



Vanguard®

Focus on estate planning: The importance of beneficiary designations

Understanding how your assets will transfer after your death helps you create an estate plan that ultimately fulfills your wishes and prevents unnecessary delays for your heirs. When creating an estate plan with your attorney, make sure to carefully review your beneficiary designations. An updated will alone may not carry out your most current wishes because beneficiary designations may supersede the instructions of your will.

Assets are generally transferred in the following ways:

1. **Ownership.** Certain assets that are held jointly automatically go to the surviving owner.
2. **Beneficiary designation.** Assets pass to the people or entities designated as beneficiaries on certain contracts or accounts, such as life insurance policies, annuity contracts, 401(k) plans, and IRAs.
3. **Trust.** Assets transfer according to the terms of a trust.
4. **Will.** Assets that aren't transferred by ownership, beneficiary designation, or trust are distributed according to the terms of a will. If you don't have a will, assets transfer according to the laws of the state.

Do I need to designate beneficiaries?

If you own contractual assets that include a beneficiary designation, it's important to name your own beneficiaries; otherwise, your assets will transfer according to the contract's default beneficiary provision. For example, if you don't designate beneficiaries for your Vanguard retirement accounts, your assets will pass to the default beneficiaries named under Vanguard's Custodial Account Agreement. The default beneficiary is your surviving spouse if you're married or your estate if you're not married. If your assets pass to your estate, that could result in a probate process, additional estate expenses, and exposure to creditor claims. It could also accelerate required minimum distributions (RMDs) from an inherited IRA.

Why should I name secondary (contingent) beneficiaries?

Secondary beneficiaries receive the assets if your primary beneficiaries die before you or if they refuse to accept the inheritance, which is known as "disclaiming." If you don't name secondary beneficiaries, your assets may pass to your estate.

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Why should I review my beneficiaries?

It's important to review your beneficiaries periodically to ensure your assets transfer to the people you want to inherit them. For example, if you designate your spouse as beneficiary by name, and later remarry without updating your designation, assets may go to your former spouse even if your will instructs otherwise.

Always be sure to review your beneficiaries when you receive your annual beneficiary notification; establish or make changes to a will or trust; experience a life event such as a birth, marriage, divorce, or the death of a loved one; or roll over a 401(k) or IRA or complete a Roth IRA conversion.

Whom can I name as a beneficiary?

In most cases, you can name any individual or entity as your beneficiary. You can also divide your assets among multiple beneficiaries. For Vanguard retirement accounts, individuals can be designated as beneficiaries either by name or relationship.

For example, you can list the name of your spouse or the names of your children, or you can assign designation "to the person I'm married to at the time of my death" or "to my descendants who survive me."

Designating beneficiaries by name allows you to allocate unequal amounts to individuals; however, you'll need to update your designations if, for example, your marital status changes or you have additional children or grandchildren.

You can also assign beneficiary status to an entity, such as a trust or a charity. It's important to discuss your beneficiary designations with your attorney to ensure they're coordinated with your estate plan.

What does "per stirpes" mean?

While some states treat the per stirpes designation differently, "per stirpes" typically means:

- If all of your children survive you, they'll share your assets equally.
- If any of your children die before you, that child's portion will be divided equally among his or her surviving children.
- If a child of yours dies before you and has no children, the assets will be divided equally among the surviving children in the same generation.

Talk to your Vanguard representative

If you'd like more information about beneficiary designations, call your Vanguard advisor or representative.