Financial fitness

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MAKING WISHES COME TRUE: *Three Trust Fund Examples*

Establishing a trust is a vital part of your financial plan and can protect your assets from a number of pitfalls, including probate and estate taxes. Additionally, transferring your assets to a trust can potentially minimize family conflicts and enable you to continue to provide for your loved ones after your death.

Trusts are highly customizable and can include stipulations for beneficiaries to receive funds. Before you dive into constructing a trust, there are few things to consider, including who the trust is designed to benefit and what types of assets – investments, life insurance, personal property or a business – you're passing on to your heirs.

1. Providing For Traditional And Blended Families

Credit-Shelter Trusts and Qualified Terminable Insurance Trusts (QTIP)

Credit-Shelter Trusts, also known as Bypass Trusts, are not subject to estate tax and are used to pass assets from one generation to the next upon the death of the last surviving spouse. The grantor also has the ability to specify how much money can be withdrawn and for what purposes, as well as limit the recipient's ability to further distribute the assets.

A QTIP Trust is commonly used by those who have children from multiple marriages, as it ensures that the assets are passed on to specific beneficiaries as prescribed by the grantor. This type of trust allows the grantor to not only provide for a spouse, but also dictate the distribution of the trust upon the death of the surviving spouse.

2. Protecting A Business Or Illiquid Assets

Irrevocable Trusts

An Irrevocable Trust removes all rights of ownership from the grantor, thereby removing their assets from the taxable estate up to a certain amount ($5.4 million per individual as of 2015, per IRS.gov). After assets are transferred to the trust, only the beneficiaries can modify the terms. Irrevocable Trust assets can include businesses, investments and life insurance policies. This is useful when you leave illiquid assets that might take a while to sell – such as a business. If your heirs don't have cash on hand to pay operating expenses, the proceeds from the Irrevocable Trust can help tide them over. 1

3. Passing Assets To Younger Generations

Dynasty Trusts

If your objective is to provide for multiple generations, consider a Dynasty Trust, a type of Generation Skipping Trust. Since they can survive 21 years after the death of the last beneficiary who was alive when established, Dynasty Trusts can last for more than 100 years.2 They are also controlled by an appointed trustee and are irrevocable once they are funded. While typically established for grandchildren and generations beyond, your children may also receive income if it's for the benefit of your grandchildren, including tuition, housing and health care.

Before creating a trust, sit down with your financial advisor to determine your current assets and plan for future needs. Then, with an estate planning attorney, discuss conditions of the trust and tax implications or exemptions. Regardless of which route you choose, carefully review all beneficiary and trustee information regularly to ensure details are current and correct.

1. http://www.money.com/pf/money-essentials-trusts/
2. http://www.investopedia.com/terms/d/dynasty-trust.asp

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