



BLACKROCK®

STRATEGIC
BENEFICIARY
DESIGNATIONS

CREATE A
LASTING LEGACY

Knowing the facts about beneficiary designations can help you **fulfill your retirement planning objectives** and ensure that your needs are met. Because beneficiaries often inherit money amidst confusion and loss, it is important to rely on a financial professional to help sort through the details and provide a holistic perspective.

This guide will assist you in creating beneficiary designations with multiple estate planning options and strategies that will enhance your long-term planning. Included in this guide is information on designating a trust as the beneficiary, effective transfer and administration of inherited IRAs as well as checklists to prepare for discussions with your financial professional.



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Choosing Beneficiaries

To spare your beneficiaries unintended or costly outcomes as a result of their inheritance, use the steps below to ensure assets are transferred quickly and efficiently, while providing strategic opportunities when possible.

1 Determine the beneficiary default provisions.

If no documented beneficiary designation is made, the beneficiary may be determined by federal law, state law or the plan document that governs the retirement account or contract.

For Qualified Plans: Federal regulations automatically designate the spouse of the retirement account owner as the beneficiary. The retirement account owner may not designate another as primary beneficiary unless the spouse signs a document, with proper notarization, approving such a designation.

For IRAs: Some states, known as community or marital property states, require written spousal consent if the IRA owner designates anyone other than his or her spouse (or in addition to the spouse) as the primary beneficiary of the IRA. The following states currently require the consent to be notarized: Alaska, Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington and Wisconsin.

2 Determine if prior designations are nullified at certain life events, such as marriage or divorce.

3 Identify all beneficiaries by name, where possible.

When a beneficiary is designated as a class, such as “children,” it often requires additional time, expense and documentation to pass the property.

4 Designate a contingent beneficiary.

Naming a contingent beneficiary not only provides protection in the event of simultaneous deaths, but it also allows you to effectively incorporate disclaiming strategies into wealth transfer planning. Since your beneficiary cannot direct any property disclaimed, naming a contingent beneficiary avoids the property passing through the probate estate.

5 Confirm that the custodian or financial institution accepts customized designations.

6 Identify any minors named as primary or contingent beneficiary.

Consider using the Uniform Transfers to Minors Act (UTMA), which allows adults to act as custodians and open accounts for minors.

Example:

John Smith—C/F

Jane Smith—UTMA

If a minor inherits property directly, court intervention may be required to document who can act on behalf of the minor. Court intervention commonly requires ongoing accounting back to the court on a regular basis. Utilizing the UTMA allows you (not the court) to decide who should control the property until the minor reaches the age at which custodianship terminates. This designation should not impede a beneficiary from “stretching” an IRA.

7 Do you have multiple generations, currently or potentially, within the family?

If yes, consider customizing the designation to include Per Stirpes. Refer to Per Stirpes vs. Per Capita designations on page 4.

8 Identify any limitations a plan provider, custodian or financial institution may have administering a “stretch” IRA for your designated beneficiary.

Limitations are most common when dealing with a non-individual, such as a trust or a non-spouse beneficiary.

9 Is there any desire to protect or retain some degree of control over the disposition of the assets after death?

If yes, consider a trust or restricted beneficiary designation.

10 Confirm receipt of designation from the trustee, custodian or administrator.

Alternate Designations

Per Stirpes: Latin Phrase Meaning “Per Branch”

- ▶ Commonly known as “right of representation” distribution.
- ▶ Each branch of a decedent’s family receives an equal share of the estate, regardless of how many people are in that branch.
- ▶ Spouses are not considered.
- ▶ If a beneficiary does not have an heir, his or her portion will generally revert back to his or her surviving siblings.
- ▶ Adopted children are generally afforded the same rights as natural born children.

Per Stirpes designation can be extremely advantageous when incorporating “stretch” IRA strategies. Through the use of a qualified disclaimer, a beneficiary can pass his or her interest to children to maximize the deferral period. (See Figure 2.)

When there are multiple living generations in a family, it becomes important to explore alternative beneficiary designations to ensure your true intentions are satisfied. Rarely is the intent to exclude or disinherit any part of the family. However, in a traditional default designation, that can potentially occur. Generally speaking, if a primary beneficiary were to predecease an owner, his or her interest would automatically be split among the surviving primary beneficiaries. No contingent beneficiary would be paid unless all primary beneficiaries predecease the owner or disclaim interest. In the absence of a trust, Per Stirpes and Per Capita designations effectively and efficiently meet the needs of an owner.

