

Trusts – Many Types, Many Options



What are your estate planning goals? Do you want to provide for loved ones, arrange for the management of your assets, minimize estate taxes, or benefit a charity? No matter what you want to accomplish, there's probably a trust arrangement that can help.

The type of trust you choose should reflect your own personal estate planning objectives. Here's a brief look at some common arrangements.

✓ Revocable Living Trust

Franklin wants to ensure that his finances will be taken care of if he becomes incapacitated. So he establishes a revocable living trust. Franklin retains control of all the trust assets. However, if Franklin ever becomes disabled, the successor trustee named in the trust document will be able to make financial decisions for him.

To provide asset management for his family, Franklin has arranged for the trust to continue after his death. His other assets will be transferred into the trust upon his death.

✓ Charitable Remainder Trust (CRT)

Margaret wants to make a substantial charitable donation but is worried about giving away money she might need in the future. She establishes a CRT by transferring assets to an irrevocable trust that will remain in effect and provide her with an income throughout her lifetime. When Margaret dies, the assets in the trust will be transferred to the charitable organization designated in the trust document. Margaret is entitled to take a charitable contribution income tax deduction for the present value of the donated assets in the year she establishes the trust, subject to tax law limitations. And the trust assets will not be included in her estate.

✓ Charitable Lead Trust (CLT)

Joachim would like to make a gift to his favorite charity, while ultimately leaving his property to his daughter, so he transfers assets into a CLT. The trust makes payments to the charity for a specified number of years. At the end of the trust term, the trust property will pass to Joachim's daughter, the trust beneficiary.

Although Joachim's gift to his daughter is taxable, the gift value is discounted because she has to wait for the gift. Any excess assets in the trust will pass to Joachim's daughter free of gift tax at the end of the trust term.

✓ Grantor Retained Annuity Trust (GRAT)

Sharon and Joe want to minimize transfer taxes on the assets they pass on to their grandchildren. They establish a GRAT by transferring assets that are likely to appreciate, such as stocks, into the trust. Sharon and Joe retain the right to receive an annuity from the trust for a set number of years, which reduces the value of their gift. At the end of the trust term, the assets remaining in the GRAT (including any appreciation) pass to Sharon and Joe's grandchildren – the trust beneficiaries – free of additional gift tax. However, if Sharon and Joe die before the trust ends, estate taxes could be payable on the GRAT property.

Qualified Personal Residence Trust (QPRT)

Len and Susan know their estates will be large, so they want to remove some assets to reduce potential estate taxes and preserve more of their wealth for their children. They decide to gift property by transferring their vacation home into a QPRT. Len and Susan can use their vacation home for a set period of time – the trust term – without paying rent. They will be responsible for property taxes, mortgage, interest, insurance, and upkeep. At the end of the term, their children receive and own the property, which has been removed from Len's and Susan's estates.

Because Len's and Susan's beneficiaries won't take possession of the home for several years, the IRS values the gift at a discount. However, if Len and Susan don't outlive the trust term, the estate tax benefits will be lost.



If you have questions about your workplace retirement plan, please contact your Human Resources department or your retirement plan provider's customer service center.

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