

PROTECT IT

Beneficiary Designations

The Detail That Overrides Everything Else

You can have a will. You can have a trust. You can have every document in order. And a beneficiary designation you set years ago and forgot about will override all of it. This is the most overlooked piece of estate planning — and one of the most consequential.

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SECTION 1 — WHAT IT IS

A beneficiary designation is the name you put on a financial account or insurance policy telling that institution who receives the money when you die. It is set directly with the account holder — your bank, your brokerage, your insurance carrier, your retirement plan administrator — and it operates completely independently of your will.

That last sentence is the part most people miss. Your will does not control these accounts. The designation on the account controls these accounts. When you die, the institution pays whoever is named on that form — regardless of what your will says, regardless of what your trust says, regardless of any other document you have.

Primary vs. Contingent Beneficiaries

Most accounts allow you to name two levels of beneficiary:

Primary Beneficiary

The first person in line to receive the asset. You can name more than one and specify what percentage each receives. If the primary beneficiary is alive when you die, they receive the asset.

Contingent Beneficiary

The backup. If your primary beneficiary has died before you — or disclaims the inheritance — the contingent beneficiary receives it. If you name no contingent beneficiary and your primary beneficiary is gone, the asset may go through probate or be distributed according to the plan's default rules. Neither outcome is guaranteed to reflect your intentions.

Which Accounts Have Beneficiary Designations

These designations exist on more accounts than most people realize. Every one of these needs to be reviewed:

ACCOUNT / ASSET TYPE	GOVERNED BY	KEY WATCH-OUT
Life Insurance Policies	Beneficiary designation on the policy	This is the most commonly outdated. People set it when they first got the policy and never revisit it.
Retirement Accounts (401k, IRA, SEP-IRA, Solo 401k)	Beneficiary designation on the account	Your will cannot override this. Naming your estate instead of a person forces the account through probate and may trigger faster tax distribution.
Bank Accounts (with POD designation)	Payable-on-Death form on the account	POD lets accounts transfer outside probate. Without it, the account may be frozen until probate concludes.

Brokerage / Investment Accounts (with TOD designation)	Transfer-on-Death form on the account	Same function as POD — bypasses probate. Not all accounts have this set up by default. Check each one.
Annuities	Beneficiary designation on the contract	Often purchased and forgotten. Designation may reflect a life situation that no longer exists.
Health Savings Accounts (HSA)	Beneficiary designation on the account	If your spouse is named, the HSA transfers to them tax-free. Any other beneficiary pays income tax on the full balance.

What Happens If You Name No One

If a beneficiary is not named — or if the named beneficiary has already died and no contingent was listed — the asset typically passes to your estate. That means probate. The account is frozen, the process takes months to years, and court and attorney fees reduce what your heirs actually receive. For retirement accounts specifically, passing to the estate instead of a person can also accelerate the tax timeline — meaning your heirs may owe more in taxes than they would have if a person had been named directly.

SECTION 2 — WHY IT MATTERS FOR YOU

This is where estate planning breaks down most often — not because people did not have a will or a trust, but because a form they filled out years ago was never updated to match their actual life.

Life Changes. Designations Don't Update Themselves.

Every major life event is a trigger to review your beneficiary designations. Not because the law requires it — but because the form on file is the one that controls the money, and that form reflects who you were and what you intended at the time you filled it out.

Marriage

Your spouse is not automatically your beneficiary unless you name them. In some states, marriage voids prior designations — in others it does not. Do not assume. Update the form.

Divorce

In most states, divorce does not automatically remove an ex-spouse as beneficiary on a retirement account or insurance policy. If you do not update the form, your ex-spouse may receive the payout regardless of your divorce agreement or your will.

Birth or Adoption of a Child

Children are not automatically added as beneficiaries. If you want your child to receive assets, you name them. Note: naming a minor child directly as a beneficiary creates a problem — minors cannot legally receive large sums of money. A trust named as beneficiary, with provisions for the child, is the cleaner solution.

Death of a Named Beneficiary

If your primary beneficiary dies before you and you have not named a contingent — or updated the primary — the asset may pass to your estate. Review designations any time a named person dies.

Starting or Selling a Business

If your business is an asset in your estate, how it interacts with your other assets and beneficiaries needs to be considered as a whole. A business sale changes your asset picture significantly — that is a review trigger.

Significant Change in Wealth

If the assets in your accounts have grown substantially, the tax and distribution implications of who receives them may have changed. This is a conversation to have with a financial planner or estate attorney as your wealth scales.

