?

A beneficiary designation is an accompaniment to an account that instructs a named person to inherent the assets in the account. This is done through filling out a form where you identify the person or persons you would like as beneficiaries and what percentage of the assets you would like distributed to each. If a beneficiary dies before or with the account holder, their share is eliminated and divided equally among the remaining beneficiaries. You can, and should, also name a contingent beneficiary. This person is a back-up plan of sorts who will inherit the assets in the event the primary beneficiary dies or refuses the property.

Beneficiary designations are required on certain important accounts, referred to as "true beneficiary designation assets." These assets include life insurance, qualified employee benefit plans (such as 401k plans and 403b plans), IRAs and annuities. Beneficiary designations override your will, so having the beneficiaries on these accounts match the rest of your estate plan is critical to having the plan work the way you want.

Why Account Titling?

An account's title is legally significant and can also supersede your estate plan.

Here are the most common account titles and their legal implications.

1. Payable on Death (POD)/Transfer on Death (TOD)

Payable on death/transfer on death are designations that refer to an account where a beneficiary is added without one being required, hence why it is sometimes called a Designated Beneficiary title. It functions the same way as a beneficiary designation; once appropriate paperwork is completed, the assets will be transferred automatically to the beneficiaries upon the account holder's death without going through probate, superseding any instructions in the deceased's will. POD may be a good choice to consider if you have no heirs and wish to simply identify beneficiaries. With this titling, you maintain complete control of your assets during your lifetime. The named beneficiaries have no access to or control over the assets while you are alive.

2. Individual Accounts

As the name suggests, an individual account is owned by one person or entity. This choice is the simplest way to assure that your assets are distributed according to your wishes, as holdings titled in your name will pass following your estate plan so long as you don't have a specific beneficiary designated- as noted above. The assets from an individual account will be added to the total estate, subject to probate and taxed at the prevailing estate tax rate in the year of the owner's demise.

> "An account will not pass according to the decedent's will with joint tenants titling on the account."

3. Joint Tenants with Rights of Survivorship (JTWROS or JT TEN)

Many people, such as married couples, would like more than one person to have ownership over an account. In this case, a JTWROS title is the most common and straight forward option, allowing multiple people to be named holders of the account. With this title, the account will pass directly to the surviving account holder when the first account holder dies. While JTWROS seems like an easy choice, there are a few considerations you should review below before choosing this type of title.

Joint Tenants is Easy for Non-taxable Estates

JTWROS accounts are best for a simple estate that does not require advanced planning nor exceeds prevailing estate tax thresholds. The biggest benefit is that assets can automatically and immediately pass to your heir if they are a joint holder. Additionally, a responsible joint holder can take over your affairs if you become incapacitated or impaired. This helps avoid a lot of technical fuss in what otherwise might be emotionally difficult situations.

Joint Tenants Titling Will Supersede a Will

The downside to JTWROS is that the account will not pass according to the deceased's will and therefore it should rarely be used if you have significant assets. Property is shared equally among holders, so when one dies, the joint tenant inherits the other 50% of the property. The deceased's half is still considered part of the estate and is a "gift" to the survivor. Consequently, the deceased tenant's family loses the property as it passes to the surviving joint tenant.

Using a Child for Safety and Easy May be a Completed Gift

These same issues exist when you create a JTWROS with a non-spouse, creating a potentially taxable gift. For example, if you designate a son or daughter as a joint tenant on a bank account or other property, you will have immediately given them a gift of one-half the value of the property. Further, if you have two children and name one as a joint tenant for convenience, then only the child on the account inherits the property, no matter what your will says.

Adding a Joint Tenant Passes on Cost Basis

Everyone who is JTWROS on an account or property shares the same cost basis of the property. This holds even if joint tenants are added to a previously individual account; the added tenants get the cost basis of the original value of any physical assets when the individual created the account. When a joint tenant dies their share of the asset gets a step up in original cost basis, meaning the remaining tenants do not have to pay taxes on any asset growth that happened before the tenant died. However, the cost basis for the remaining tenants does not change. If the asset is then sold, the combined cost basis is used to determine if there is any capital gain.

4. Tenants in Common

Tenants in Common is perhaps a better title choice for shared accounts with more significant assets that will be subject to a will. Unlike JTWROS, while all the account holders are alive, each holder owns a part of the account proportional to the amount they contributed or were given. When one of the account holders dies, their ownership will pass to whomever they specified in their will, while the remaining portion stays with the surviving owners. In this way, Tenants in Common ensures that assets may be shared but are passed according to each owner's estate plan.

> "Proper account titling and beneficiary designations help ensure your assets pass to your heirs in the way in which you intended."

5. Convenience Account

This is another form of joint titling but only for convenience reasons. In direct response to the problems from naming a child or trusted person in JTWROS, a Convenience Account lets you have multiple holders on an account for your convenience without giving the added holders any ownership over the assets. Additionally, there are no rights of survivorship, so the account will transfer according to your will. As a result, the convenience account is a good choice when you want the security of another trusted person having access to your account, but do not want to grant them ownership or inheritance privileges. Convenience accounts are only available in states that have adopted the Uniform Multiple-Person Accounts Act legislation, so check to make sure your state offers this title.

What to Remember:

- Proper titling assures assets go where you intend
- Titles and beneficiaries supersede anything in your will
- Naming a beneficiary helps avoid probate
- Review and update all at major life events

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Life changes, so keeping your beneficiary forms and titles up to date is important for a successful estate plan. We recommend that you request a copy of your original account agreements and beneficiary designations from every financial institution where you have accounts to ensure that the account titles and beneficiary designations are consistent with your estate plan.

It is also a good idea to keep a file containing copies of all your beneficiary designation forms. You should review this file at least every 5 years and at any major life event such as a birth, death, marriage, or divorce. Consider setting up a reminder for yourself to stay on top of your beneficiary designations and ensure they reflect your current wishes.

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Susie joined Summit Place in 2018 from Glenmede Trust where she worked extensively with the upcoming generations of successful families. She started her career in accounting where she spent several years with Deloitte & Touche working on individual and family business tax preparation and management. Susie was drawn to Summit Place by our multi-generational family relationships and specifically our commitment to a select number of clients to ensure our advisors can provide regular proactive advice and expertise on all aspects of their clients' wealth. Susie enjoys helping clients to develop and implement financial plans and collaborating with her colleagues and outside advisors to offer the best advice and solutions no matter where younger generations are in life.

Susie earned her BS degree in Accounting, with a minor in Finance, from Fairleigh Dickinson University. She completed her MBA with a concentration in Finance at Centenary University. In 2022, Susie earned her CERTIFIED FINANCIAL PLANNER ™ certification.

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