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Using POD and TOD Accounts in Your Estate Plan

In estate planning, Payable-on-Death (POD) and Transfer-on-Death (TOD) accounts are often used to streamline asset transfers. These tools can help avoid probate, reduce delays, and provide beneficiaries with faster access to funds. But while the simplicity is appealing, relying too heavily on POD and TOD designations without coordinating them with your broader estate plan can lead to unintended consequences.

Used wisely, these accounts can play a valuable role. But like any estate planning tool, they need to be integrated thoughtfully and reviewed regularly.

What are POD and TOD accounts?

POD designations are typically used on bank accounts or certificates of deposit. TOD designations are more common on investment accounts, such as brokerage portfolios, stocks, and bonds.

In both cases, the mechanics are simple: when the account owner dies, the designated beneficiary inherits the account directly, bypassing probate. The transfer is fast, private, and efficient, and in most cases, costs nothing to set up. The designations typically don't require legal drafting, making them a free option for those looking to avoid the cost and complexity of a Trust (at least for certain assets).

Benefits of using POD and TOD accounts

The main advantage of these accounts is the ability to transfer assets without court involvement. Probate can be time-consuming and costly. A POD or TOD designation allows funds to pass directly to a beneficiary without delay, easing the administrative burden during an already difficult time.

Once a death certificate is submitted, financial institutions can generally release funds from the account. There's minimal paperwork, and the process is typically faster than distributing assets under a Will.

Potential drawbacks and risks

While these designations can be useful, they come with limitations, and if not carefully managed, they can disrupt your estate plan.

They override the Will

Beneficiary designations take legal precedence over your Will. If your estate plan says one thing, but your account says another, the financial institution will honor the designation on file. That's why consistency across your documents is essential.

No control over use of funds

Unlike a Trust, POD and TOD accounts don't allow for conditions. You can't require that funds be used for a specific purpose (like education) or restrict when the beneficiary receives them. Once transferred, the beneficiary has full control.

This can be a concern for minors, young adults, or beneficiaries who may not be financially responsible.

Risk of unintended probate

If your named beneficiary dies before you and you haven't updated the designation, the account may revert to your estate and become subject to probate after all. It's important to name both primary and contingent beneficiaries and to update them regularly.

Liquidity issues for the estate

If too many assets are held in these types of accounts, your estate may lack the liquidity needed to pay debts, taxes, or final expenses. Beneficiaries who receive those accounts have no legal obligation to contribute to those costs, potentially leaving the executor without the resources to settle the estate properly.

Unequal distributions

When multiple POD or TOD accounts are assigned to different beneficiaries, discrepancies in account values, especially if one account grows or is drawn down more than another, can result in unequal and unintended distributions. This can be especially problematic when the intent was to divide the estate evenly.

How POD and TOD accounts compare to other planning tools

Revocable Living Trusts

Like pay or transfer-on-death designations, a Revocable Living Trust avoids probate. But it also offers additional flexibility: for example, naming a successor trustee to manage assets in the event of incapacity (something POD and TOD accounts do not address). A Trust also allows for detailed instructions on how and when assets are distributed.

Wills and Powers of Attorney

Wills remain essential for assets not covered by transfer-on-death designations or Trusts. They provide overall direction for the estate and can address personal items, guardianship, and other matters that POD accounts cannot. Powers of Attorney are also critical for managing assets during your lifetime - an area where pay-on-death designations offer no help.

Coordinating POD and TOD accounts with your estate plan

Keep your plan in sync

If you use either of these designations, review your Will and Trust to ensure there are no conflicts. Your estate plan should reflect a unified strategy. A mismatch between

documents and account designations is one of the most common causes of confusion and legal disputes during estate administration.

Plan for contingencies

Always name contingent beneficiaries and update designations after major life events like marriage, divorce, births, or deaths. Keeping beneficiary records current can prevent unnecessary complications and probate exposure.

Address complex family dynamics

POD and TOD designations are rarely sufficient in more complex situations, such as blended families, multiple marriages, or children with differing financial needs. In these cases, a Trust may be better suited to manage distribution terms, protect vulnerable beneficiaries, and preserve fairness across generations.

Aligning simplicity with strategy

POD and TOD accounts can be valuable tools when used in the right context. They offer speed, privacy, and simplicity, but they're not a substitute for a complete estate plan.

An effective estate strategy often requires alignment between beneficiary designations, Wills, Trusts, and Powers of Attorney. Without that coordination, the very tools designed to simplify can instead create confusion, or worse, conflict, among heirs.

Next Step

When creating an estate plan, it's important to work with an experienced advisor. A well-structured plan not only ensures that your assets are transferred according to your wishes and in a way that protects your legacy but also minimizes tax liabilities, leaving more for your heirs.

If you're considering how POD or TOD accounts might fit into your estate plan or whether a more strategic approach is warranted, reach out to our office to schedule a conversation. We're here to help you plan with clarity and confidence.

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About Horty & Horty.

Horty & Horty, P.A. ("Horty") is a full-service public accounting and advisory firm providing personalized and unparalleled service to closely held businesses and owners throughout the Delaware Valley. We are trusted advisors whose service offerings and proven methodologies are designed to mitigate financial risk and help clients realize their goals and achieve success.

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