



**WHAT'S INSIDE**

PAGE TWO  
*Naming Your Beneficiary*

PAGE FOUR  
*The Bottom Line*

## EASY TO DO, SOMETIMES NOT SO EASY TO DECIDE.

It's always been important to list a beneficiary for your L'ORÉAL USA, Inc. Employee Savings Retirement Plan (L'ORÉAL Plan) account, so that your assets are distributed as you had intended in the event of your death. However, it's crucial for you to understand your options when deciding *who* you will name as your beneficiary and how they will inherit the assets.

### Surviving spouse

Generally speaking, most L'ORÉAL Plan participants who are married choose to leave their plan assets to their spouses. There are several reasons for this—namely, the spouse who survives is likely to need the assets in retirement; and spouses are allowed to roll over assets from a retirement plan account into an account of their own (i.e., a L'ORÉAL account, a Traditional IRA, a Roth IRA, or another eligible plan). This usually enables them to continue to defer taxation of the assets until age 70½ when they must begin taking minimum required distributions, or RMDs.

Note: Effective January 1, 2010, if the beneficiary is not the spouse of the participant, they may make a direct transfer of the participant's benefits to a Traditional or Roth Inherited IRA, if the amount otherwise would be considered an eligible rollover distribution. However, a non-spousal beneficiary is not eligible to roll over the distribution to an eligible employer plan.

*Please note that if you are currently married and you wish to name a non-spouse as your beneficiary, your spouse will need to sign a waiver to his/her rights to these assets.*

While the most commonly listed beneficiary is a spouse, some plan participants prefer leaving their plan assets to other relatives, trusts, or charities. The following summaries will help you understand better some of the possible advantages and potential complications with non-spouse beneficiary options. Generally speaking, with the exception of the rollover, all beneficiaries have several choices for what they can do with the assets they inherit in your L'ORÉAL Plan account:

1. They can keep the assets in the L'ORÉAL Plan if they wish (certain distribution rules will apply).
2. They can transfer the assets to an Inherited IRA account, in which they are named as the beneficiary of the account (again, certain distribution rules will apply). Depending upon the age of the plan participant at death, the beneficiary may have the option of taking required minimum distributions from the account each year based on his or her life expectancy (i.e., per IRS mortality tables), or in any amounts over a five year period.



3. They can take a lump sum distribution from the L'ORÉAL account, paying any income taxes due on the withdrawal, and spending or reinvesting the remainder in a taxable account. Charities will always pick this option, since in almost all cases they can withdraw the assets income tax-free.

Although naming a specific beneficiary or beneficiaries may enable the assets in your L'ORÉAL plan account to avoid probate, they will still be included in your taxable estate. Therefore, depending upon what other assets you own at the time of your death, and depending on what plans you have made for paying for any estate taxes due, your beneficiary may inherit the entire amount in the plan account or an amount that has been reduced for any estate taxes that were paid when the estate was settled.

### Minor Children

- Naming your children or grandchildren as your plan beneficiaries could help ensure a financially secure future for them in the event of your death. Taken as a lump sum, for example, the money could help pay for college, a car, or even down payment on a home.
- Or, it could remain in the L'ORÉAL Plan, or moved to an Inherited IRA account, with only required minimum distributions taken each year (they could always take more), based on the actuarial life expectancy of the beneficiary—*usually until age 80 or older*. The balance of the assets remaining in the account could continue to be invested tax-deferred until withdrawn. Certain exceptions apply.
- Generally, if you are leaving the plan assets to minors, you would need to appoint a custodian or guardian to oversee the distributions from the account to a minor child.
- It would also be important to consider the amount of money a minor might be able to withdraw from an account at the age of majority (18 or 21 in most states), to spend however they wished. If that raises any concern, you might want to consider naming a trust as your beneficiary, which would provide more control over the assets.

### Trusts

- Naming a trust as beneficiary may be a practical choice if you are planning on leaving assets to a minor, or you do not want the beneficiary to withdraw all of the inherited assets in one lump sum. For example, the trustee of a trust can be

instructed to take minimum distributions from the account each year based on the actuarial life expectancy of the beneficiary of the trust.

- With a trust, you can also establish other limits and requirements for the beneficiary. For example, you may stipulate postponing distribution of the remaining principal until after the completion of college or only allow distribution of a fraction of the account at certain ages.
- Bear in mind that setting up a trust that will meet all the requirements to accomplish your goals requires the help of an adviser who is an expert in this aspect of the law.

### Parents

- Designating parents or siblings is a common option if you're young and single.
- One strategy to consider, if you are unsure whether or not your parents will need these assets, is to name your parents as primary beneficiaries and siblings as contingent beneficiaries. That way, if your parents were to find they did not need the assets, they could disclaim them in favor of your siblings. (Certain rules apply for disclaimers to "work", so if disclaiming is a possibility, you may wish to discuss this option with your beneficiaries now.)

### Leaving assets to your estate

- If you simply wish to have the assets in your L'ORÉAL account distributed to your heirs as lump sums, the simplest way to accomplish this may be to leave the assets to "My Estate". (In so doing, the assets in this account will not avoid probate, however, as they would in many of the situations described above.)
- If your wishes for distribution of the assets are fairly complicated to explain, leaving the plan assets to your heirs according to the instructions in your will could be the most convenient.
- In this instance, your executor, not your beneficiary, would be the one to contact L'ORÉAL to take the distribution of the assets from the plan.

### More than one?

- According to your plan, you are able to list more than one beneficiary and indicate the percentage of assets to be distributed to each.



- Beneficiaries will be allowed to keep their inheritances in separate accounts in the L'ORÉAL Plan, based on minimum balance requirements. As described above, beneficiaries will be permitted to take required minimum distributions based on their own actuarial life expectancies. (One beneficiary might be age 4 and another age 44, for example.)
- However, if there are any beneficiaries who have *not* separated their inheritances from that of the other beneficiaries by September 30 of the year following the year of the participant's death, they will be required to take withdrawals and calculate distributions based on the date of birth of the oldest beneficiary. These payments need to begin by December 31 of the year following the year of death to avoid any potential IRS penalties.

### What if you don't name a beneficiary?

- In the event no valid designation of Beneficiary exists, or if the Beneficiary is not alive at the time of the Participant's death, the death benefit will be paid in the following order of priority to:
  - (1) the Participant's surviving spouse;
  - (2) the Participant's children, including adopted children, per stirpes (i.e., if the participant's child has predeceased the participant, that child's share would be distributed to his or her children—the participant's grandchildren, if any)
  - (3) the Participant's estate.
- If the beneficiary does not predecease the Participant, but dies prior to distribution of the death benefit, the death benefit will be paid to the Beneficiary's estate.

## THE BOTTOM LINE

It is important to make a decision that best fits you and the future financial needs of your heirs. Through help from a legal, financial, or tax advisor who is an expert in this field, you can determine which option is the most appropriate fit for your situation.

You can declare and update your retirement plan beneficiary with ease, on the *myRetirementPlan* Web site at [rps.troweprice.com](http://rps.troweprice.com).

*This article has been prepared by T. Rowe Price Retirement Plan Services, Inc., for informational purposes only.*

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PAGE >> FOUR

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