Can you name a trust as a life insurance beneficiary?

You bought life insurance to help your family maintain their lifestyle if you're suddenly not there to provide for them. Still, you're worried. Will they be able to manage their finances? What might happen if they receive a large amount of money all at once? Consider a life insurance trust beneficiary as a potential solution.

Legal instruments, like trusts, aren't just for the ultrarich. Putting money or other assets in a trust lets you spell out who receives them and how they're doled out over time. If you want more say over how your life insurance gets spent, a trust can help you gain that control – even after your lifetime.

Naming a trust as a beneficiary is a personal decision based on what you want to happen with the payout from your life insurance policy. Our team at HORAN is here to answer your questions and help you secure your family's financial future.

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What is a trust?

At a basic level, a trust is an account that holds assets, like life insurance proceeds. The policyholder is the trustor, or the one who establishes the trust. The trustees are the people who will receive the assets from the trust over time. A trust establishes a way to provide funds for another person without direct access.

Trusts can provide extra legal protection and reduce taxes on some types of assets. They also allow the trustor to set specific terms for the assets held within it. That may include rules on how or when the funds may be accessed.

Setting up a trust is a somewhat complex process, and it's best to consult with an attorney when creating one. For some people, though, listing a trust as a beneficiary of life insurance can provide the right amount of control over this important financial resource.

Why designate a trust as a life insurance beneficiary?

When you list a trust as a beneficiary, the trust receives the payout from your life insurance policy. There are several reasons to do so:

- **Create a steady income for your family.** Instead of a single, lump sum payment, set up a trust that pays a set amount of money as often as you would like. This can make it easier for your family to budget over time.
- **Set up money to be paid at a specific time or for a specific goal.** There are no strings attached to life insurance death benefits. That means the beneficiary can use the funds as they wish. If you want more control, establish a trust with specific rules. You may want the death benefit to cover your child's education or pay off the mortgage, for example.
- **Protect young children with a plan.** A trust may help you leave money behind to your young children. The process requires establishing specific rules and governance for who can receive money on your child's behalf, such as their guardians.

Other strategies may exist for using a trust. If you're thinking about naming a trust as beneficiary, talk to an estate planning attorney about the potential benefits for you and your family.

Are there disadvantages to putting life insurance in a trust?

Can a trust be a beneficiary of life insurance without any drawbacks? There are a few things to keep in mind before going this route. The biggest drawback is the added costs involved in trust setup. You'll need to pay costs for managing the trust over time as well.

Since a trust isn't considered a legal person, there might be estate taxes levied on the trust after your death. Finally, remember that a trust is just the vehicle to hold your death benefit. You'll also need a will to provide oversight, name the administrator of the trust, and create specific rules to govern the trust. If you don't have a will, setting one up may involve additional costs.

How do you name a trust as a beneficiary?

The first step is creating a trust. Your attorney or estate planner can help create the trust document, a legally binding agreement. You'll need to sign and notarize it, then establish a trust bank account. At the time of your death, the death benefit is paid directly to this account. Then, you'll name the trust as the beneficiary when purchasing a life insurance policy. You can also update an existing policy by changing the beneficiary to a trust. Reach out to your insurer for steps to do this.

When naming a trust, think about whether your trust should be the primary or secondary beneficiary. It can serve as either, depending on your goals. Let's say you want to leave your assets to your spouse, but what if your spouse dies before you? You might consider a trust as a secondary beneficiary. That means the trust receives the death benefit payout only if your spouse were to pass away.

Source: Fidelity Life