

“I didn’t know that you could do *that* with a trust.”

Why do so many financially successful individuals and their families look to trust institutions to meet their financial management needs? Several reasons come to mind:

- We provide a *team approach*, a fully staffed department with individuals who bring a diverse range of skills to the job.
- Our services are *fee based*; we are not compensated by generating transactions or through commissions for the sale of particular products.
- We are a *corporate fiduciary*, authorized by the banking authorities to act as a trustee for individuals and institutions in the management and distribution of their assets.

What can be accomplished with this power to delegate the authority to manage property in a trustee? Trusts can be individually tailored to address many different financial goals. As a result, there’s no such thing as a “typical trust.” However, certain basic trust approaches are widely used. The following fictitious examples may spur your thinking about how trust planning might help you to meet your own financial goals.

Providing for others

• *Planning for widowhood.* David and Lisa have an estate that’s worth about \$5 million. David is older, and the fact is that most wives outlive their husbands by many years. David wants to make certain that Lisa will be financially secure after he dies, and the couple wants their estate to pass to their children after their deaths.

A *marital deduction trust* provides lifetime income for a surviving spouse, and the trustee can be directed to invade the trust in the event of a financial emergency. A *credit shelter trust* (also called a *bypass trust*) provides similar functionality, but is designed to escape estate taxes at the surviving spouse’s eventual death. This two-trust plan is the most common approach today for bringing estate taxes under control, maximizing the financial assets available to the family.

Two variations are worth noting. If Lisa is not a U.S. citizen, David will need to create a *Qualified Domestic Trust* (QDOT) for her in order to secure a marital deduction from the federal estate tax. The terms of this specialized trust are defined by the tax code. If David wishes to provide for children from a prior marriage, he may want to look into a *Qualified Terminable Interest Property Trust* (QTIP trust). He then may specify who will receive the assets at Lisa’s death.

• *Doubtful marriages.* Edward worries about his children’s choice of spouses. He advanced his son Frank a substantial portion of his inheritance, half of which evaporated in a messy divorce just a few years later. Daughter Grace’s marriage seems steadier, but her husband lacks ambition, and the couple doesn’t seem to be getting ahead financially. In fact, they may have taken on more credit card debt than they can handle.

By using a *spendthrift trust* to provide for Grace’s inheritance, Edward will protect the money from the claims of creditors as well as from her husband. In addition, Edward will be providing the couple with professional investment management

assistance for the money. Edward also can specify in the trust how the trust principal might be used to benefit his grandchildren.

- *Doing good by doing well.* William has a highly appreciated asset that doesn't provide any current income. He's about to retire, and he'd like to convert that asset into an income stream. However, the asset has a very low tax basis, and William has been hanging onto it for years to avoid tax on the built-in capital gain. By the way, William is very active in several local charities, and he plans to continue to be active during his retirement.

A *charitable remainder trust* provides income for a private beneficiary for life or a specified number of years (up to 20). The income can be defined either as a fixed dollar amount (an *annuity trust*), or as a percentage of the value of the trust, recalculated each year (a *unitrust*). The annuity trust approach provides certainty of income, while the unitrust income amount can increase (or decrease) over time if the value of the trust changes. When appreciated assets are placed in a charitable remainder trust, the trustee can sell them without incurring tax on the capital gain. With a charitable remainder trust, William can provide for his own retirement income without the erosion inflicted by the capital gains tax, and he can provide a lasting legacy for the charities that he cherishes. He'll also secure an income tax deduction for himself, based upon the actuarial value of his charitable gift.

Providing for oneself

- *At the threshold of retirement.* Charles and Dorothy are about to retire. They want freedom from financial worry, and they have enough wealth to make that happen. The couple has lined up a series of cruises and other vacations that they plan to take. When they are away, the couple will need someone to manage their investments. And they also are concerned about the possibility of incapacity. What happens to the financial management should one of them fall seriously ill?

Our most comprehensive and versatile financial management service is the *revocable living trust*. We'll help Charles and Dorothy develop an investment management plan, and we'll implement that plan. We provide continuous portfolio supervision, distributing or reinvesting trust income as directed. This service will not be interrupted should the couple decide to extend a European trip, should they plan to divide their time between several vacation homes, or in the event that one of them suffers a serious medical setback.

The migrating worker. Amanda's career has involved many job changes, as different companies have been competing for her services. Another switch is looming. The new position will be challenging and rewarding, but she has one important concern. What should she do with the six-figure payout that she'll receive from her current employer's 401(k) plan?

A direct transfer of the 401(k) money to an *IRA Rollover* will preserve full tax deferral for Amanda's retirement money. We'll also help her to develop an investment plan for the IRA that takes into account her other financial resources, her risk tolerance and tax efficiencies.

Our invitation

We have just scratched the surface of what can be accomplished with a trust. To learn more about these ideas, or to explore other trust-based planning approaches that you've heard about, we invite you to come in and talk over your needs and concerns.

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