

# Minor Beneficiary Designation

If you wish to designate a minor as a beneficiary on a life application you should consider designating a custodian for the child under the Uniform Transfers to Minors Act. By naming a custodian for the child, the life insurance company can pay any death proceeds to the custodian without complication.

If you designate a minor child as beneficiary, upon death, payment will be made to the Legal Guardian of that child's "estate" as appointed by the court. A child's parent does not automatically become the guardian of the child's estate and even the parent must obtain the Letters of Guardianship of that child's estate in order to control the funds for the child. That is why you should consider placing the beneficiary in a custodial relationship under the Uniform Transfers to Minors Act.

By naming a custodian, you avoid the need to create a trust or arrange for proof of guardianship. At death the life insurance company can pay any proceeds to the custodian without complication or delay. It is a simple and low-cost method for transferring property to minors.

Example: Father named his 7 year old son as primary beneficiary on a \$1 Million policy, without a designated custodian. Under state law, the life insurance company could not pay the funds to the child's mother without proof of guardianship. The mother had to go to court to be appointed guardian for her own child. This is a hassle and expense that you would want to avoid.

To create the custodianship, you would designate the beneficiary with the proper wording: "[Adult's Name] as custodian for [Minor's Name], a minor under the [Name of Minor's State of Residence] UTMA."

Example: Jane Doe as custodian for James Doe, a minor under the New York Uniform Transfers to Minors Act (NY UTMA).

When multiple beneficiaries are involved:

Jane Doe as custodian for James Doe, a minor under the NY UTMA (50%)

Jane Doe as custodian for Susan Doe, a minor under the NY UTMA (50%)

Once funds are paid to the custodian, the property belongs irrevocably to the child. The custodian manages the investments and may use the funds for the child's benefit.

In the states of NY and NJ the UTMA terminates when the child reaches the age of 21. At age 21 (age 18 in some states), the custodial funds come under the total control of the (former) child. Therein lies the big drawback to UTMA accounts. Many parents would be wary of letting a son or daughter of just 18 or 21 handle large sums of money. UTMA's might be appropriate for smaller amounts of money. For large sums, parents or grandparents may want to name a trust for the child as beneficiary of the life policy instead.