



Estate Planning Pitfall
You've designated a minor or legally incompetent person
as beneficiary of your life insurance policy

Life insurance is one of the most powerful and flexible estate planning tools available, creating a source of wealth and liquidity to meet a variety of planning objectives. For many people, a life insurance policy is their most valuable asset. But all too often, they neglect to give the beneficiary designation the attention it deserves.

One of the most common mistakes is designating a minor or legally incompetent person as beneficiary. Doing so actually defeats one of the fundamental purposes of estate planning: to have a say in how your wealth is distributed after you're gone.

Insurance companies generally won't pay large sums of money directly to a minor or an incompetent person. So the death benefits won't be available to your family until your executor goes through the time-consuming and expensive process of arranging a court-appointed guardian (who may or may not be the guardian you designated to care for your child).

Even after that happens, however, your estate plan will have little control over how the guardian uses the funds to care for the beneficiary. What's more, in the case of a minor, your beneficiary will gain unrestricted access to the funds as soon as he or she reaches the age of majority.

A better approach is to designate one or more trusts as beneficiaries of the policy. This strategy gives you the flexibility to establish detailed criteria for how and when the funds will be distributed to or on behalf of your loved ones.

You can instruct the trustee to distribute the funds at any age or ages you wish, extending well into adulthood. You also can limit distributions to certain purposes, such as education or health care, or condition them on the achievement of certain milestones, such as graduating from college or remaining gainfully employed.

For a beneficiary who is severely disabled or otherwise legally incompetent, consider establishing a special needs trust, which provides for his or her comfort without jeopardizing eligibility for government assistance.

For more information, please contact us via phone or e-mail, or visit us on the World-Wide Web:

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