

The Truth About Trusts

By Jeanne Goussev

Trusts are the best way to ensure your assets are managed according to your wishes. They're also often misunderstood. With all the different trust options available, it's hard to know which one is right for your given situation. But breaking down some common misconceptions is a good place to start.

Trusts are only for the wealthy

Many people think trusts are tools for only the rich and famous. Nothing could be further from the truth. Trusts work for people in all financial situations, from the high-net worth family looking to preserve family wealth for generations to come to the middle-age professional establishing a financial path to the future, and more. There are costs associated with establishing and managing different types of trusts, so understanding the expectations is important. But that shouldn't deter anyone from exploring how a trust can benefit their situation.

All trusts are the same

There are as many different types of trusts as there are reasons for establishing them. Some can be altered or terminated at any time by the person who creates the trust (grantor), while others can't be changed without special permissions. Some help manage estate tax obligations. Others hold assets specifically and exclusively for charitable purposes. Trusts may be used to protect inherited assets from creditors or divorce. They also pass specified assets to beneficiaries and dictate the rules for how those assets are used. All are subject to different laws, regulations, and tax structures, so understanding what you intend the trust to do is essential to determining the type that works best for you.

Trusts are like a bank account

Not really. A trust is a legal arrangement in which you, the grantor, place assets in a trust account for the benefit of one or more beneficiaries. A beneficiary is often a family member, but can also be a friend, a nonprofit organization, or even a beloved pet. In fact, trusts can be used to do a variety of specific things, such as funding education for your children or grandchildren, providing for your spouse, making sure a child with special needs is taken care of, paying for estate taxes or helping lower them, or supporting your favorite charities.

A beneficiary of a trust can access the funds for whatever they want

Not at all. Each trust has a trustee – either a person or a corporation – who has a fiduciary responsibility to administer the trust, manage the assets, and distribute the income or principal to the beneficiaries according to the terms of the trust agreement and state law. The agreement can be as rigid or flexible as the grantor wants it to be.

A trust is the same as a will

They are actually very different. A will becomes a public document upon death. Because it's filed with the court; anyone can access a will through the electronic court-records system. Everything in a trust, by contrast, remains private. It does not go through probate and is not considered part of your estate. Because it doesn't go through probate, a trust also avoids the costs (both in time and money) of the probate process, which can be substantial. Finally, a trust

can operate during one's life and be especially valuable during times of disability. A will doesn't have any effect until after death.

My lawyer is the best person to set up a trust

Because a trust is a legal document, your lawyer is certainly essential to the process. But, for a document of this importance, you want to have as complete a picture as you can. Include your financial planner, accountant, and other trusted advisors in the discussions. You may also want to include those you plan to name as trustees, i.e. those who will manage the trust. Finally, involve your family. Establishing a trust is fundamentally about the values of life, and nobody knows your values better than those closest to you.

Trusts are powerful vehicles that can be used at any financial level and work for families and individuals in a wide range of situations. Trusts offer a tremendous amount of control in how your finances are used for the future you seek to create. Beginning with an understanding of the basics of the benefits of trusts can help you determine how to put a trust to work for you.

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