FIGURE 1: TRADITIONAL DEFAULT DESIGNATION

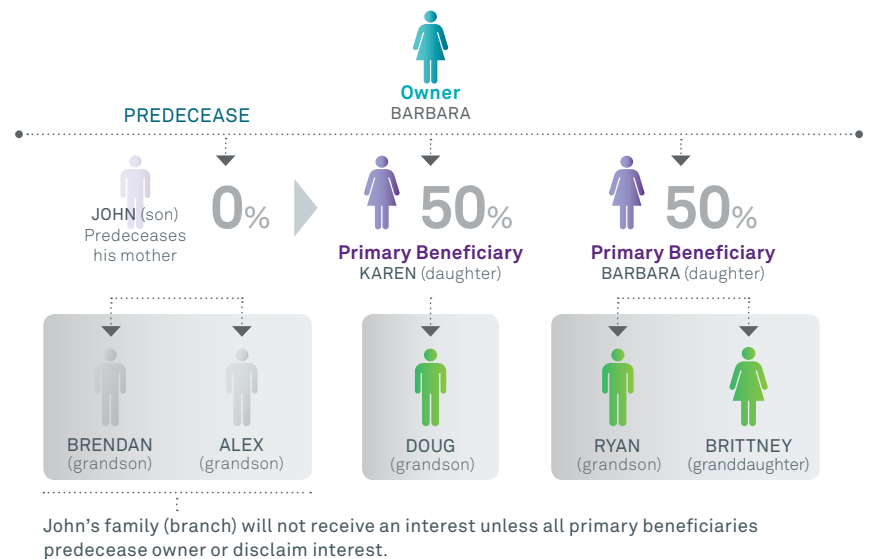


FIGURE 2: IN EQUAL SHARES PER STIRPES TO DESCENDANTS

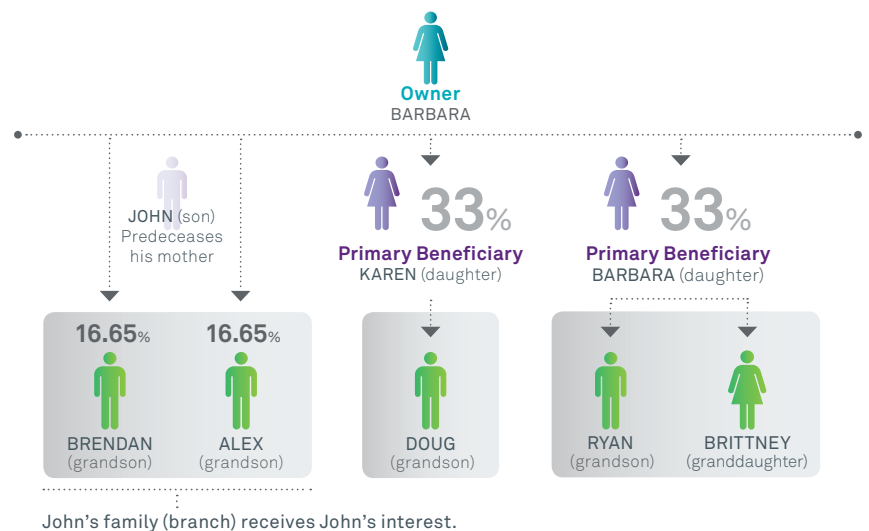
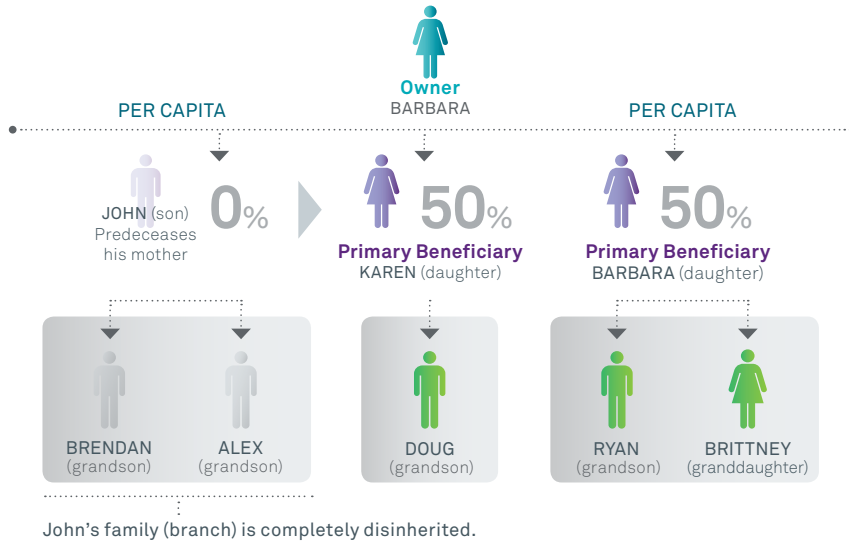


