Don’t will your money to Ariana Grande, and 3 other beneficiary mistakes to avoid

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Ariana Grande performs onstage during the 2018 iHeartRadio Wango Tango by AT&T at Banc of California Stadium on June 2, 2018 in Los Angeles, California.

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As Pride Month comes to a close and I prepare to go the last of a million parties this weekend, it’s become clear to me that “personal finance writer” isn’t a very exciting gay job. When I tell the boys what I do, I usually get little more than a practiced, “Oh, cool.” Which is fine! Clink vodka sodas and move on.

On rare occasions, however, these two parts of my life will converge in a beautiful, chaotic, gay finance Venn diagram.

One of those times happened about a year ago, when my roommate returned early from a date. I asked what went wrong, and he told me the boy was cute, but kind of crazy. How crazy?

“He has Ariana Grande listed as the beneficiary on all of his accounts,” he told me.

Reader, I think about it *constantly*. Because while part of me thought this was the greatest and funniest thing I’d ever heard, I also know that it is a patently silly thing to do. (And ultimately felt bad for the kid’s loved ones.)

So in honor of that guy — and those of you who read that and thought, “Who are my beneficiaries again?” — here are three common mistakes experts say you should avoid when naming beneficiaries for your accounts.

Mistake 1: Not naming a beneficiary at all

If you have a retirement account or a life insurance policy or a bank account, it’s essential that you let the appropriate financial institution know what you’d like done with your money — whether you’d like it to go to a spouse, a relative, a charitable cause, or, yes, a pop star who loves a high ponytail.

To do this, you’ll have to name at least one beneficiary. On some accounts, this may be called a TOD — transfer on death — or POD — payable on death. Fail to do so, and your money may not go where you want it to for a while, says James Regan, a financial advisor and partner with SharpePoint in Phoenix, Arizona.

“If you don’t name a beneficiary, you’ll end up with those assets in probate,” he says, referring to a complicated legal process used to determine the validity of estate planning documents, such as wills. “At that point, anyone can knock on the door and make a claim to your assets. Your estate could be tied up for years.”

You needn’t pick one person to be the recipient of your entire estate. You can name different beneficiaries on different accounts or set one account to pay out to multiple beneficiaries in equal or distinct percentages. You may also be able to set up contingencies, leaving your assets to one party if another is unable to claim them.

Even if you don’t have a complicated financial situation, will make life easier for your loved ones if something ever happened to you. “Even if you just have a retirement account and a life insurance policy through work, having an estate plan can be making sure your beneficiaries are set up properly,” Eric Bond, president of Bond Wealth Management in Long Beach, California, told Grow. “And it costs absolutely zero to do it.”

Indeed, naming a beneficiary is a task you can typically do in just a few minutes on your own on the website of whatever account you have.

Mistake 2: Not checking in when life changes

OK, you may be thinking. I set up my beneficiaries when I opened my accounts, and I know that none of them sing “Side to Side.” But when was the last time you checked in? Because as you go through life, your personal and financial priorities change — a shift that you’d be wise to reflect in your beneficiary designations, says Regan. “One of the common pitfalls is that people don’t update their beneficiaries around life events, such as marriages, divorces, or departing jobs,” he says.

If you haven’t checked recently, your money may not be slated to go where you want it to, points out Bond. “Maybe you put your mom, dad, or sister as your beneficiary, then you get married and have a kid,” he says. “You’d be smart to check in every year.”

And it doesn’t take a life event as monumental as having a child for it to be wise to regularly re-evaluate your priorities, says Regan. “If you left a job a little while back and left your 401(k) there, you could very well be in a different relationship 24 months later,” he points out. “Think about your family dynamic in general. Has anything changed? Maybe one of your beneficiaries is being more responsible with money than the other. It’s good to check in every so often.”

Mistake 3: Ignoring complicating factors

Even if you have a good idea of where you’d like your assets to go, you may not be considering tricky financial rules which could help or hinder the recipients of your money. Regan notes that when he was single, his siblings were beneficiaries. He changed his wife to be beneficiary when he got married.

“Then, when we had kids, we established a trust, but my wife is still the beneficiary on my IRA,” he says. “That’s because there’s a law that allows her to do a stretch,” he adds, referring to an estate planning strategy which allows a tax-efficient inheritance of IRA accounts.

If you don’t know what any of that means, it would be hard to blame you. The “stretch” strategy for child heirs was eliminated upon the passage of the Secure Act in 2019 — a fact that you’d have to be a major money geek to know. That’s why, if you would have your money going in a few different directions if you died, it may make sense to hire a financial planner, estate planner, or other expert, says Regan.

“You don’t have to engage someone in an official capacity of managing your assets. For some questions, someone like me could probably give you an answer in two seconds,” he says. “Generally, there are a lot of little nuances that a good advisor might point out to you.”

As for gifting all of your post-mortem assets to a pop diva, Regan says it’s not all that complicated. “You don’t need to leave money to celebrities as beneficiaries. They have enough as it is.”