

Naming a minor as beneficiary of a life insurance policy or retirement plan can lead to unintended outcomes

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A common estate planning mistake is to designate a minor as beneficiary — or contingent beneficiary — of a life insurance policy or retirement plan. While making your young child the beneficiary of such assets may seem like an excellent way to provide for him or her in the case of your untimely death, doing so can have significant undesirable consequences.

Not per your wishes

The first problem with designating a minor as a beneficiary is that insurance companies and financial institutions generally won't pay large sums of money directly to a minor. What they'll typically do in such situations is require costly court proceedings to appoint a guardian to manage the child's inheritance. And there's no guarantee the guardian will be someone you'd choose.

For example, let's suppose you're divorcing your spouse and you've appointed your minor children as beneficiaries. If you die while the children are still minors, a guardian for the assets will be required. The court will likely appoint their living parent — your ex-spouse — which may be inconsistent with your wishes.

Age of majority

There's another problem with naming a minor as a beneficiary: The funds will have to be turned over to the child after he or she reaches the age of majority (18 or 21, depending on state law). Generally, that isn't the ideal age for a child to gain unrestricted access to large sums of money.

A better strategy

Instead of naming your minor child as beneficiary of your life insurance policy or retirement plan, designate one or more trusts as beneficiaries. Then make your child a beneficiary of the trust(s). This approach provides several advantages. It:

- Avoids the need for guardianship proceedings;
- Gives you the opportunity to select the trustee who'll be responsible for managing the assets; and
- Allows you to determine when the child will receive the funds and under what circumstances.

If you're unsure of whom to name as beneficiary of your life insurance policy or retirement plan or would like to learn about more ways to provide for your minor children, please contact us.

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