

Naming a Minor as Beneficiary of a Life Insurance Policy or Retirement Plan Can Lead to Unintended Outcomes

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Challenges often occur in instances when a minor is designated as beneficiary — or contingent beneficiary — of a life insurance policy or retirement plan. While making a young child the beneficiary of such assets may seem like an excellent way to provide for him or her, in the case of a parent's untimely death, doing so can have significant undesirable consequences.

First, it is important to note, when designating a minor as a beneficiary, insurance companies and financial institutions generally will not pay large sums of money directly to a minor. What they will typically do in such situations is require costly court proceedings to appoint a guardian to manage the child's inheritance. Most importantly, there is no guarantee that the appointed guardian will be someone the parent would have chosen.

For example, suppose a divorced mother has appointed her minor children as beneficiaries. If she dies while the children are still minors, a guardian for the assets will be required. The court will likely appoint their living parent — her ex-spouse —

which may be inconsistent with her wishes.

Another problem with naming a minor as a beneficiary is that the funds will have to be turned over to the child after he or she reaches the age of maturity (18 or 21, depending on state law). In many cases, that is not the ideal age for a child to gain unrestricted access to large sums of money.

An alternative option to naming a minor child as beneficiary of a life insurance policy or retirement plan is to designate one or more trusts as beneficiaries and make the child a beneficiary of the trust(s). This approach is advantageous in that it:

- Avoids the need for guardianship proceedings,
- Gives the parent/guardian the opportunity to select the trustee who will be [responsible for managing the assets](#), and
- Allows the parent/guardian to determine when the child will receive the funds and under what circumstances.

For further questions or to discuss more strategies on how to provide for minor children, please contact your Anchin Relationship Partner, or [Tamir Dardashtian](#), a principal in Anchin Private Client.