

BENEFICIARY DESIGNATIONS FOR QUALIFIED RETIREMENT PLANS

If you are fortunate to be participating in a QRP through your work, you know that they are wonderful assets, because they are created with pre-tax dollars and grow tax-deferred. However, distributions from QRPs are taxed at ordinary income tax rates, unless distributed to charity, and the IRS has set very specific requirements relating to distributions, because it has an interest in collecting those distribution taxes ASAP.

That's where Required Minimum Distributions (RMDs) come in. Under the current regulations, RMDs must be made annually beginning no later than April 1 of the year after you turn age 70½. And, when you die, if you have failed to properly designate a beneficiary to succeed you, the required distributions can be very steep, resulting in the deduction of unnecessary taxes, which might otherwise have gone to the benefit of your family.

For instance, if you die after you begin taking RMDs (without having a designated beneficiary) your QRP must be paid out over what would have been your expected lifetime, which may be just a few short years. To the contrary, if you had properly designated a beneficiary, then the remainder of your QRP account would be paid out using the beneficiary's life expectancy, which may be several years more, thereby reducing the amount of tax due each year.

If you happen to die before having taken any RMDs, then the failure to designate a beneficiary requires a mandatory pay out within five years, regardless of what your life expectancy may have been.

If you had properly designated a beneficiary, who happens to die before you, and you have failed to name an alternate beneficiary, you have the same problem as someone who never named a beneficiary.

One of the most common problems is failure to re-designate a beneficiary after a divorce, where your former spouse is still shown as your designated beneficiary. In that event, depending upon the circumstances, your former spouse may still inherit your QRP regardless of your intentions to the contrary.

In other words, as with so many issues in life, the failure to properly plan can be devastating to your family and loved ones.