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PAYABLE-ON-DEATH AN EASY TOOL FOR AVOIDING PROBATE

Payable-on-death, or POD for short, might make a great name for your teenage child's favorite rap/rock band. It also is the name of a simple and inexpensive technique for passing on certain financial assets to heirs without going through probate.

POD-sometimes called a Totten trust-is a feature that allows you to name beneficiaries to accounts that otherwise wouldn't have beneficiaries. Retirement accounts, annuities and life insurance policies, for example, normally have beneficiaries named as part of the arrangement. However, bank checking or savings accounts normally don't have named beneficiaries. Most joint bank accounts have "right of survivorship," which means the surviving party (such as a spouse) automatically becomes sole owner upon the death of the other party. However, when the sole owner dies, any money in the accounts goes into the owner's estate, which in turn goes through probate. Probate takes time, is in the public record and costs money, and other strategies for avoiding probate, such as a living trust, might be excessive for your circumstances.

That's where the payable-on-death feature comes in. You fill out a form naming a beneficiary to the account, whether the account is solely owned or jointly owned. When the sole owner or the surviving owner dies, any money remaining in the account goes directly to the designated beneficiary (or beneficiaries if that's allowed) without going through probate. All the heirs have to do is show proof of identity and proof of the owner's death. Thus, a POD account saves time and money.

A second feature of payable-on-death accounts is that the beneficiary (and the beneficiary's creditors) has no access to the account until the death of the owner(s). The owner can change the beneficiary without notice or spend the account's assets without permission from the beneficiary. An example

might be a father and son. In a jointly held checking account, the son could write checks on the account along with the father, and the son's creditors could attack the funds. In a POD account, the son (and creditors) can't touch the money until the father dies.

Payable-on-death accounts can be used for many types of accounts: bank savings and checking, savings and loan accounts, credit union accounts, certificates of deposit, Treasury securities and savings bonds. The FDIC (Federal Deposit Insurance Corporation) amended the deposit insurance rules in 1999 so that more beneficiaries can be named to insured POD accounts. Previously, only spouses, children and grandchildren could be named. Now parents and siblings can be POD beneficiaries.

You also may be able to name beneficiaries for a brokerage account holding stocks or mutual funds. This typically is called a transfer-on-death (TOD) account. Not all states or brokerages allow this, so you'll need to check with state law and your brokerage firm. Even if your state doesn't allow it, you may be able to set one up if the firm is based in a state that allows TODs

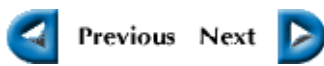
You can't use a POD or TOD for real estate. Also keep in mind that PODs, like living trusts, only avoid probate, not estate taxes. The beneficiary will have to pay for any estate taxes due on the assets if the estate doesn't pay the bill, and in states with estate taxes the POD beneficiary may not be able to get the money until the estate tax bill is paid.

Most financial institutions charge no fee, though they may limit the number of beneficiaries, for payable on death accounts. Fees can be more common with transfer on death accounts.

As easy to set up as POD and TOD accounts are, they are not right for everyone. In some cases, trusts may be more appropriate. For one thing, the proper trusts provide greater flexibility and control after death. You also have more flexibility naming beneficiaries. Some POD accounts don't allow you to name more than one beneficiary. And you may not want minor children named as POD or TOD beneficiaries because the courts may require a guardian to supervise.

POD and TOD accounts aren't for every circumstance. If you do use them, be sure to coordinate them with your estate plan. If your will says everything in your estate goes to your children, but your POD account names your sister as beneficiary, the POD account goes to your sister.

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Web site design
by
InkDrop Media
Group
jalguire@inkdrop.com

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The Financial Planning Association of San
Diego
info@fpasandiego.org