

WHAT'S YOUR BENEFICIARY-PLANNING IQ?

Common Financial Terms for Beneficiary Planning



During your lifetime, you may accumulate assets that you may not need or deplete during retirement. These assets can be used to leave a financial legacy to your family. Most people want to control who will receive their assets at death, and how those assets will be passed down. Through proper beneficiary planning you can determine during your lifetime: who will receive which assets, when they will receive them, and how they can be passed down. Navigating the options of beneficiary planning can be daunting, but it does not have to be. We've created a list of common financial terms that can help you understand the assets you have and how they can pass to your heirs the way you want through proper planning.

Definitions for Common Financial Terms

Annuity	A contract between you and an insurance company that entitles you to a series of payments that can be guaranteed for life.
Annuitization	The conversion of a lump sum of money into continual income payments that last for your life, for as long as you and a joint annuitant (such as a spouse) live, or for a specific number of years.
Beneficiary (or Beneficiaries)	A person (or people) who will receive money or other property from your will, trust, insurance policy (including annuity contracts), or qualified account. Primary beneficiaries are first in line to receive the money. Contingent beneficiaries receive money only if there are no primary beneficiaries left.
Beneficiary Designation Form	The form used to name the beneficiary or beneficiaries of your money or other property.
Conservator of the estate of a minor beneficiary	A person who is appointed by a court to manage the financial affairs and/or daily life of a beneficiary who is under the age of majority. Conservators also can be appointed for those with physical or mental limitations.
Durable Power of Attorney	A document used to appoint a person or entity who will make decisions for you if you are not able to make decisions for yourself in the event you are incapacitated.
Estate	The fair market value of all the money and property you own or have certain interests in at your death.
Estate Tax	A tax on your right to transfer property at your death. It is levied on your beneficiary's (or beneficiaries') inherited portion of the estate if the estate exceeds an exclusion amount set by law.
Executor	The person or institution you appoint to carry out the terms of your will.
Income In Respect of a Decedent (IRD)	At your death, money that was due to you and will pass through to your beneficiary or estate as income during that tax year. Common examples of IRD are gains in annuity contracts, traditional IRA assets, and certain types of deferred compensation.
Inheritance Tax	A tax due from your beneficiary, who is the person or entity who inherits property or money.
Intestacy	If you die without a valid will, the state considers that you die "intestate." The state intestacy statute will determine how your assets in excess of debts will pass to others.

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Nonqualified Asset	An investment that does not qualify for tax-deferred or tax-exempt status. Investments of this sort are made with after-tax money. They are purchased and held in taxable accounts, plans, or trusts.
Nonqualified Deferred Annuity	An annuity that grows tax-deferred until withdrawals begin or the policy is annuitized, which, if annuitized, must be at least 12 months after purchase. The amount of money used to purchase the annuity will not be taxed at death, but earnings in the annuity will be taxed as ordinary income for the beneficiary.
Payable on Death (POD)	Under state law, a bank account that allows transfer to a named beneficiary at your death. This allows the account to pass outside probate.
Per Capita	Origin from the Latin “by the head.” Sometimes called the “last man standing rule,” it allows the assets to go to the last person of a beneficiary group. For example, if assets are left “to my children,” “per capita” means that if one child dies before you do, the deceased child’s share will be equally divided among the remaining children.
Per Stirpes	Origin from the Latin “by the branch.” Sometimes called “by rule of blood,” it refers to division of assets based on each remaining family branch receiving their share. For example, if the assets are left “to my children,” “per stirpes” means that if one child dies before you do, the deceased child’s share would be distributed to their children—your grandchildren.
Power of Attorney (POA)	A document you use to appoint someone to make decisions on your behalf. It is in force only while you are competent to make decisions. A common reason might be giving a family member a POA to pay bills if you are going on a long vacation.
Predetermined Beneficiary Payout Form	A beneficiary form that allows you to restrict the payment of the annuity death benefit amount to your beneficiary (or beneficiaries). Or, this form allows you to remove a current predetermined beneficiary payout restriction in the event death benefit proceeds under the contract are paid prior to the annuity date.
Probate	The official process for proving that a will is valid. Probate is public and is done through the probate court system.
Qualified Assets	Assets in accounts that are income-tax deferred until the funds are withdrawn after retirement. Investments of this sort are typically made on a pretax basis.
Step Up (Down) in Cost Basis	The readjustment of the value of an appreciated or depreciated asset for tax purposes at the time of inheritance. Most assets increase in value and receive a step up. But an asset can also lose value and have a step down from the prior basis.
Titling	The legal form of asset ownership. Titling can determine how your assets transfer upon death.
Transfer on Death (TOD)	Under state law, an account that is allowed to transfer to a named beneficiary at your death. Like POD, this transfer is outside probate. TOD accounts may cover the transfer of securities, vehicles, and similar assets. In some states, transfer on death deeds permit the transfer of real estate as well.
Trust	A document describing how property held for the benefit of another will be administered.
Trustee	The individual or corporate entity that is given control or power to administer property in a trust. A trustee is a fiduciary and has the highest requirement to act in the best interests of the trust beneficiary (or beneficiaries) based on what the trust document says.
Will	A legal document in which you express your wishes as to how your property is to be distributed at your death. Your will also names one or more executor(s); that is, the person(s) who will manage your estate until its final distribution.

Speak with your financial professional today about the options you may have to leave a financial legacy to your loved ones.

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