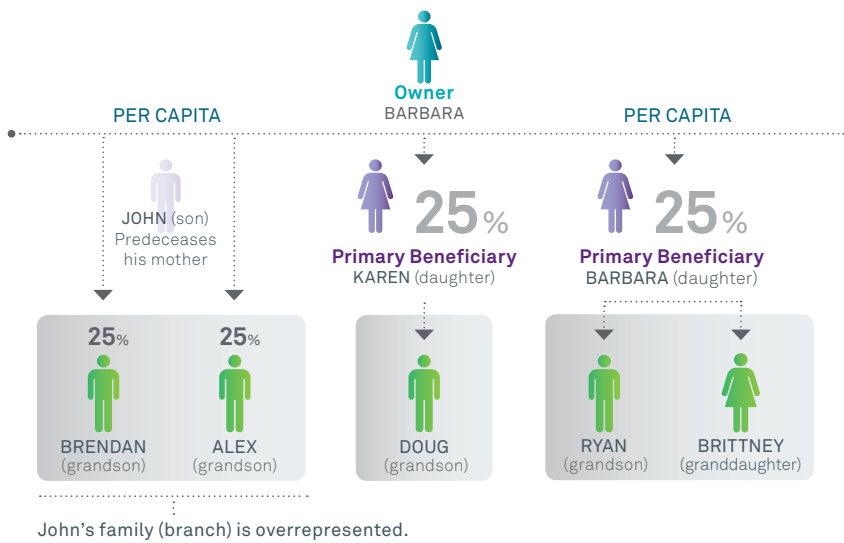
FIGURE 3: IN EQUAL SHARES PER CAPITA TO CHILDREN



Per Capita: Latin Phrase Meaning "For Each Head"

- ▶ Per Capita designation weighs each person, rather than each branch, equally. Each of the named beneficiaries should receive, by devise or bequest, equal shares of the estate. (See Figures 3 and 4.)

FIGURE 4: IN EQUAL SHARES PER CAPITA TO DESCENDANTS



Trust as Beneficiary

DESIGNATING A TRUST AS BENEFICIARY

When designating a trust as a beneficiary of a qualified account, it is important to determine if the trust will have the opportunity to “stretch” the account. In order to qualify for the “stretch,” the trust must satisfy the following conditions:

- 1 Trust is valid under state law.
- 2 Trust is or will become irrevocable upon the owner’s death.
- 3 All trust beneficiaries are natural persons and clearly identifiable.

If all of the above are satisfied, then the trust should have the opportunity to take required minimum distributions (RMDs) over a period not to extend beyond the oldest trust beneficiary’s life expectancy. In addition to determining if the trust will qualify for a “stretch,” review the terms of the trust to ensure they are conducive to the terms of the retirement account, contract and current tax laws.

- 4 Verify that the trust has provisions that consider the RMD requirements.
- 5 Verify that the trust is current with respect to recent legislation affecting IRAs, estate tax, etc.
- 6 Is the trust solely in place to avoid probate?

If yes, consider alternatives like identifying the primary beneficiaries by name and the trust as contingent beneficiary. Since the asset already avoids probate, this might provide more flexibility and opportunity to a beneficiary.

If no, is there a point in the future when the trust may no longer be needed, such as a child attaining a certain age? Revisit the designation at that time with your financial professional to better position the beneficiary.

