What is an insurance trust?

An insurance trust is a tool used to help ensure that proceeds from a policy are distributed to beneficiaries in the way that the policy holder intended.

There are three parties to an insurance trust.

The settlor (who is also the policy owner) creates the trust in writing and names the beneficiaries who will receive the insurance proceeds.

The trustee manages and distributes the assets of the trust according to the terms of agreement.

The beneficiary receives the insurance policy proceeds in accordance with the trust terms.

There are three main ways to set up an insurance trust – through a will, by a trust agreement and through a hybrid method using a beneficiary designation form and referring to the policy holder's existing will.

It's important to have a lawyer who practices in estate planning draft a will that contains insurance trust provisions - or if a trust agreement is used, to create the terms of the trust.

Insurance trusts offer many advantages, including:

- Allowing the policy holder to control the distribution of proceeds to beneficiaries,
- Offering creditor protection and avoiding probate fees because the trust isn't considered part of an estate,
- Providing a tool to pay proceeds to a named trustee for the benefit of minor beneficiaries.

It's important to note that insurance trusts cannot be used in Quebec because the rules governing trusts under the Quebec Civil Code are different.

An insurance trust can be a useful tool in the estate planning process, offering peace of mind that a policy holder's insurance proceeds will be distributed to the right beneficiaries in a way they intended.

For more information about insurance trusts check out the Insurance Tax, Retirement and Estate Planning section of Manulife's Advisor Portal.

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