DANGER!

CHILDREN AS BENEFICIARIES

You're a married couple talking to your life insurance agent about a new insurance policy to provide additional financial protection for your family if you die prematurely. In the course of your conversation you decide on the amount and type of coverage that is appropriate for your situation, and then the agent asks you a series of questions as he completes the application. One of the questions he asks you is who you want to receive the proceeds when you die. You and your spouse agree that each of you should receive the proceeds if the other dies first. So, the agent lists each of you on the application as beneficiaries for each other. Then he asks who you want to receive the money if you both die, for example, together in a car accident. You and your spouse agree that your children should receive the money, so the agent names the children as the second or contingent beneficiaries.

Naming the children, though not the worst choice you can make, is nonetheless a **bad** choice. By making this election, someone will need to petition the court to appoint a guardian for the money. This can be a drawn out process, and it has legal fees associated with it. The additional fees for bonding, compensation for the guardian and court reporting fees will be paid from the funds until the children reach the age of 18. Then when they turn 18, regardless of how immature or inexperienced they are, they receive the money to spend any way they choose. Can you imagine being 18 years old and being given a pot full of money to spend any way you wanted?

There are at least two **worse** options. One is to name the estate as the beneficiary. By doing this, you've exposed the insurance money to the claims of your creditors. One of the features of life insurance proceeds is that the money is not subject to claims made by your creditors as long as you have named valid beneficiaries to receive the money. The **worst** choice is to name the person who you want to raise your children, or another person you trust to manage the money. The problem here is that you have made that person the legal owner of the money and strapped them with a moral obligation they may not be able to live up to. Even if they can, there are other risks, such as that person dying and not having a proper estate plan that passes the money to your children. Or, what if the person divorces or is sued as the result of something like a car accident? Since the money is theirs, it is in peril and may not be there for the benefit of your children.

The proper solution is to create a Will with a trust provision designed to accept the money for the benefit of your children. You name a trustee to manage the funds and to provide for the children's needs and distribute the remainder at an age that you have established in the trust, rather than at the age of 18. You can also name successor trustees to take over in the event the original trustee cannot or decides, for some reason, that he will not serve.

Another point to be aware of is that your will generally has no effect on how proceeds from life insurance, retirement accounts and annuities will be paid. These contracts should be reviewed periodically to ensure that the proper beneficiaries have been selected and those selections reflect your current wishes.