The Mistakes That Cost Families the Most

THE MISTAKE

WHAT ACTUALLY HAPPENS

Ex-spouse never removed after divorce	Ex-spouse receives the full payout. The divorce decree and the will are irrelevant. The designation on the account controls.
Estate named as beneficiary instead of a person	Asset goes through probate. Process takes months to years. Fees reduce what heirs receive. For retirement accounts, tax distribution timeline may be accelerated.
Minor child named directly as beneficiary	Court appoints a guardian of property to manage the funds until the child turns 18 — who that guardian is and how they manage the money is outside your control.
No contingent beneficiary named	Primary beneficiary dies before you. Asset falls to the estate. Probate. Delay. Fees.
Beneficiary's share not specified among multiple people	Institution may distribute equally by default — which may not be your intention. Always specify percentages.
Outdated address or legal name on file	Locating and verifying the beneficiary becomes a process. Distributions are delayed. In some cases, unclaimed property laws come into play.

The Document That Nobody Thinks to Check

Most people who do estate planning focus on the will and the trust. They spend hours with an attorney getting those documents right. Then they go home and never look at the beneficiary form on their 401k — which was set when they were 24, named their mother, and has not been touched since. The attorney cannot update that form for you. Only you can. And it is a five-minute task at your financial institution's website or a one-page form at their office. The stakes are high. The effort is low. There is no good reason to leave this unreviewed.

SECTION 3 — HOW IT FITS YOUR WEALTH PICTURE

Beneficiary designations are not a standalone task. They are the connective tissue of your entire wealth protection system. When they are wrong, everything else you have built can transfer incorrectly regardless of how well the rest of your planning was done.

Beneficiary Designations + Wills & Trusts

Your will governs what is in your probate estate. Accounts with beneficiary designations are not in your probate estate — they transfer directly. This means your will cannot redirect them. The two documents must be reviewed together to make sure the overall picture is consistent. An asset you assumed your will would direct may already have a beneficiary designation that sends it somewhere else entirely.

Beneficiary Designations + Trusts for Minor Children

Naming a minor child directly as a beneficiary creates a court process — a guardian of property must be appointed to manage the funds until the child reaches legal age. The better solution is to name your trust as the beneficiary, with the trust containing provisions that specify how and when the child receives the funds. This keeps control in your hands, even after you are gone.

Beneficiary Designations + Retirement Accounts

Retirement accounts — IRAs, 401ks, SEP-IRAs, Solo 401ks — have their own tax rules for inherited accounts that depend significantly on who is named as the beneficiary. A spouse who inherits a retirement account has options a non-spouse does not. A trust named as beneficiary has different distribution requirements than a person. These decisions have real tax consequences for your heirs and should be made in coordination with a financial planner or estate attorney who understands the current IRS rules.

Beneficiary Designations + Life Insurance

Life insurance is one of the most powerful tools for transferring wealth efficiently — it pays out tax-free, bypasses probate, and delivers liquidity exactly when your family needs it. But all of that is contingent on the right person being named. An outdated designation on a life insurance policy is one of the most common and most costly estate planning failures. Review your insurance policies on the same schedule as your other accounts.

Beneficiary Designations + Business Ownership

If your business interest is held in a trust, the trust is the owner — and it governs the transfer according to your terms. If it is held in your personal name, it may be part of your probate estate with no direct beneficiary designation. Either way, how your business transfers needs to be a deliberate decision made in coordination with your overall estate plan — not something that falls to default rules when the time comes.

Your Beneficiary Designation Audit — Do This Now

Pull up every account below and confirm who is named. Make a change if anything is outdated. [] Life insurance policies — all of them [] 401k or employer retirement plan [] IRA (Traditional and Roth) [] SEP-IRA or Solo 401k if self-employed [] Brokerage / investment accounts — check for TOD designation [] Bank accounts — check for POD designation [] Health Savings Account (HSA) [] Annuities [] Any business-owned life insurance or key person policy For each account: confirm the primary beneficiary is correct, confirm a contingent beneficiary is named, confirm percentages are specified if multiple people are listed, and confirm the named person's legal name and contact information is current. Set a calendar reminder to do this again in 12 months — and immediately after any major life event.

A Note on How PEG Handles This Topic

This guide is educational. It explains what beneficiary designations are, how they work, and why they matter — not as legal or financial advice, but as information every business owner and wealth builder needs to understand. Beneficiary designation decisions — particularly around retirement accounts and estate tax implications — should be reviewed with a licensed estate attorney or financial planner who knows your full picture. PEG does not provide legal or financial services. Our role is to make sure you know this conversation needs to happen before it is too late to have it.

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