

## **THE QUESTION OF BENEFICIARIES**

Question : I have two children aged 12 and 19 years. I want to take out \$150,000 in life insurance (on my life) and make both of the children equal beneficiaries. The insurance agent told me I could make the oldest child a beneficiary but that the insurance company could not pay any money directly to my youngest one because she is a minor. I asked the agent how I could get around the rule but all she said is that the insurance company could not act as a trust company. The only option I had was to name my estate as beneficiary.

What is the difference between paying the death benefit into my estate, rather than directly to the beneficiaries?

Answer : Unfortunately, your agent's response is not entirely accurate. There is an important difference between paying the life insurance proceeds into your estate and paying it directly to your children as beneficiaries.

Generally, if the proceeds are paid into your estate, they are subject to probate and can even be claimed by any creditors you may have.

If the death benefit is paid directly to your children, the creditors cannot make a claim on it. *(One exception could be if you have used the cash value of the policy as collateral for a loan in which case the loan will be settled before the death benefit is paid out.)*

An insurance company does not have the discretionary powers of a trust company to handle funds in trust for a minor. Therefore your insurer needs definite instructions on how to handle the death benefit. The insurance company must agree to the settlement arrangements requested by you in the insurance contract. But they have the right, under provincial insurance acts, to refuse to accept complicated or unusual settlement arrangements.

Therefore, in your particular situation, you may want to consider a trust agreement. This will accomplish your goals and provide some tax advantages for your youngest.

If you would like further details on setting up a trust for your children, contact us. I would be pleased to help you through the process of setting up a trust that meets your needs.

Need further clarification or help, give us a call at 613-475-5109,  
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