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A beginner's guide to trusts

An important part of estate planning, trusts can provide peace of mind by ensuring your assets will go to the right people. Trusts can be arranged in many ways and often specify precisely how and when the assets pass to the beneficiaries.

What is a trust?

A trust is a legal arrangement intended to ensure a person's assets eventually go to specific beneficiaries. The person creating the trust puts assets in the name of the trust and authorizes a third party to administer those assets for the trust creator and the beneficiaries.

Benefits of trusts

A trust ensures your assets go to the correct beneficiaries. Setting up a trust offers tax benefits for those subject to estate taxes to maximize wealth for future generations. A well-designed trust can help save time, avoid probate court, and minimize paperwork and other headaches when settling an estate. In some cases, trusts can also help reduce the amount of estate taxes beneficiaries must pay when they inherit assets.

How a trust works

It might help to think of a trust as an objective, reliable third party who watches your money when you can't. Trusts are managed by a trustee — a person or organization that oversees the assets and property in the trust. The trustee is paid annually for this work, which is one of the reasons complex trusts can be expensive to set up and maintain.

Types of trusts

A trust can be tailored to your needs. There are many types of trusts and some of the more common ones include:

Living trust (also known as revocable trusts): With these trusts, you can change the beneficiaries and assets while you're alive and physically and mentally able to do so. You can even name yourself trustee and a co-trustee or successor trustee.

Did you know?

Trusts are a product of the crusades. When landowners traveled to Jerusalem — often taking 3 to 4 years — they would put their land into trust with the church. With the church as trustee, no one would take over the property while they were gone.

Irrevocable trust: You can't change your mind. Once you put assets in the trust and name a beneficiary, it's permanent. Since the assets in an irrevocable trust technically aren't yours — the trust owns them — you can potentially reduce your estate taxes.

Charitable trust: An irrevocable trust from which assets go to one or more charities.

Education trust: Beneficiaries can only use the money for educational expenses.

Special needs trust: A trust that allows a physically or mentally disabled or chronically ill person to receive income without reducing their eligibility for the public assistance disability benefits.

Spendthrift trust: When beneficiaries can't make sound financial decisions for themselves, the trustee decides how the beneficiary is allowed to use the money.

Who needs a trust?

Trusts are not just for the high-net-worth folks. People use them to move assets through the generations or even manage their assets during their life. They can help ensure you are cared for during your lifetime if you become mentally or physically incapacitated. Trusts can also help keep your estate out of probate.

Story

After her mother died, it took Jennifer nearly four years to take care of the estate. It felt like a full-time job chasing down the details and assets while dealing with the probate court. Right then, she decided there was no way she would put her kids through what she had to go through. She called her attorney and made the appointment that very same day.

Are trusts right for you?

Consult with an attorney to see if trusts are suitable for you.

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Terms to know.

Beneficiary: A beneficiary is a person or entity legally designated to receive the benefits from your insurance and financial products.

Estate planning: Estate planning is a process that determines how your money and other property should be managed during your life and after your death. Wills and life insurance are components of the process.

Grantor: The person who created the trust.

Irrevocable trust: Any trust where the grantor cannot change or end the trust after its creation. Grantors may choose a trust with such limitations to limit estate taxes or to shield assets from creditors.

Revocable trust: A trust that can be changed or revoked by the grantor after it is set up. That means the grantor retains control of the assets. In a revocable trust, any income generated is taxable to the grantor, who pays taxes on distributions and any capital gains.

Trustee: The organization or person who administers the trust.

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