WORKING WITH A BENEFICIARY THAT IS A TRUST

When a trust inherits qualified assets, determine if the trust has the option of “stretching” the account and discuss the following with your financial professional:

- 1 Confirm that the trustee has or will provide the custodian with the necessary documentation by October 31 of the year following the owner’s death.

If this is confirmed, the trustee should be able to move the IRA into an inherited IRA for the benefit of the trust. All tax reporting should go through the trust. The trust will issue a K-1 to shift tax liability to a trust beneficiary where applicable.

- 2 Does the trust have multiple beneficiaries?

If yes, the trustee may split each beneficiary’s interest into a separate inherited IRA in order to simplify record keeping. All accounts will be for the benefit of the trust and the oldest trust beneficiary’s age will be used to determine RMDs.

- 3 Can the trustee distribute trust assets?

If yes, the trustee may be able to transfer the inherited IRA into the name and Social Security number of the trust beneficiary. Keep in mind that the oldest trust beneficiary’s life expectancy must continue to be used for calculating RMDs.

Inheriting an IRA

With the “stretch” IRA becoming more prevalent in the marketplace, it is increasingly important that inherited IRAs be properly handled so that assets are distributed according to a plan.

REQUESTING A TRANSFER

1 Determine if the inherited IRA is already created.

If it is not, contact the current custodian to complete the necessary steps to transfer assets from the decedent’s name to the beneficiary’s name.

2 Open the inherited IRA with the receiving custodian.

The account registration must clearly identify the account as inherited. The beneficiary’s Social Security number should be used.

Example:

BlackRock C/F	or	BlackRock C/F
John Smith–Deceased		The Inherited IRA of
FBO Jane Smith		John Smith FBO Jane Smith

3 Complete “Transfer of Assets” forms.

Since inherited IRAs cannot accept any form of contributions,* the money must be moved in the form of a direct transfer of assets. It cannot be moved as a rollover. All forms should be submitted through the new custodian.

* An exception exists for a one-time direct rollover of an inherited employer plan to an inherited IRA.

CALCULATING RMDs FOR THE BENEFICIARY

1 Determine the original beneficiary.

2 Determine the age of the beneficiary the year following owner’s death.

3 Obtain the appropriate life expectancy factor from the Single Life Expectancy Chart (provided below).

4 Reduce the above factor by one for each year that has lapsed since the owner’s death.

Provide the custodian with the applicable life expectancy factor to calculate the appropriate RMD for the current year.

NAMING A BENEFICIARY

Name a beneficiary to receive the balance of inherited IRA RMDs in the event of the current beneficiary’s death. The successor beneficiary can continue on the same payout schedule as the original beneficiary, if desired.

Since the “stretch” period is a fixed period of time determined by the original beneficiary’s life expectancy the year following the inheritance, it cannot be recalculated when the subsequent beneficiary receives the money.

CALCULATING REQUIRED MINIMUM DISTRIBUTIONS FOR THE BENEFICIARY

Single Life Expectancy

Age	Divisor	Age	Divisor	Age	Divisor	Age	Divisor	Age	Divisor	Age	Divisor	Age	Divisor
25	58.2	34	49.4	43	40.7	52	32.3	61	24.4	70	17.0	79	10.8
26	57.2	35	48.5	44	39.8	53	31.4	62	23.5	71	16.3	80	10.2
27	56.2	36	47.5	45	38.8	54	30.5	63	22.7	72	15.5	81	9.7
28	55.3	37	46.5	46	37.9	55	29.6	64	21.8	73	14.8	82	9.1
29	54.3	38	45.6	47	37.0	56	28.7	65	21.0	74	14.1	83	8.6
30	53.3	39	44.6	48	36.0	57	27.9	66	20.2	75	13.4	84	8.1
31	52.4	40	43.6	49	35.1	58	27.0	67	19.4	76	12.7	85	7.6
32	51.4	41	42.7	50	34.2	59	26.1	68	18.6	77	12.1	86	7.1
33	50.4	42	41.7	51	33.3	60	25.2	69	17.8	78	11.4	87	6.7

$$\frac{\text{PRIOR YEAR-END VALUE}}{\text{APPLICABLE DIVISOR}} = \text{REQUIRED MINIMUM DISTRIBUTION}$$

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Lit. No. BM-BB-0813

AC6372-0813 /11-025 USR-2554

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