

## What Does Per Stirpes Mean? - Transcript

**Tom Mullooly:** In episode 158 we're going to learn the meaning of the term per stirpes. It's important to you so stick around. Welcome to the Mullooly Asset Show. I'm your host, Tom Mullooly, and this is episode number 158. Thanks for tuning in.

One of the things that we talk about often with clients is the wording on some of these applications especially when it comes to IRAs and beneficiary forms, the phrase is per stirpes. It's not per stripes, it looks like per stripes, but per stirpes means by branch or by root and that's important. A lot of people just gloss over this, they check these boxes off on the application without thinking through their ramifications. Here's the little boxes on TD Ameritrade, here is an explanation on Vanguard, here's what it looks like at Fidelity.

You know what? Don't check these boxes without learning what it's all about.

Let me give you an example. Suppose we have a client named John and John has two kids, Peter and Paul. He leaves his IRA per stirpes to Peter and Paul. In theory, that's 50/50 right? However, Paul dies before his dad, before John, Paul has five kids. When it's time for the beneficiary when the dad passed away now Peter gets his 50%, the 50% that went to Paul now goes to five kids or five children, grandchildren of the dad, each get 10%. If that's not what John, the dad, had intended he has to change his beneficiary form.

We came across an unusual, I don't know how unusual it really is, but we came across a situation recently where an IRA owner passed away. One of the two beneficiaries had also passed away. Forms were never updated so they were set up as per stirpes. Watch how this unfolds. So, 50% goes to the beneficiary who is still alive. The 50% that was supposed to go to this person who had passed away had four kids. Three of them, three of the four kids said, "Hey, Hey, Hey, Hey, wait a minute. The money should really go to the other beneficiary. She needs it. It's the right thing to do." But one of the four kids said, "Hey, you know what? I could really use some of that money." So, three of the four kids had disclaimed the inheritance and so all of the money in that inheritance went to the fourth kid. That is not what was expected or anticipated. No one's speaking to each other now, everyone's upset about how this all went down.

You've got to update these forms when things happen. Look, kids get born, families grow, families shrink with divorce, people splitting up. It's important that you update your beneficiary forms. Very interesting to note Nolo.com, we don't recommend you use nolo.com. Use the services of a professional attorney when you're getting wills, and trusts, and things like that done. But if you go on their website they answer about per stirpes and they even say, "We don't use the term per stirpes in our own wills." They think the people are better off without it. The term is frequently misused by attorneys and it's rarely understood by the people who have checked the box so to speak over the years. One of the big reasons why they don't use it. There have been a lot of lawsuits surrounding the term.

So using per stirpes can have unpredictable, unintended, undesirable results. Hey, look at what you're signing, look at what you're putting down on paper. It's really important. If you don't

know call your advisor, call your planner, call the bank wherever your retirement accounts are, get this stuff straightened out. It's important that you know that.

That's going to wrap up episode 158. Thanks again for tuning in. If you've got questions reach out to us.