

# DOs & DON'Ts of Investment Club Member Beneficiaries

MYICLUB.COM INVESTMENT CLUB WEBINARS



Presented by Doug  
Gerlach & the  
myICLUB Team  
August 2025



## Your Hosts



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ICLUBcentral Inc.



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myICLUB



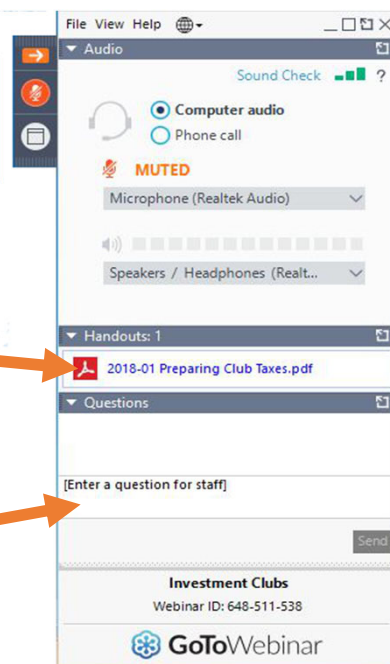
**Sean Pulrang**  
Senior Support  
Representative,  
myICLUB

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## Handout & Questions

Handout in PDF  
format is available  
in Handouts tab.

Type questions in  
Questions box.



## Disclaimer



- Neither myICLUB, ICLUBcentral nor BetterInvesting provide personalized investment, tax, or legal advice to individuals or investment clubs.
- However, we do have decades of experience with investment clubs & investing partnerships, & we can offer suggestions & pitfalls to avoid.
- If you have questions or wish to deviate from our suggestions, we recommend seeking competent legal advice before taking action.
- You are responsible for following all Federal, state, & local regulations regarding all operations & tax reporting of your investment club.



## BASICS OF BENEFICIARIES IN INVESTMENT CLUBS

### What Are Beneficiary Statements?



- Commonly used by financial institutions to allow customers to **designate individual or entity** who should **receive assets upon death** of account holder.
- Intended to ensure that distribution of assets is done **according to account holder's wishes**.
- Can usually **bypass probate** process.

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## Can Clubs Use Beneficiary Statements?



- Many investment clubs ask members to complete “**beneficiary statements**” to handle transfer of member assets in case of death.
- Such forms **may or may not be legal** in partnership’s state.
- Regardless, we steadfastly recommend that clubs **NOT USE BENEFICIARY STATEMENTS.**

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## Why Are Beneficiary Statements Problematic?



- Use of beneficiary forms in investment clubs are **not recommended** due to:
  1. Legal & enforceability concerns on state-by-state basis;
  2. Difficulties in institution compliance, especially regarding transfer of partnership property;
  3. Liability to clubs if problems arise with beneficiary payouts.

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## Do Follow State Laws re: Beneficiaries



- In U.S. , laws & enforceability regarding account beneficiaries are **set & enforced by state**.
- Note that some states **may not support transfer** of partnership interests.
- We do not have resources to monitor & know your state's statutes.

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## Do Be Aware of Issues in Transferring Assets



- Financial institutions are increasingly **unwilling to transfer securities** to individual who is not partner or to account of deceased partner.
- Some even balk at transferring securities to individuals who **are** partners.
- Cash is **usually** able to be transferred, even if via check.

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## Do Avoid Potential Family Disputes



- Where money is concerned, family members tend to be **quite interested in what happens after death of loved one (especially regards to money)**.
- Clubs definitely **should not get in middle** of family disagreements.
- Risk to remaining members is **very high** if beneficiary transfer goes wrong (such as payment made to wrong person).
- If beneficiary statement is **contradicted** by will, remaining club members could get mixed up in legal dispute.

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## Do Avoid Beneficiary Legal Fights



- Even if enforceable, beneficiary statement may **not take precedence over will, trust agreement, or other last request documents**.
- Even if beneficiary statement is proper, doesn't prevent heir who feels wronged from **suing** partnership.
  - Club would then be forced to incur **costs of legal representation**.
- Litigant can **go after any partner** in general partnership in hopes of recovering funds.
- Worst case: Asset transferred to "wrong" heir is deemed erroneous & remaining members are forced to **pay legitimate beneficiary**.

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## What About Transfer On Death (TOD)?



- Some states have passed Uniform **Transfer on Death** (TOD) law.
- Purpose is to allow easy way to transfer assets outside of probate.
- Assets titled with TOD provision can bypass probate & take precedence over will.

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## Do Not Use Transfer On Death (TOD)



- States customize their “Uniform TOD” laws so details vary.
- However, only certain assets can be covered by TOD provisions.
  - **Partnership interests may not be among asset types** allowed to use this method.
- Other issues with making payments to improper beneficiaries remain.

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## Do Make Members Responsible for Own Estates



- Each member should make allowance in personal estate plans for how they want their club partnership interest distributed to heirs, & keep club out of it.
- If member passes away, club should distribute their portion of club **directly to estate**.
- **Estate is then responsible** for distributing it to correct people & club stays out of any problems with the member's heirs.

