



## IRA Beneficiary Designations Matter

By Jim Lorenzen, CFP®, AIF®

Ever heard of “per stirpes” or “per capita”? Even if you never do, your heirs could find out the difference the hard way.

If you established your IRA more than a few years ago, it might be worth reviewing your beneficiary designations, to make sure your true wishes will be carried out. Why is this important? Let’s look at a couple of examples.

### Per stirpes

A’s will says his estate is to be divided among his three children—B, C, and D—in equal shares ‘per stirpes’. B, however, has already passed away, leaving behind two children, A’s grandchildren.

When A’s will is executed per stirpes, B’s 1/3rd share will be divided equally between his/her children, A’s grandchildren. According to per stirpes, the money flows down each branch.

But, what if one of the grandchildren, B1, had predeceased A? What if both B1 and B2 had passed away? The answer: B’s 1/3 would keep getting sub-divided, passing down the branch.

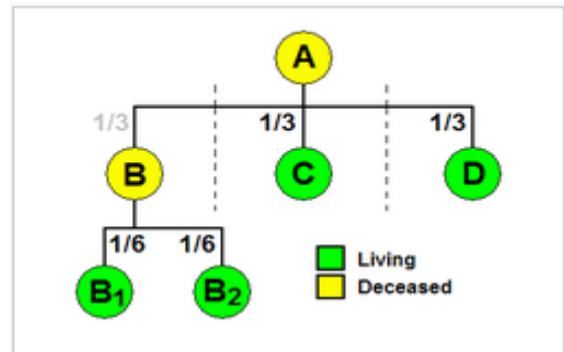


Figure 1. A’s estate is divided equally between each of the three branches. B, C and D each receive one-third. As B predeceased A, B’s two children - B1 and B2 - each receive one-half of B’s share, equivalent to one-sixth of the estate.

### Per capita

Under this method of distribution, heirs of the same generation will each receive the same amount. The number of shares is equal to the number of original members either surviving or with surviving descendants.

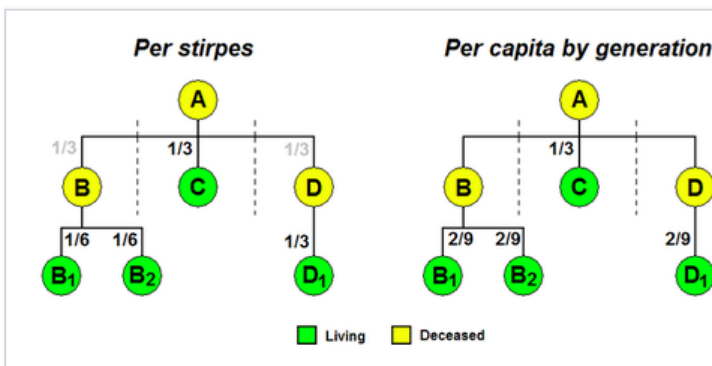


Figure 2. Comparison between *per stirpes* inheritance and *per capita by generation* inheritance. On the left, each branch receives one third of the estate. On the right, A’s only surviving descendant, C, receives one third of the estate. The remaining two thirds are divided among the descendants in the next generation.

In the first example we saw, C and D were surviving children, so the estate they would leave can be divided at their discretion.

What if D had also pre-deceased A? Now, the estate would be divided by branch, but according to the number of survivors. Since there are now four total survivors, The two-thirds of the estate left after C received his 1/3 would be divided three ways, each receiving about 2/9ths.

The takeaway: Review your beneficiary designations with your estate attorney and then your advisor.



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