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CAPITAL MANAGEMENT

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Greetings!

Our newsletter this month is titled "Should You Trust Your Estate Plan?"

Thank you for your thoughts and feedback on our newsletters. If you know someone who may benefit from this information, please pass it on. If you have any questions or comments, please contact us.

Regards,

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Should You Trust Your Estate Plan?

The federal estate tax exemption for 2019 is a whopping $11.4 million -- and twice that for a married couple. It is estimated that only 1,900 estates will be subject to the tax in 2018 -- less than 0.1% of the 2.7 million expected deaths in that year.[1]

So why then should any but the super-rich bother with a trust? The answer is that trusts can serve purposes other than minimizing estate taxes. In fact, even people of moderate means may find it very helpful to create a revocable living trust, a life insurance trust, or a special needs trust. Here are some of the circumstances when creating one of these trusts may make sense.

Living Trusts

Do you ever worry about who would conduct your financial affairs, pay your bills, or manage your portfolio if an illness or an injury prevented you from taking care of these responsibilities? You could, of course, ask a family member or a friend to take on these duties if you could no longer do so. However, that person would need to have both the time and the relevant skills to do an effective job.

A better solution might be to create a revocable living trust. When you create a living trust, you transfer assets into the trust, generally naming yourself as the trustee. You also name a successor trustee, typically a professional. Of course, if you'd want someone close to you to maintain a hand in your affairs, you could name that individual as a co-trustee to serve alongside a professional trustee. Your trustees' responsibilities would be as broad or as limited as you decide when you set up your trust, and as the law permits.

Once you have established the trust, you manage your finances as usual until the circumstances that you have identified in your trust agreement prevent it. Then, the successor trustee (and co-trustee, if you name one) will take over the management of the trust's assets according to the trust's terms. One additional advantage to a revocable living trust is that you can change trustees, amend the trust's provisions, or add to (or retract) the responsibilities that you give to your trustee.

Life Insurance Trusts

You may have bought a life insurance policy to provide the funds necessary for estate expenses and to help your loved ones meet their ongoing financial needs following your death. Unfortunately, things do not always work according to plan. For example, the life insurance proceeds could be spent prematurely or depleted due to bad investment decisions made by an inexperienced beneficiary.

You can do one thing that will ensure that the proceeds of your life insurance policy will be carefully managed and distributed to your beneficiaries according to your wishes -- create a life insurance trust.

With a life insurance trust, the trust is the owner and beneficiary of your life insurance policies. When you die, the trustee, typically a financial institution, collects the policy proceeds and invests them according to your instructions. Your trustee then distributes trust income and principal to your beneficiaries in the manner specified in your trust agreement.

The advantages of this strategy are several. For instance, the trust approach creates flexible distribution options in that you determine the amounts to be distributed to your beneficiaries and the circumstances of distribution. You can also grant the trustee discretionary power to make distributions from the trust. Moreover, if you select a professional organization to serve as trustee, the trustee will ensure that the policy's proceeds are invested prudently and according to your wishes. Finally, when the arrangement is properly structured, the proceeds of your life insurance payout will not be included in your estate for estate tax purposes.

Trust for a Special Needs Beneficiary

If you are responsible for the care of a disabled spouse, child, or other individual, you may have concerns about what will happen to that individual if you are no longer around to provide financial support. A trust can be structured to provide continued financial assistance to anyone with a physical or cognitive disability who is under your care. Such a trust makes assets available to a disabled individual without disqualifying him or her from government benefits, such as Medicaid or Supplemental Security Income (SSI). One of the primary advantages is that the trustee you choose to execute the terms of the trust can continue to do so long after you or other financially contributing family members have passed away.

Considerations

Other than minimizing estate taxes, trusts serve a great purpose. Most people will find it very helpful to create a revocable living trust, a life insurance trust, or a special needs trust. A revocable living trust is when you transfer assets into the trust, generally naming yourself as the trustee. With a life insurance trust, the trust is the owner and beneficiary of your life insurance policies. When you die the trustee collects the policy proceeds and invests them according to your instructions. If you are responsible for the care of a disabled spouse, child, or individual then a trust can be structured to provide continued financial assistance to anyone with a physical or cognitive disability without disqualifying him or her from government benefits.

Footnotes/Disclaimers

[1] Source: Tax Policy Center, Urban Institute & Brookings Institution, How many people pay the estate tax? 2018.