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## Do Seek Legal Advice



- If club members *insist* on use of beneficiary statements or TOD provisions, club **must** seek **competent legal advice** before implementing.
- Must also be prepared to **defend** beneficiary statement.
- **Remember:** Large financial institutions like Schwab, Fidelity, Vanguard, etc. have teams of lawyers who defend beneficiary statements—something your club doesn't have.

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## WHAT TO DO IF BENEFICIARY STATEMENTS ARE TO BE AVOIDED?

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## Do Not Transfer Club Membership



- Some clubs wish to transfer partner interests to another person, who would then be club member.
- **We do not recommend allowing anyone to become club member without going through club's admission procedures.**
- Other issues with transfers to “wrong” beneficiary remain with inherited partnership interests.

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## Do Follow Guidelines for Final Withdrawals



- Our tried-and-true advice for clubs facing death of partner remains same as ever:
  - **Process final withdrawal for deceased partner exactly like any other member withdrawal.**
- Write check or transfer securities

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## Do Make Final Withdrawal Payouts to Member



- Okay to coordinate payment with next of kin.
- **However, do not write check or transfer securities to ANY other individual.**
  - This includes spouse/partner, executor, children.
- **Write check payable to “Name of Deceased Partner” or “Estate of Deceased Partner.”**

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## Problems with Transferring Securities



- If partner has account at same brokerage that club uses, it **may be possible to transfer securities** to account after death of that partner.
- However, brokerages may “lock down” account of customer who has passed, & transfers into that account **may be impossible**.
- Transferring securities may be prevented if deceased member doesn't have account at same brokerage as club.

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## Do Get More Help on Our YouTube Channel



[www.YouTube.com/ICLUBcentral](http://www.YouTube.com/ICLUBcentral)



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## Do Maintain Emergency Contacts



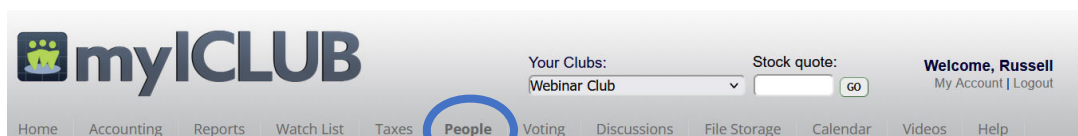
- Make sure to maintain **emergency contact** information for all members.
- In case of member passing, club knows **who to contact** to coordinate withdrawal transactions & sending of payment.
- Good practice to **update contact list regularly**, such as each year at tax time.
- Can keep track in **myICLUB Member Profiles**.

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## Edit Member Profile



- Go to **People** tab in myICLUB.















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## Member Profile Entries



- Click edit icon for member.

	<u>Cod UGMA, Atlantis</u> Member	DavidCod@underthesea.com	12/1998	✓			
	<u>Crabb, Dungy</u> Accountant	crabbyCPA@sidewayspartnersllc.com	02/2009	✓			
	<u>Dorado, Portia</u>	portiadorado@mailinator.com	02/2009	✓			



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## Emergency Contact Fields



- Scroll down to **Emergency Contact**.
- Enter **Name, Phone, Email**.

### Emergency Contact

Contact Name:

Contact Phone:

Contact Email:



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## Emergency Contact Is Set



### Dungy Crabb

**Name:** Dungy Crabb

**Entity Type:** Individual

**Permanent address:** 12 Untimely Road  
Interim, AK 99999  
United States of America



**Email:** [crabbyCPA@sidewayspartnersllc.com](mailto:crabbyCPA@sidewayspartnersllc.com)

**Emergency Contact:** Bluey Crabb

**Emergency Contact #:** 555-555-1212

**Emergency Contact Email:** [bluey.crabb@bytheshore.com](mailto:bluey.crabb@bytheshore.com)



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## Problems Reaching Next of Kin



- If next of kin is unknown, send deceased partner's final payment to **last known mailing address**.
- If final withdrawal check is not cashed, be diligent about **reasonable followup**.
  - In many states, this is satisfied by mailing of letter by first-class/certified mail to the last known address of owner.
- Any expenses related to discovery of next of kin are probably legitimate expenses to be born by deceased partner.
- Inactivity period varies by state, between 1 & 5 years.
- If all else fails & check remains uncashed, stop payment & **remit funds to state's lost/unclaimed property division**.

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## Are Member Trusts an Option?



- Clubs that allow member trusts may not opt out of IRS Partnership Audit Regime, reducing protections for future members.
- myICLUB recommends **not allowing member trusts** in clubs.



### SUPPORT FOR MEMBER TRUSTS IN MYICLUB.COM

Russell Malley  
April 2025

See this webinar replay on the ICLUBcentral YouTube channel for more details:

[https://youtu.be/ciUv6CaXh\\_8](https://youtu.be/ciUv6CaXh_8)

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## ANY QUESTIONS?

EMAIL ME: [GERLACH@ICLUB.COM](mailto:GERLACH@ICLUB.COM)

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# Thank You!

